Dartford-Thurrock River Crossing Charging Scheme

Accounts 2021-2022

HC 959

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Presented to Parliament pursuant to Section 3 (1) (d) of the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003.

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Foreword and Management Commentary

Background Information

The Dartford-Thurrock River Crossing (the crossing) between Dartford and Thurrock consists of two tunnels and the Queen Elizabeth II Bridge. The first tunnel was built in 1963, the second in 1980 and the bridge was opened in 1991.

An early Private Finance Initiative (PFI) concession, enacted by the Dartford-Thurrock Crossing Act 1988, transferred the existing debt from the tunnels to the private sector who retained toll revenue to pay off the existing debt and the debt incurred by building the new bridge. Tolls were set by The Department for Transport (the department) in conjunction with the Concessionaire. The concession was for a period of 20 years from 31 July 1988 but could be ended as soon as the debt was repaid. The Secretary of State determined that all financial commitments had been met by 31 March 2002.

The Dartford-Thurrock Act 1988, Schedule 6, Section 16, (4) (1) contained the provision for a toll extension period for the collection of tolls to provide a fund for future maintenance of the crossing. An extension agreement between the Concessionaire and the Secretary of State for Transport was in place from 4 March 1999 and allowed the toll extension period to run from 1 April 2002 to 31 March 2003. All toll revenue during this period was passed over gross to the department.

A charging scheme was introduced at the crossing from 1 April 2003. The powers to introduce a charging scheme on a trunk road bridge and tunnel of at least 600m are set out in Part III Chapter I of the Transport Act 2000 (Road User Charging). Sections 163 (Preliminary) and 167 (Trunk Road Charging Schemes) and Schedule 12 (Road User Charging and Workplace Parking Levy: Financial Provisions) apply to charging schemes introduced on trunk roads:

- Schedule 12 paragraph 13 to the Act requires that the net proceeds of such a charging scheme should be applied for directly or indirectly facilitating the achievement of any policies or proposals relating to transport but makes no prescription for how that will be achieved.
- Schedule 12 paragraph 2(2) allows the Secretary of State for Transport to make regulations determining how the net proceeds are to be calculated.
- Schedule 12 paragraph 5 allows regulations to be made for the keeping of accounts and the preparation and publication of statements of such accounts.

The effect of the regulations made under these provisions is to require an account to be produced to demonstrate the amount of the net proceeds.

The charging scheme at the Dartford-Thurrock River Crossing is enabled by the following secondary legislation:

- Procedural regulations for the making of an order[1].
- Regulations covering accounting arrangements[2].
- The making of a Dartford-Thurrock River Crossing charging scheme order[3].

[1] Statutory Instrument 2001 No. 2303 The Trunk Road Charging Schemes (Bridges and Tunnels) (England) Procedure Regulations 2001

[2] Statutory Instrument 2003 No. 298 The Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Procedure Regulations 2003

[3] Statutory Instrument 2013 No. 2249 The A282 Trunk Road (Dartford-Thurrock Crossing Charging Scheme) Order 2013

Cumulatively these enable the requirements of the Act to be translated into a charging scheme at the Dartford-Thurrock Crossing.

The following regulations allow effective enforcement of the road user charge (RUC), with the introduction of free-flow charging (known as Dart Charge) on 30 November 2014:

- The Road User Charging Enforcement Regulations[4] provide a national legislative framework for the enforcement of road user charging through the imposition of penalty charges.
- The Dartford-Thurrock River Crossing Charging Scheme Order[5] sets out the level of penalty charge and enforcement measures that are being used at Dartford.

Operation of the crossing

Until 31 March 2015 the Highways Agency (the Agency) was the road authority and was responsible for the operation of the crossing. Under the government road reform programme, National Highways Ltd[6] (National Highways) became the road authority from 1 April 2015, taking on the role previously performed by the Agency. National Highways, which is a government owned company, now operates the crossing on behalf of the Secretary of State.

From 1 April 2003, the Agency had a contract with Le Crossing Company Ltd to manage the crossing and collect charges on behalf of the Secretary of State for Transport. The contract ended on 12 September 2009.

In May 2009, the Agency signed a 30-year design, build, finance and operate (DBFO) contract with Connect Plus (M25) Ltd. Connect Plus is responsible for operating and maintaining the M25, including the Dartford-Thurrock Crossing, plus 125 miles of connecting roads around the junctions. As part of this contract, the function of managing the crossing and collecting charges transferred to Connect Plus (M25) Ltd from 13 September 2009.

In November 2014, the Agency introduced Dart Charge at the Dartford-Thurrock Crossing (see below) and awarded a seven-year contract to Sanef Operations Ltd. The contract requirements include the detection and recording of vehicles and registrations, as well as providing a variety of remote payment methods for road users to access and pay the crossing charge. The responsibility of collecting and enforcing the payment of the RUC transferred to Sanef Operations Ltd on 30 November 2014. From 20 May 2016, Sanef Operations Ltd changed their name to Emovis Operations Leeds Ltd.

This contract was extended for a further year until October 2022 to allow for a full procurement exercise to be undertaken. Following this exercise new contracts have been awarded to Conduent Transportation & Emovis Operations Leeds Ltd for the charging and enforcement elements respectively. Following this award there will be a period of transition, design and development before the new services begin in Spring 2023.

Dart Charge

The Dartford-Thurrock Crossing has long suffered from significant levels of congestion at peak times and periods of disruption, with over 50 million vehicle crossings being made each year. Prior to December 2014 the existing barrier and road layout arrangement to collect and pay the

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[4] Statutory Instrument 2013 No. 1783 The Road User Charging Schemes (Penalty Charges, Adjudication and Enforcement) (England) Regulations 2013

[5] Statutory Instrument 2013 No. 2249 The A282 Trunk Road (Dartford-Thurrock Crossing Charging Scheme) Order 2013

[6] Previously known as Highways England until August 2021

RUC interrupted the flow of traffic. As a result, severe congestion existed, with poor traffic flow and delays for large periods of each day.

The department made clear that providing improvements to the performance of the crossing was a priority in view of its role in the movement of goods and people, and its contribution to the economy. In the Spending Review announcement of October 2010, the government stated its commitment to introduce a 'free-flow' charging arrangement at the crossing as part of a strategic objective to manage congestion in the short, medium and longer term.

Dart Charge removes the need for drivers to stop and pay the RUC within a plaza environment controlled by barriers. This scheme formed a key deliverable within the department's Business Plan 2012-15, and the Agency led on its delivery and it was introduced from November 2014.

Dart Charge requires drivers to pay for their crossing during chargeable hours, either in advance or by midnight the day after crossing. Road users have access to a variety of methods to pay the charge. These methods include payments online (web), by phone, retail outlets, or by registered customer accounts. If a payment is not made, then a Penalty Charge Notice (PCN) is issued. Penalty and recovery processes are employed to enforce the charging scheme and collection of charges. These ‘charging and enforcement management’ services are delivered and administered through a contact centre and back office operation.

To build road user understanding and acceptance of the Dart Charge and encourage compliance, first time users of the crossing are offered the opportunity to avoid the penalty charge if they pay the RUC within 14 days of receiving the PCN. Further details of the effect of this policy are provided in Note 11 of the accounts.

