

Safe roads, Reliable journeys, Informed travellers



# Annual Report 2007-2008

# England's strategic road network

Motorways ———  
Trunk Roads (major A roads) ———



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# **The Highways Agency Annual Report and Accounts 2007-2008**

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and we will do our best to meet your needs.

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# Highlights



## Award winning projects

The Highways Agency strives for excellence in delivery of services to customers. We continue to demonstrate the quality of our work in areas as diverse as cultural heritage, public consultation, active traffic management and litter campaigning:

The team in our Major Projects directorate working on the widening of the **M1 between junctions 25 and 28**, in conjunction with Arup were awarded the 2007 Association of **Geographical Information (AGI) Award** for Innovation and Best Practice in the Central Government Category for its use of new interactive screens and other technology used at the scheme's public consultations. Judges praised the Highways Agency Team for its approach targeted directly on real democracy and the views of the citizen.

The Highways Agency's Historic Landscape Character Guide launched at the Institution of Civil Engineers in September, won a **commendation from the Landscape Institute**, citing the Agency as an organisation whose vision leads the way in creating innovative and dynamic landscape.

Our partner Carillion Roads was awarded Contractor of the Year in the 2007 **Highways Magazine Excellence Awards** for the flagship **M6 Guards Mill Project**, upgrading the A74 to motorway standard between Carlisle and the Scottish border.



**A2/A282 Dartford Improvement**

12th November 2007 saw the opening of both the link road from A282 to A2 coast bound and the widening of A2 between M25 junction 2 and Bean.



**M6 Guards Mill**

The £174 million M6 extension scheme is taking shape on the A74 between Carlisle and Guards Mill, and is planned to be completed by the end of the year.



**M1 Widening**

66 CCTV cameras monitor the M1 junctions 25-28, 24 hours a day.

Strategic roads programme	Eight major new schemes opened in the year. The £120 million improvement scheme for the A2/A282 at Dartford opened five months ahead of schedule.
Reliability	Approval to extend Active Traffic Management, successfully trialled on the M42.
Environment	Targets met on air quality, biodiversity, landscape, noise and water quality.
Information	Three new driver services introduced including our digital Traffic Radio service.
Safety	Numbers of deaths and serious injuries on our network have been further reduced.
Maintenance	An £800 million maintenance programme kept our roads safe and serviceable, and we met our road condition target again.
Road user satisfaction	Targeted satisfaction levels for motorways and trunk roads exceeded.
Finance	We utilised over 99% of our £6 billion budget.

In November the Highways Agency's 'Bag it, Bin it' campaign won a **Gold Award** from the Chartered Institute of Public Relations in their **PRide Awards 2007** for the best public sector campaign in the south east. Free specially designed car litter bags were made available in service stations across the South East of England, and road shows held across the region to support the campaign, which was subsequently launched nationally in August 2007.

The Highways Agency's roadworks on England's motorways are better overall than the rest of Europe according to an independent survey by the AA Motoring Trust and its European partners. Particular strengths lay in managing traffic and safety.



'Just a stones throw', our teaching pack



specifically designed for use by schools, scooped the Highways Agency a third prestigious **Prince Michael Road Safety Award**. The M25 campaign aims to help children understand the dangers of dropping objects from bridges onto roads.

**Just a stones throw**

Felicity Drewett (Highways Agency) and Mark Nightingale (Mouchel) with Prince Michael (above).

# Chief executive's introduction



**As the newly appointed Chief Executive of the Highways Agency I am delighted to provide a few words introducing this report.**



That the Highways Agency met or exceeded most of its key targets this year is an immense

credit to all the staff who have achieved this. I must single out the contribution of my predecessor, Archie Robertson, who during his five years at the helm sought to grow the Highways Agency, driving through changes to enhance its effectiveness, capability and resilience, such that it could justly claim to be a customer focused network operator. Archie can be confident that he leaves an organisation performing that extended role, every hour of every day.

Delivery to our customers has become the Highways Agency's main focus, being formalised in the Customers First corporate plan in 2005 and more recently, set out in simple, easily understandable terms in our Customer Promise. We have made a really positive impact with our customers this year; the continued presence of the Traffic Officer Service, the reassuring new journey time signs, the successful M42 Active Traffic Management trial, new pre-trip planning tools and our handling of the summer floods have been much welcomed. And our workshops in the autumn showed that we still have plenty of ideas in the box to continue delivering against our Customer Promise.

The speed of implementing the recommendations of Nichols and the National Audit Office on control of our major projects through the introduction of our Projects Control Framework has been exemplary, and we look forward to making progress with our capital build programme. The future will be equally challenging for us and amongst all the developments we will undertake, the placing of a M25 contract which includes adding capacity to around 63 miles of the motorway, the largest ever PFI road contract undertaken in this country, is surely going to have the highest profile.



**Car Share Lane**

Ruth Kelly attends the opening of the new car share lane in March 2007. The 1.7 mile lane links the southbound M606 to the eastbound M62, bypassing the congested section where the two motorways merge.



**Active Traffic Management (ATM)**

We have trialled the controlled use of the hard shoulder as a running lane during busy periods between junctions 3a and 7 of the M42.



**Monitoring our network**

Control Room Operators are responsible for answering emergency roadside telephones, setting overhead message boards on motorways and despatching patrols to incidents.



**Traffic Radio**

Traffic Radio is a new 24 hour service keeping you up to date with what's happening on England's motorways and major A roads.



**Customers First Corporate Plan**

The plan explains how we can work together and with our partners and stakeholders to make a real difference for our customers as we deliver our new role of traffic manager.

We are now entering a new phase as we capitalise on advances in technology to provide better services to our customers. Much work is already in hand but there is more to do to ensure we can respond to ever growing service expectations, continued traffic growth and the expectations of government ministers that we can do more with less resource.