Dart Charge delivers benefits to the UK economy and these are primarily delivered through a reduction in congestion and easing traffic flow at this vital crossing link and the wider south-east road network. The introduction of this scheme is expected to deliver approximately £1.6 billion of economic benefit over 25 years. Traffic volumes increased by 30.0% in 2021-22 compared with 2020-21 when COVID-19 and the associated restrictions imposed by government had a severe impact on traffic volumes. In 2021-22 volumes have increased during charging hours by 28.7% and by 39.0% outside of charging hours. The total number of chargeable crossings in year was 47.5m (2020-21 36.9m). The impact of this is detailed further within Note 2 of the accounts.

Chargeable traffic volumes currently remain around 3% down on pre-covid volumes, however there has been a notable shift in the mix of users between account and non-accounts in year preventing any fall in income. Chargeable traffic volume is expected to continue to range in the 47-50m range for the foreseeable future.

At 94.9%, road user compliance remained static in 2021-22 (2020-21: 94.9%). Compliance is a measure of road users who have used the crossing and paid their RUC in-line with the scheme requirements, by midnight the day after crossing. Crossings are captured and validated by the roadside technology, and then reconciled to payments. Crossings are then grouped by type (e.g. ‘paid by account’), following which a compliance value is derived.

Free-flow charging is a medium-term measure enabling the department to develop further the existing options for additional crossing capacity on the Lower Thames.

Accounts of the Secretary of State for Transport

Section 3(1) (b) of the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulation 2003 requires the production of accounts for the year to 31 March 2022.

These accounts have been prepared in accordance with a Direction given by HM Treasury in pursuance of the above regulation. The Direction is reproduced as an appendix to the accounts. The Accounting Officer confirms that he takes personal responsibility for the foreword, management commentary and accounts and the judgments required for determining that they are fair, balanced and understandable; and considers that they have been so presented.

The accounts have been audited by the Comptroller and Auditor General (C&AG). The Independent Auditor's Opinion and accompanying Report are on pages 15 to 19

Income

Cash receipts collected by Emovis Operations Ltd for paid crossings are passed over gross to the department. Total revenue recognised for the year ended 31 March 2022 amounted to £202.3m (2020-21: £161.4m). The £40.9m increase on the previous year includes:

- A £22.4m increase in the value of road user crossings caused by an increase in traffic volumes post the Covid 19 pandemic.
- A £18.5m increase in enforcement income due to increases in traffic volume having a subsequent impact on PCN's to enforce.

The utilisation of the income for transport purposes is fulfilled through the parliamentary supply procedures. This ensures that the whole of the income is received and appropriated in aid and set against the department's total transport expenditure. The net proceeds from the charging scheme are used to offset the generality of transport expenditure and not hypothecated to programmes or projects.

Expenditure

There is no separation of crossing related costs in the service payments paid by National Highways to Connect Plus in respect of the entire M25. The costs to the Secretary of State for Transport, for the maintenance and operation of the crossing, have therefore been estimated and included based on the most appropriate allocation method detailed within Note 1 to the accounts and a detailed analysis of the expenditure is given in Note 3.

Total expenditure for the year ended 31 March 2022 amounted to £111.1m (2020-21: £92.8m). The increase in expenditure is driven by both higher managing agent contractor costs and an increase in allowances for doubtful debt. Further information is provided within Note 3.

Net proceeds

The net proceeds for the year ended 31 March 2022 were £91.1m (2020-21: £68.6m), the increase of £22.5m is due to an increase in income of £40.9m offset by an increase in expenditure of £18.3m

Statement regarding disclosure of Information to the Auditors

So far as I am aware, there is no relevant audit information of which the auditors are unaware of and I have taken all reasonable steps to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

Date of Issue

The accounts have been authorised for issue by the Accounting Officer on the date of the Comptroller and Auditor General's signature of the audit report.

Nick Harris
Accounting Officer
6 January 2023

Vanessa Howlison
Chief Finance Officer
6 January 2023

Statement of Secretary of State and Accounting Officer responsibilities

Under Section 3 (1) (b) of the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003, the Secretary of State for Transport is required to prepare a statement of accounts for each financial year in the form and on the basis directed by the Treasury. The accounts are prepared on an accruals basis and must present fairly the income and expenditure for the financial year and the assets and liabilities at year-end.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the Accounts Direction issued by Secretary of State including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis.
- Make judgements and estimates on a reasonable basis.
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the accounts.
- Prepare the accounts on a going concern basis.

The Treasury has appointed the Chief Executive of National Highways as the Accounting Officer for the account. The relevant responsibilities as Accounting Officer, including the responsibility for the propriety and regularity of the public finances for which they are answerable, the keeping of proper records and for safeguarding the company’s assets are set out in HM Treasury's ‘Managing Public Money’.

The Accounting Officer is required to confirm that, as far as they are aware, there is no relevant audit information of which the entity’s auditors are unaware, and the Accounting Officer has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the entity’s auditors are aware of that information.

The Accounting Officer is required to confirm that the annual report and accounts as a whole is fair, balanced and understandable and that they takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Governance Statement

HM Treasury's Managing Public Money and Financial Reporting Manual require that I, as Accounting Officer for National Highways, provide a statement on how I have discharged my responsibility to manage and control the resources for which I am responsible during the year.

HM Treasury with the Cabinet Office published its Corporate Governance Code of Good Practice and guidance for central government departments in April 2017. I have provided details below of how the system of corporate governance has operated during 2021-22, including any areas where the system has not operated in line with the code.

Scope of responsibility

The Permanent Secretary of the Department for Transport has appointed me, as Chief Executive, as Accounting Officer for National Highways. As Accounting Officer, I have responsibility for maintaining a sound system of governance, risk management and internal control mechanisms that supports the achievement of National Highways' policies, aims and objectives, whilst safeguarding the public funds and the Department's assets for which I am personally responsible. All activity is completed in accordance with the responsibilities as assigned to me in HM Treasury's Managing Public Money.

Governance framework

Corporate governance is the system by which an organisation is directed and controlled. I have ensured that National Highways has robust corporate governance, risk management and internal control arrangements designed to comply with both the UK and Government Codes of Good Practice on Corporate Governance.

The Dartford River Crossing governance framework is largely reliant on National Highways' governance arrangements. Both Dartford River Crossing and National Highways governance arrangements are set out below.

National Highways' Governance Framework

A Framework Document sets out the respective roles and accountabilities of the Secretary of State, the Department, and National Highways. The document details how we will work to achieve the common objective of delivering a network that meets the country's needs efficiently and provides the best possible service for road users and other stakeholders. The framework also:

- Recognises the functional and day-to-day operational independence of National Highways
- Sets out how financial control and accountability is achieved
- Recognises the governance and decision-making arrangements that are appropriate to National Highways as a corporate, legal entity with its Board, and with executives reporting to the Board
- The key elements of National Highways' governance framework are:
- The formal governance forums including the Board and its sub-committees, and the Executive Committee and it sub-groups
- National Highways' Audit and Risk Committee (supported by the Anti-Economic Crime Group and Board Safety Committee)
- A sound system of internal control, including formal risk management processes.

Full details are available in the Governance Section of the National Highways Annual Report and Accounts 2022.

https://nationalhighways.co.uk/media/baphtjxv/national_highways_ar22_interactive_final.pdf

Board and Executive Committee

National Highways is governed by a formal Board whose purpose is to ensure the company's long-term success and is accountable to our Shareholder (the Secretary of State for Transport) for all aspects of our activities and performance. It is supported by our Executive Committee, who are responsible for implementing the Board's strategic decisions and managing the risks associated with it. The Board is supported in its decision making through several board-level committees who all review their own effectiveness annually and identify to improve performance where appropriate.

Board

The Board is accountable to the Secretary of State for Transport as shareholder for all aspects of National Highways' activities and performance, including the fulfilment of our role and responsibilities as a strategic highways company. The Board is the primary governance arm of National Highways in line with its fiduciary and other duties under company law. The company's governance activities include setting strategy, overseeing performance, reviewing risks and appointing senior leaders.

The Executive

The Board delegates responsibility for the day-to-day management of National Highways' operations to the Chief Executive and his senior team. Strategic, financial or other significant matters are reserved to the Board for decision but the Executive are accountable for the effective and efficient use of resources, ensuring compliance with all legal, statutory and regulatory requirements and maintaining the confidentiality, integrity and accessibility of the information it holds.

Risk management

The Board has overall responsibility for determining the nature and extent of the significant risks it is willing to take in achieving National Highways' strategic objectives. The Chief Executive (as Accounting Officer) is responsible to Parliament for the stewardship of public money and delegations are exercised in line with the Finance and Reporting letter and Accounting Officer letter issued to National Highways and the Chief Executive by the Shareholder.

Each year the Executive team uses the strategic objectives supporting the current investment period to identify potential risk, uncertainty and opportunities. Similar exercises are carried out across all key business areas. Risks are identified, evaluated, recorded and monitored as part of a continuous cycle of managing the exposure with any significant movements reported to the Executive Committee and the Board on a quarterly basis.

Internal control framework

National Highways' risk management process is aimed at early identification and mitigation. The framework gives us the structure - through which the company continually identifies, prioritises, manages, monitors and reports its risks.

The Board has overall responsibility for the company's internal control framework and for reviewing its effectiveness. Internal control systems are recognised by the Board as being designed to manage, rather than eliminate, the risk of failure to achieve business objectives. They can only provide reasonable and not absolute assurance against material misstatements, losses or the breach of laws or regulation.

National Highways ensure efficiency, best value, integrity, propriety and regularity in the use and stewardship of public funds and assets and that clear accountability is in place through a variety of control systems including:

- A mandatory Investment Decision Control framework to test whether a proposed project or expenditure offers value for money. The arrangements complement larger value approvals required from the department or Ministers.
- Financial propriety and other requirements from HM Treasury's Managing Public Money.
- An Oracle financial accounting system with embedded controls.
- Asset management procedures to record and account for all assets.
- An Anti-Economic Crime Group to oversee the company's approach to managing the risk of all aspects of fraud, bribery, corruption, money laundering and modern slavery issues or allegations.
- Investors in People accreditation: a proven business improvement framework that significantly improves financial performance.

Management Assurance Reporting

Stewardship reporting is undertaken on a quarterly basis across the company and our results are reported to the Department at year-end, in line with their timetable. The report covers the full range of delegations, policies and procedures agreed between National Highways and our Shareholder. The evidence collated forms part of a management assurance process which enables the Accounting Officer to sign off the Governance Statement in the Annual Report and Accounts.

Dart Charge Governance

The Dart Chart team apply all National Highways' principal governance, risk and internal control arrangements as laid out above. The function's key priority is to ensure that Emovis (the principal supplier) provides a robust, efficient and effective service to the Crossing's Road Users to manage the operational risks to both the public and the Secretary of State (the shareholder).

Risk is managed by the team monthly through a combination of assessing from a functional (such as operational, finance or Digital Services) perspective as well as a strategic lens. Escalation is governed through applying set criteria and presented to senior management for review. Formal reviews take place on a quarterly basis but any risk can be escalated (or cascaded) outside of process to the Service review Group, if appropriate.

Dart Charge do not hold a separate Risk Appetite Statement, but apply the National Highway's Statement, as approved by the Board in April 2022.

The key risks considered during this financial year are summarised below:

- **Business continuity and equipment resilience -** A failure of the roadside detection equipment, back-office system or other roadside equipment that could lead to a loss of vehicle passage records or large numbers of chargeable crossings. Regular disaster recovery tests are carried out.

- **General Protection Data Regulation (GDPR) -** Risk of non-compliance with the GDPR requirements given the large volume of customer data held.

- **COVID 19 –** Through the initial lockdown periods there was a considerable downturn in traffic volumes at the crossing. However, throughout the period of 21/22, traffic volumes have returned to pre covid expected levels.
- **Resource levels –** Resource levels have maintained throughout the covid 19 period, with minimal to no impact to the service. Following lockdown ending, recruitment and retention has proved challenging across the whole business and with service providers.

Multiple recruitment campaigns have been carried out with a varying level of success. This has not yet impacted the service.

Assurance

Corporate Assurance maintains regular oversight of the company's governance, risk management and internal control arrangements. Results are reported to individual functional areas, the executive and the Board and discussed by the National Highways Audit and Risk Committee.

Liaison between Corporate Assurance and the Dart Charge team occurs throughout the year to ensure key risk strategies are in place and progressing, governance arrangements are being adhered to and control frameworks are operating effectively. Results are usually reported as part of the National Highways' Management Assurance return.

In-year, the assurance focus has predominantly been on the management of the next generation service to ensure that it will be able to operate efficiently and effectively, once deployed.

Whilst no formal process of functional review has taken place, the Corporate Assurance Director has provided advice and guidance on the update of customer processes, such as the management of customer refunds on dormant accounts. Through this, and taking reliance on other assurance sources, such as the Management Assurance Return, the Director considers Dart Charge operational arrangements are in line with current corporate standards.

As well as reviewing all Corporate Assurance output, the National Highways Audit and Risk Committee review and recommend approval and formal sign off of the Dartford & Thurrock River Crossing accounts on an annual basis. This year's review took place on 16 December 2022 with no significant issue raised.

Nick Harris

Accounting Officer

6 January 2023

Vanessa Howlison

Chief Finance Officer

6 January2023

THE INDEPENDENT AUDITOR'S REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

Opinion on financial statements

I have audited the financial statements of the Dartford-Thurrock Crossing Charging Scheme for the year ended 31 March 2022.

The financial statements comprise Dartford-Thurrock Crossing Charging Scheme's:

- Statement of Income and Expenditure for the year ended 31 March 2022;
- Statement of Assets and Liabilities for the year ended 31 March 2022;
- Statement of Capital Expenditure for the year ended 31 March 2022; and
- the related notes including the significant accounting policies.

In accordance with the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003, a statement of assets and liabilities has been prepared, and no statements of cash flows, or of changes in equity, are provided. In all other respects, the Dartford-Thurrock Crossing Charging Scheme applies the requirements of the UK adopted International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

In my opinion, the financial statements:

- give a true and fair view of the state of the Dartford-Thurrock Crossing Charging Scheme's affairs as at 31 March 2022 and its net proceeds for the year then ended; and
- have been properly prepared in accordance with the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003 the applicable reporting framework described above.

Opinion on regularity

In my opinion, in all material respects, the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (UK) (ISAs UK), applicable law and Practice Note 10 *Audit of Financial Statements of Public Sector Entities in the United Kingdom*. My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of my report.

Those standards require me and my staff to comply with the Financial Reporting Council's *Revised Ethical Standard 2019*. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Dartford-Thurrock Crossing Charging Scheme in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Dartford-Thurrock Crossing Charging Scheme's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Dartford-Thurrock Crossing Charging Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Secretary of State and the Accounting Officer with respect to going concern are described in the relevant sections of this report.

Other Information

The other information comprises information included in the Dartford-Thurrock Crossing Charging Scheme Accounts, but does not include the financial statements and my auditor's report. The Secretary of State and Accounting Officer are responsible for the other information.

My opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- I have not received all of the information and explanations I require for my audit; or
- adequate accounting records have not been kept by the Dartford-Thurrock Crossing Charging Scheme or returns adequate for my audit have not been received from branches not visited by my staff; and
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Responsibilities of the Secretary of State and Accounting Officer for the financial statements

As explained more fully in the in the Statement of Secretary of State and Accounting Officer responsibilities, the Secretary of State and Accounting Officer are responsible for:

- maintaining proper accounting records;
- the preparation of the financial statements in accordance with the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping Accounts) (England) Regulation 2003 and with directions made by HM Treasury and for being satisfied that they give a true and fair view;
- ensuring that the Annual Report and accounts as a whole is fair, balanced and understandable;
- internal controls as the Secretary of State and Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error; and
- assessing the Dartford-Thurrock Crossing Charging Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Secretary of State and Accounting Officer intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with the applicable law and International Standards on Auditing (ISAs) (UK).

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the Dartford-Thurrock Crossing Charging Scheme's accounting policies.

- Inquiring of management, Dartford-Thurrock Crossing Charging Scheme's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Dartford-Thurrock Crossing Charging Scheme's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Dartford-Thurrock Crossing Charging Scheme's controls relating to the Dartford-Thurrock Crossing Charging Scheme's compliance with the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003 and Managing Public Money;
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Dartford-Thurrock Crossing Charging Scheme for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions, and bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the Dartford-Thurrock Crossing Charging Scheme's framework of authority as well as other legal and regulatory frameworks in which the Dartford-Thurrock Crossing Charging Scheme operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the Dartford-Thurrock Crossing Charging Scheme. The key laws and regulations I considered in this context included the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003, the A282 Trunk Road (Dartford-Thurrock Crossing Charging Scheme) Order 2013 as amended, tax Legislation and Managing Public Money.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

- reviewing the rates applied to road user crossings, and in penalty charge and enforcement, to ensure that they have been applied in line with the legislation.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my report.

Other auditor's responsibilities

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Gareth Davies **Date 10 January 2023**

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Statement of Income and Expenditure for the year ended 31 March 2022

		2021-22	2020-21
Income	**Note**	**£000**	**£000**
Dart Charge operation	*2*	202,134	161,286
Rental income	*2*	123	117
		202,257	**161,403**
Expenditure			
Managing agent contractor's costs	*3*	(48,978)	(39,866)
Impairment of receivable	*3*	(51,947)	(43,647)
Other expenditure	*3*	(10,195)	(9,270)
		(111,120)	**(92,783)**
Net proceeds for the year	*4*	**91,137**	**68,620**

Statement of Capital Expenditure for the year ended 31 March 2022

	2021-22	**2020-21**
	£000	**£000**
EU Directive- Tunnel Safety	-	264
Routine Maintenance	480	53
Dart Charge Infrastructure	780	-
Other	155	188
	1,415	**505**

Further detail on expenditure is provided in Note 3.

The Notes on pages 23 to 37 form part of these accounts.

Statement of Assets and Liabilities as at 31 March 2022

	Note	2021-22	2020-21
		£000	£000
Current Assets			
Cash at bank	*5*	35,152	28,443
Trade and other receivables	*5*	22,563	35,917
		57,715	64,360
Current Liabilities			
Trade and other payables	*6*	(56,015)	(60,360)
Non Current Liabilities			
Provisions*	*7*	(1,700)	(4,000)
Total Liabilities		(57,715)	(64,360)
Assets less Liabilities		**-**	**-**

* The pension liability has been reclassified in year following a change in accounting policy. Please see Note 1.7 for further details.

The Notes on pages 23 to 37 form part of these accounts

Nick Harris

Accounting Officer

6 January 2023

Vanessa Howlison

Chief Finance Officer

6 January 2023

Notes to the Accounts

1. Statement of accounting policies

1.1 Accounting Convention

The accounts have been prepared in accordance with the statutory requirements of the Trunk Road Charging Scheme Regulations, which require accounts showing the net proceeds of the scheme, as well as a statement of income and expense, and a statement of capital expenditure.

Additionally, the accounts implement the requirements of the Accounts Direction given by HM Treasury (Appendix A) including the preparation of a statement of assets and liabilities. In accordance with the specific directions in the regulations and accounts direction, no statement of cash flows, or of changes in equity, is provided.

In all other respects - and in determining amounts to be recognised as income, expenses, assets or liabilities, or recognisable as assets or liabilities - the Scheme applies the requirements of International Accounting Standards as adapted or implemented in HM Treasury's Financial Reporting Manual, as required in the Accounts Direction and described further in the specific accounting policies below.

The scheme's expenses including capital expenditure are settled in full by National Highways, itself funded by Parliament and working on behalf of the Secretary of State as the charging authority. A receivable from National Highways is recognised equal to any balances due to suppliers at the end of the year in recognition of this financing arrangement.

The net assets arising from the charging scheme – comprising principally cash, accruals-based receivables due from road users (Note 5), and deferred income comprising prepayments by road users (Note 6) – are payable under the charging scheme legislation to the department. An equal payable is therefore recognised to the department in respect of these net assets. The scheme regularly pays the cash proceeds of the scheme amounts to the department in service of this commitment.

The accounts are prepared on a going concern basis. The charging scheme for the Dartford-Thurrock River Crossing is enabled by a number of pieces of secondary legislation and there has been no indication from the Department for Transport that this legislation will be amended. In the last year new contracts for the operation of the free flow charging as well as the enforcement of tolls have been awarded on a 10 and a half year basis indicating the Departments commitment to continuing the scheme.

1.2 Capital expenditure

Capital expenditure is expensed as it is incurred and included in the overall expenditure figures in these accounts. Capital expenditure will form part of the Statement of Income and Expenditure and Note 3 below, in addition to its separate presentation in the Statement of Capital Expenditure.

This policy reflects the fact that the scheme itself derives no future economic benefit from the expenditure, since net proceeds are payable in full to HM government. The relevant assets are capitalised and depreciated in the National Highways financial statements in line with the policies stated therein.

1.3 Revenue recognition and derecognition

The road user charge (RUC) is recognised as income on the day the road user has crossed the crossing during the chargeable period.

Fines and penalties are economic benefits payable to government for breaches of laws or regulations where there is a statutory obligation to pay.

Fines and penalties are recognised as revenue as follows:

- For non-first offenders, the Penalty Charge Notice (PCN) amount is recognised when issued.
- For first time offenders, they are given 14 days to pay and the PCN is issued when the 14 day letter is issued and the fine amount is recognised as revenue at this time. However, if the road user subsequently pays the crossing charge within that set time limit then the PCN is effectively cancelled and the PCN revenue is derecognised.
- Where on appeal the penalty is not enforced, the amount receivable is derecognised.

RUC and enforcement income is shown net of derecognition within Note 2.

Rental income received from communication network providers is recognised on a straight-line basis over the term of the lease.

Prior to 2019-20, deferred income was retained in full even when account balances had been dormant for a significant period. This was also the case for the expiry of 12-month time-limited non-accounts deposits since a process for reliably identifying those had not yet been fully implemented. Both of these conditions changed in 2019-20 when enhanced reporting was implemented to identify aged balances, enabling reliable estimates to be made in support of the recognition of this income. Therefore, in both 2019-20 and 2020-21 we recognised aged income that met the relevant criteria for both accounts and non-accounts income.

For non accounts, road users are aware that funds are time limited for 12 months upon deposit. Any funds remaining after that period are recognised as revenue.

Whilst not directly included within the terms and conditions of accounts, aged income has previously been recognised in line with IFRS 15 breakage principles where the recognition of revenue is possible when the likelihood of the customer exercising its remaining rights to the income becomes remote. This year, in the light of feedback from account holders, we have sought ways to improve the practical implementation of this policy. The changes made will significantly increase the road-users likelihood of claiming their outstanding balance. Consequently, we have not recognised any new aged account income in 2021-22.

For accounts closed in 2021-22 onwards the service provider will look to action an automatic refund of any balances on those accounts, sending cheques to the address held for that account. It is expected that this will enable the majority of money to be returned to the account holder. Once this process is embedded over time we will review its success and make considerations about any balances that may remain.

Any aged accounts income recognised in prior years remains relevant and due to GDPR data is no longer held to make automatic refunds for those accounts that have previously been closed. A continuing obligation exists to refund these account holders if requested by them and a small provision continues to be included for this within the income balances based on the current trend data available with a contingent liability disclosed for the remainder. A breakdown of previously recognised aged accounts income is provided below.

	2019/20	2020/21
Gross Income recognised	£3.5m	£1.8m
Provision recognised against income for refunds	(£0.0m)	(£0.2m)
Refunds made relating to prior years	(£0.0m)	(£0.1m)
Net Income recognised	**£3.5m**	**£1.5m**

A contingent liability is disclosed in relation to possible future refunds as detailed in Note 9.

1.4 Managing agent expenditure

Estimation techniques are adopted to arrive at an estimated monetary amount for the expenditure incurred under the Design, Build, Finance and Operate (DBFO) contract with Connect Plus (M25) Ltd during 2021-22.

The service charge in the DBFO contract payable by National Highways encompasses the whole of the M25, including the Dartford Crossing. Therefore, an estimate has been made as to the proportion of this charge that relates to the maintenance and operation of the crossing. The estimated costs have been included based on the most appropriate allocation method determined for each expenditure type (see below) within the financial model of the DBFO contract.

Expenditure Type	Total costs specific to DRC per the financial model £m	Apportionment to DRC of non-specific costs within the financial model £m	Total £m
Operational and management	14.5	5.3	19.8
Lifecycle schemes	4.8	0.3	5.1
Overhead and management	-	1.3	1.3
Total	**19.3**	**6.9**	**26.2**

1.4.1 Operational and Management

The types of cost associated to this category are:

- ***Routine structures*** - Inspections and routine maintenance. The amount allocated has been derived based on the elements specific to the crossing rather than the entire M25 contract.
- ***Routine service*** - Incident Response. This is based on the number of incidents as a percentage of the M25.

- ***Other routine*** - Such as roads, winter service and inspection surveys are allocated as a percentage based on the length of the crossing as per the legislation compared to the total length of the M25 per the DBFO contract.
- ***Charge collection and crossing*** - The whole amount is specific to the crossing.
- ***Management activities staff*** - Is based on the staff capacity of the crossing depot as a percentage of the capacity of all depots.
- ***Management activities facilities*** - Is based on the staff capacity of the crossing depot as a percentage of the capacity of all depots.
- ***Lifecycle tunnels*** - Is based on the number of Dartford River Crossing tunnels compared to the total amount of tunnels across the M25.
- ***Vehicle recovery*** - The whole amount is specific to the crossing.
- ***Others*** - Such as vehicle recovery, lifecycle ancillaries and indeterminate costs are allocated as a percentage based on the length of the Dartford River Crossing as per the legislation against the total length of the M25 per the DBFO contract.

1.4.2 Lifecycle Schemes

The types of cost associated to this category are:

- ***Pavements*** - Costs under this category are allocated as a percentage based on the length of the Dartford River Crossing as per the legislation against the total length of the M25 per the DBFO contract.
- ***Tunnels*** - the whole amount is related to the crossing.

1.4.3 Overhead and Management

Cost under this category relate to the head office costs incurred by the contractor.

- ***Management -*** Project management, advisors and board fees are based on the contractors' best estimate of the time spent by management on an annual basis.
- ***Energy -*** Is based on the actual metered and unmetered supplies that are specific to Dartford River Crossing as a percentage against the total energy cost incurred through the DBFO.
- ***Insurance and risk -*** the percentage as per that applied to the financial model in the DBFO contract.

Further information is included in Note 3.

1.5 New Accounting Standards – applied

The scheme has reviewed all new accounting standards, amendments and interpretations of standards that are effective during the year ending 31 March 2022. No new standards have been applied for the year ended 31 March 2022.

1.6 New Accounting Standards – future

1.6.1 IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts requires a discounted cash flow approach to accounting for insurance contracts. It has been endorsed by the UK Endorsement Board and will be applicable to the corporate sector for periods starting on or after 1 January 2023. Within central government, adoption has been deferred to periods starting on or after 1 April 2025 and the standard should be reflected in the 2025-26 FReM.

The Dart scheme currently has no contracts which meet the definition of insurance contracts.

1.7 Pension costs and the treatment of the indemnity as a provision

When the Dartford River Crossing concession was enacted, employees transferred to the private sector company (Egis, part of the Connect Plus joint venture) from Kent County Council. As part of the transfer arrangements, the Secretary of State for Transport provided an indemnity to Egis to accept the liability for any future contributions and deficit associated with the Dartford Crossing pension scheme fund.

On behalf of the charging scheme, National Highways therefore contributes to the funded defined benefit Dartford Crossing pension scheme in respect of managing agent staff who are members of that scheme. In-year contributions relating to current service are included annually in the charging scheme's expenditure (Note 3).

This indemnity had previously been treated for accounting purposes as a financial guarantee contract under IAS 39, however an in year review has highlighted that the definition of a financial guarantee is not met by the current arrangement particularly as there is no specific debtor or specified debt instrument involved. Therefore, this indemnity is now treated as a provision based simply on there being a potential legal obligation that derives from the agreement held. A financial liability has been measured as required in line with IAS 37 principles. Estimation uncertainty and discounting are dealt with under Note 1.8.2.

The scheme has treated this adjustment as a change in accounting policy. It has had an impact on the classification of liabilities only and the reclassification itself is not considered material. For comparability purposes and as required under IAS 1, the balance has also been reclassified in the prior year

1.8 Use of estimates

1.8.1 Impairment of Receivable

The principal area of estimation in these financial statements relates to the impairment of debt related to enforcement activities. It is inherent to the nature of the enforcement side of the Scheme's business that not all debt will ultimately prove recoverable, despite management taking all reasonable efforts with regards to credit control.

Following the principles of IFRS 9, management considers debt collectively for impairment within groups which share similar credit risk characteristics. Expected credit losses are calculated by:

- Identifying scenarios in which a loan or receivable defaults
- Estimating the cash shortfall that would be incurred in each scenario if a default were to happen
- Multiplying that loss by the probability of the default happening and
- Summing the results of all such possible default events

Because every loan and receivable has at least some probability of defaulting in the future, every loan or receivable has an expected credit loss associated with it from the moment of its origination or acquisition.

For each group, management bases an impairment on the amount required to achieve a net debt balance which matches its expectations of future cash flows. In respect of the Debt Enforcement Agency (DEA) debt, this is based on an analysis of the aggregate percentage of debt recovered in recent DEA cases before these are returned with no further action to be taken by the DEA.

For other categories, management use an analysis based on the repayment profiles over time of debt cohorts. This method has the advantage of being based on historical data to the greatest extent possible, rather than relying on fixed policies on when debts should be fully impaired.

Choosing the cohort for analysis involves judgement; the more recent the cohort, the more relevant to the debt balance at the year end, but the smaller the time range available to provide evidence of cash flows which have arisen on past debt. In light of the account's preparation timetable and the natural cycle of enforcement debt (particularly prior to DEA referral) management have chosen debts originating between April 2021 and March 2022 to perform this analysis. Management use the assumption that the cash flow profile for this cohort of debt, including the percentage returned once they reach the last step in enforcement (DEA referral) will be a reasonable proxy for the recoverable amount of debt at the Balance Sheet date, and impair the relevant balances accordingly. The impairment expense is £51.9m (2020-21: £43.6m) this increase of £8.3m being a £1.6m decrease in write-offs and a £9.9m increase in allowance for doubtful debt.

1.8.2 Measurement of pension indemnity provision

The measurement of the pension provision described in Note 1.7 is determined using IAS 37 principles. The key source of information for the asset and liability position is the advice of actuaries provided to the trustees of the pension scheme, which include representatives of the charging authority. An estimated funding position as at the 31 March 2022 was provided by the actuary to support these accounts.

The charging scheme will incur net cash outflow in excess of in-year contributions for service (which in common with pensions accounting in general are not anticipated since they relate to future operations) where there is an excess of liabilities for pension payments over scheme assets at any point up to the pension scheme discharging its final obligation. Determining the expected cash flows therefore involves determining whether any excess of pension liabilities over assets exists at the Balance Sheet date, which in turn relies on the valuation approach to both assets and liabilities. Assets are measured at fair value.

The value of the pension fund may increase or decrease in the future based on actuarial assumptions, actual investment performance and experience of the extent of future obligations, resulting in a total net liability or a total net asset. To the extent that any future deficit arises, this represents a liability to the Secretary of State for Transport and the charging scheme. The charging authority is working with the pension scheme's trustees to maximise the return on investment from scheme assets to minimise the funding gap.

For accounting purposes, the charging scheme uses a more prudent discount rate assumption, using the 'bonds basis' applied in the most recent full actuarial valuation. This results in a valuation of the net deficit at £1.7m (2020-21 deficit £4.0m). Key indicators used to determine the bonds basis valuation include;

Discount Rate For Bonds Basis	1.7% pa
Retail Price Index (RPI)	3.9% pa
Consumer Price Index (CPI)	3.0% pa

It is noted that these rates differ slightly to the advised HM Treasury Public Expenditure Systems (PES) rates issued for 2021-22, which provides 1.9% as the nominal discount rate for financial instruments. However, it is deemed that our actuarial rates will be accurate and provide an ease of calculation without any material impact.

2. Income

	2021-22	2020-21
	£000	£000
Dart Charge Operation		
Road user charge (accounts)	81,962	71,669
Road user charge (non-accounts)	42,690	30,591
Enforcement	77,163	58,718
Abnormal load	319	308
	202,134	**161,286**
Other Income		
Rental	123	117
	202,257	**161,403**

In 2021-22 income has increased by £40.9m. This is related to the increase in volume of vehicles using the crossing as the nation came out of the Covid-19 pandemic. Overall we have seen a volume increase of 28.7% during chargeable hours.

Whilst we have made changes to our income recognition policy in year the overall impact on income is minimal, as the reduction in aged accounts income recognised in year is offset by an increase in aged non accounts income that has been recognised.

The Dart Charge scheme incentivises road users to create Dart Charge accounts by offering discounted charges to use the crossing. During the financial year £82.0m (2020-21: £71.7m) was recognised in respect of these accounts.

During the financial year £42.7m (2020-21: £30.6m) has been recognised as Dart Charge non-account RUC income. The majority of this income is collected from less frequent users of the crossing and includes £4.3m (2020-21 £3.4m) in relation to the aged deferred income recognition detailed previously.

Enforcement income relates to road users who have used the crossing but have failed to make a RUC payment within the required timescale, with a resultant PCN liability materialising. Enforcement income has been valued and recognised at £77.2m (2020-21 £58.7m). The increase of £18.4m is due to traffic volumes returning to higher levels as the nation came out of the Covid-19 pandemic.

Abnormal loads income of £0.3m has been received from vehicles which require an escort to travel across the crossing, this is in-line with the previous year.

Dart Charge income is reported net of refunds made.

Rent received from communication network providers amounted to £0.1m during the financial year.

3. Expenditure

	2021-22	2020-21
	£000	**£000**
Managing Agent Contractor's costs		
Connect Plus (M25) Ltd	26,206	16,089
Emovis Operations (Leeds) Ltd	22,772	23,777
	48,978	39,866
Impairment to Income		
Road user charge		
Write offs	1,737	3,609
Movement in allowance for doubtful debt	1,195	1,047
Enforcement		
Write offs	36,993	36,724
Movement in allowance for doubtful debt	12,022	2,267
	51,947	43,647
Other Expenditure		
Dart Charge	4,956	4,187
National Highways Staff	3,456	3,532
Safety scheme	20	31
EU tunnel directive on safety	-	264
Technology projects safety	475	407
Network resilience	-	22
Routine maintenance	505	61
Pension Costs	783	766
	10,195	9,270
	111,120	**92,783**

Dartford River Crossing costs relating to the Connect Plus contract is an apportionment of the total costs payable by National Highways to Connect Plus for the M25 DBFO contract. The estimated costs included are based on the most appropriate allocation method determined for the three expenditure types within the financial model of the DBFO contract.

The expenditure of £26.2m (2020-21: £16.1m) includes:

- Operational & management £19.8m (2020-21: £13.4m)
- Life cycle schemes £5.1m (2020-21 £1.2m)
- Overhead and management costs £1.3m (2020-21: £1.5m)

A monthly payment is made to Emovis as the service provider for the Dart Charge scheme. The service payment and maintenance charge are fixed, while a variable payment is made based on the activities performed by the company during the month. This has resulted in a slight decrease in costs to £22.8m in year (2020-21 £23.8m).

RUC and enforcement receivables have been impaired by £51.9m (2020-21: £43.6m).

Dart Charge cost of £5.0m (2020-21: £4.2m) includes £4.0m for Traffic Enforcement charge, £0.9m residual cost of setting up and delivering the Dartford Free Flow Charging (Dart Charge) project and £0.1m in respect of Audit fee.

National Highways staff costs of £3.5m (2020-21: £3.5m) have stayed consistent in year with a slight reduction in FTEs within the Dart Charge operation being offset by the maintaining of a full complement of staff in year.

The Technology Projects Safety of £0.5m (2020-21 £0.4m) relates to the payments to the police enforcement authority for equipment and work along the crossing.

Routine Maintenance costs increased to £0.5m (2020-21: £0.1m) as work to deliver the A282 J1a incident response station completed in year. The scheme has provided a welfare unit for the traffic officers and DBFO operatives near the Dartford tunnel providing quick access to incidents.

National Highways made monthly contribution payments to the Dartford Crossing pension schemes amounting to £0.8m over the financial year (2020-21: £0.8m) reflecting in-year service costs. A liability is also recognised in respect of the financial guarantee provided over this pension scheme (see Notes 1.7, 1.8 and 6).

4. Net proceeds

The income of £202.3m (2020-21: £161.4m) collected on behalf of National Highways by the managing agent is payable to the Department, net of impairment to income. This income is appropriated in aid within the departmental resource accounts, subject to specific income retention rules for enforcement income as agreed between HM Treasury and the Department. The expenditure reported in these accounts has been financed through the parliamentary supply to the Department.

5. Current assets

	2021-22		2020-21	
	£000	£000	£000	£000
Cash at bank		35,152		28,443
Cash in transit				
Road user charge (accounts)		867		794
Road user charge (non-accounts)		124		98
Accrued Income (Enforcement)		103		77
Accrued Income (Rental)		-		69
Prepayment		-		36,713
Receivables				
Road user charge	9,198		7,773	
Allowance for doubtful debt	(7,768)		(6,573)	
		1,430		1,200
Enforcement	91,123		77,922	
Allowance for doubtful debt	(82,954)		(70,933)	
		8,169		6,989
Financing due to/(from) National Highways		11,870		(10,023)
		57,715		**64,360**

Cash at bank represents amounts received by National Highways in respect of RUC's, enforcement and Dart Charge prepayments not yet paid over to the department. These are payable to Department once a road user has made both a payment and completed a crossing.

Cash in transit relates to customer top-ups received by Emovis Operations (Leeds) Ltd as at 31 March 2022 where the cash has not yet been received by National Highways.

Accrued income for enforcement relates to penalty charge payments acknowledged by the service provider which have not yet been received by National Highways.

Since removing the tolls from the Dartford Crossing in 2014, the company had continued up until 2020-21 to make toll operation payments to the M25 DBFO contractor as laid out in the contract. This had resulted in a prepayment balance of £36.7m as at 31st March 2021. In 2021-22 an agreement has been sought from both parties and the DfT to amend the contract for these items and a Deed of Variation was signed in June 2021. Following this agreement balances have now been settled & payments are now on the correct levels.

Receivables relate to the crossings which have not been paid for as at the end of the financial year. Due to the inherent risk of evasion related to a scheme of this nature, an allowance for doubtful debts has been recognised as an expense to the accounts. This has subsequently reduced the receivable balance from £100.3m to £9.6m and represents the amount estimated as recoverable.

The financing due to National Highways represents the funding due to meet the charging scheme's accrued expenditure and pension-related financial guarantee contract, on the basis that these balances all relate to expenditure streams settled by National Highways on the scheme's behalf.

6. Trade and other payables

	2021-22 £000	2020-21 £000
Trade payables	2,312	3,411
Amounts to be paid over to the department	26,723	18,463
Accrued expenditure	6,992	18,629
Deferred Income - Prepaid road user charge	19,988	19,857
	56,015	**60,360**

The trade payables balance includes £2.2m relating to February 2022 managing agent invoices paid in April 2022 with the balance relating to employee National Insurance Contributions and pension contributions.

The £26.7m payable to the department consists of:

- RUC's collected for March 2022 and to be paid over to the department once they have cleared the National Highways bank account (post 31 March 2022)
- Outstanding road user and penalty charge revenue, net of road user prepayments, which has not been paid over to the department by 31 March 2022

Accrued expenditure represents work carried out but not invoiced at 31 March 2022. Of the £7.0m (2020-21: £18.6m) £2.2m relates to DBFO Service Charge, £4.4m relates to the Dart Charge operation and the remainder relates to other programme accruals and the audit fee.

Deferred income is £20.0m (2020-21: £19.9m) and relates to prepaid RUC payments. These payments are held in a bank account until the road user has made a crossing or received a refund. If the deferred income has not been utilised for a crossing after 12 months, then steps will be taken to close accounts, with balances either refunded or recognised as income. Further information on this policy and the financial impact is provided in Note 1.3 and Note 2

Following a review of accounting policies in the year the pension indemnity has been reclassed as a provision rather than a financial guarantee and is now covered in Note 7. Further detail on this judgement and the Dartford Crossing pension scheme in general is also included in Note 1.7 and Note 1.8.

7. Provisions

In line with accounting standard IAS 37 (provisions, contingent liabilities and contingent assets), we provide for legal or constructive obligations that are of uncertain timing or amount at the Statement of Financial Position date, but where it is more likely than not that a liability exists. The measurement of the provision is based upon the best estimate of the expenditure required to settle the obligation.

	2021-22 £000	2020-21 £000
Pension indemnity	1,700	4,000
	1,700	**4,000**

Following a review of accounting policies in the year the full pension indemnity has been reclassed as a provision rather than a financial guarantee. This is because the definition of a financial guarantee is not met by the current arrangement particularly as there is no specific debtor or specified debt instrument involved. Further detail on this judgement and the Dartford Crossing pension scheme in general is also included in Note 1.7 and Note 1.8.

A fall in the indemnity value is the product of a number of different factors ranging from investment return in excess of expectations and a change in the size of the liabilities brought about by changes in financial conditions.

8. Risks relating to financial instruments

For these disclosures the DRC Charging Scheme Account is considered as an integral part of National Highways. Due to the largely non-trading nature of its activities and the way in which government arm's length bodies are financed, National Highways is not exposed to the degree of financial risk faced by many business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which IFRS 9 applies. National Highways has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing National Highways in undertaking its activities.

8.1 Liquidity risk

This is the risk that National Highways is unable to meet its obligations when they fall due and to replace funds when they are withdrawn. National Highways net revenue resource requirements are mainly financed by resources voted annually by Parliament to the department. National Highways is therefore not exposed to significant liquidity risks.

8.2 Credit risk

The scheme's principal credit risk relates to the enforcement of late-paid RUC's and outstanding PCNs. Further details are included in Notes 1.8, 5 and 9. Credit risk is the risk of suffering financial loss, should any customers or counterparties fail to fulfil their contractual obligations to National Highways. Some of the customers and counterparties are other public-sector organisations. There is no credit risk from these organisations. For those customers and counterparties that are not public-sector organisations, National Highways has policies and procedures in place to ensure credit risk is kept to a minimum.

8.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the scheme's income or the value of its holdings. The scheme is not materially exposed to interest rate or foreign exchange rate risk and the risk of changes in market prices.

9. Contingent Liabilities

A contingent liability is a potential liability that may occur depending on the outcome of an uncertain future event; they do not meet the criteria for a provision. Unless their likelihood is considered to be remote, we disclose them as contingent liabilities.

Under IAS 37, contingent liabilities are not recognised in the statement of financial position but are required to be disclosed in a note to the accounts.

	2021-22 £000	**2020-21 £000**
Contingent Liabilities	5,000	0
	5,000	0

A contingent liability is included in regards to the aged income recognised in 2019-20 and 2020-21. A continuing obligation exists to refund these account holders if requested.

10. Related party transactions

National Highways, which is a government owned company operates the crossing on behalf of the Secretary of State. The income collected on behalf of National Highways by the managing agent is payable back to the department, whilst the gross expenditure is financed through the parliamentary supply to the department.

In addition to this we have had transactions with a small number of other government departments and agencies, in particular HM Court & Tribunals Service – £3.2 million (2020–21 £3.1 million), as well as the local Police Crime Commissioners, Kent County Council and the Driver and Vehicle Licencing Agency.

11. Losses and special payments

Managing Public Money requires a statement showing losses and special payments by value and by type to be shown where they exceed £300,000 in total and those that, individually, exceed £300,000. Losses may relate to cash and store losses, bookkeeping losses, losses arising from a failure to make adequate charge for the use of public property or services, fruitless payments and claims abandoned as well as frauds. Special payments may relate to extra-contractual, extra-statutory and ex-gratia payments and compensation.

11.1 Losses statement

11.1.1 RUC revenue and enforcement revenue impaired in year

In any business involving enforcement, a number of inherent credit risks will restrict management's ability to fully recover customer debt for road users subject to enforcement action. These include service provider error, data availability and customer behaviour. While the primary goal of enforcement procedures in relation to the crossing are to incentivise compliance with the RUC, robust action is also taken in pursuing enforcement cases, including the referral to debt recovery agents in cases of prolonged non-compliance.

It is therefore a normal part of these accounts that in any given year, debts will be written off as management decide the chances of recoverability are sufficiently low to make continued pursuit uneconomic.

During the year, management write off was £1.7m (20-21: £3.6m) of the RUC receivable and £37.0m (2020-21: £36.7m) of the enforcement receivable.

Additionally, these accruals-based accounts make an estimate of the extent to which the gross population of receivables at the end of the year is likely to prove recoverable, with the modelled estimate of the irrecoverable portion treated as an 'allowance for doubtful debt' which reduces the recognised receivable balance (Note 5). Any movement in this allowance between financial year ends results in the recognition of an expense (or credit to expenditure, if the movement is favourable) presented in Note 3. Recoverability modelling is based on historical performance. The movement in allowance as at 31st March 2022 is £13.2m (2020-21: £3.3m).

11.1.2 PCNs not issued

If a PCN has not been issued, it is deemed outside the scope of the revenue recognition policy adopted by this set of accounts. During the financial year, £17.6m (2020-21: £17.4m) was not recognised as PCN revenue due to road users not receiving PCNs despite having contraventions recorded (i.e. crossings without matching payments).

PCNs may have not been issued to road users due to various reasons, including; road user vehicles keeper details (UK and Non-UK) not being available, illegal activity/evasion (e.g. cloned vehicles), poor vehicle images, misread number plates, issues with the system, errors made by the service provider, and discretionary action undertaken by National Highways. System issues and errors are being addressed by National Highways on an ongoing basis.

It should be noted, that a high percentage of the £17.6m not recognised will in likelihood relate to first time offenders who would have been offered the chance to pay the RUC within 14 days, resulting in no fine being levied. Therefore, actual PCN revenue loss is significantly lower than £17.6m as a result of this policy. Taking all material factors into account, our estimate of the actual cash flow loss in respect of valid PCNs not issued in-year is between £0.1m and £1.6m.

The objective from the outset in line with agreed policy has been to encourage compliance (which was at 94.9% at year-end) and public acceptance to support a credible free-flow charging scheme.

11.2 Special payments

No special payments have been made.

11.3 Derecognised enforcement revenue

The total value of PCNs issued during the year which were derecognised is £35.4m (2020-21: £25.6m).

There are two main reasons for derecognition: the RUC was paid within the 14-day warning letter period £30.3m (2020-21: £22.8m); and successful representations and appeals and invalid PCNs £5.1m (2020-21: £2.8m). In both cases these are not classified as losses under Managing Public Money but are included here to provide context.

11.3.1 RUC paid within 14-day warning letter period (first time offenders only)

A fair and balanced approach to enforcement, where compliance is encouraged, has continued to be adopted giving first time users of the crossing additional opportunity to pay the charge and avoid a penalty. This included an offer to pay any outstanding charges within 14 days to avoid a first PCN. This means not all potential income from PCNs will be recovered. In these cases, the user paid the correct charge but outside the 24-hour prescribed payment period. Any penalty charge revenue initially recognised in respect of compliance with the offer of payment within 14 days has subsequently been de-recognised from the accounts.

11.3.2 Successful representations & appeals and the cancellation of invalid PCNs

A representation is the initial process the road user can use to dispute their PCN. Representations are considered by National Highways and results in either a notice of rejection (the PCN is upheld) or a notice of acceptance (the PCN is cancelled). An appeal occurs if a road user challenges a notice of rejection. Appeal decisions are heard and decided upon by an independent adjudicator. Invalid PCNs include PCNs which were issued for exempt vehicles or are duplicate PCNs.

12. Events after the reporting period

There have been no events since the 31 March 2022 to the date the accounts were authorised for issue which would affect the understanding of these accounts.

These financial statements are laid before the Houses of Parliament by the Secretary of State for Transport. International Accounting Standard (IAS) 10 requires National Highways to disclose the date on which the accounts are authorised for issue.

The authorised date for issue is the date of the Comptroller and Auditor General's audit certificate.

APPENDIX A

DARTFORD THURROCK CROSSING ROAD CHARGING SCHEME

ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN ACCORDANCE WITH SECTION 3 OF THE TRUNK ROAD CHARGING SCHEMES (BRIDGES AND TUNNELS) (KEEPING OF ACCOUNTS) (ENGLAND) REGULATIONS 2003

The Treasury in pursuance of Section 3 (1) (b) of the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003 hereby gives the following direction:

1.The statement of accounts which is the duty of the Secretary of State for Transport to prepare in respect of the year ended 31 of March 2004 and in any subsequent year shall comprise:

(a) A Foreword, which shall include:

- (i) a statement that the accounts have been prepared in accordance with a Direction given by the Treasury in pursuance of Section 3 (1) (b) of the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003
- (ii) an explanatory introduction
- (iii) information on significant events during the period
- (iv) a statement providing information on how the Secretary of State has or intends to disburse the net proceeds arising from the scheme on other transport initiatives

(b) a statement of the responsibilities of the person signing the accounts

(c) a statement of the system of internal control

(d) a statement of income and expenditure

(e) a statement of capital expenditure

(f) a statement of assets and liabilities

(g) notes to the accounts, including an explanation of the accounting policies adopted, that may be necessary to present fairly the income and expenditure for the period, transfers of funds to or from Central government, and the assets and liabilities at the end of the period in relation to functions under the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003.

2.The statement of accounts shall disclose the net proceeds of the scheme for the year ended 31 of March 2004 and for each subsequent year.

3.The statement of accounts shall be prepared under the historical cost convention on an accruals basis and shall follow the format attached to this Direction although minor drafting changes may be made without seeking the approval of the Treasury. Except for the statement of accounts for the year ended 31 March 2004, comparative figures shall be shown.

4.The statement of account prepared under the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003 shall observe all relevant accounting and disclosure requirements as given in *Government Accounting* and other guidance as issued by the Treasury from time to time.

5.The statement of accounts shall be transmitted to the Comptroller and Auditor General no later than the 30 of November following the end of the financial year to which the statement relates, for audit, examination and report.

6.The statement of accounts, once audited, shall be laid before each House of Parliament not later than the 31 of January in the calendar year following the end of the financial year to which the statement relates.

7.This Accounts Direction (excluding the proforma accounts) shall be reproduced as an Appendix to the accounts.

David A. Cruden FCA
Head of the Central Accountancy Team, Her Majesty's Treasury

2 February 2005

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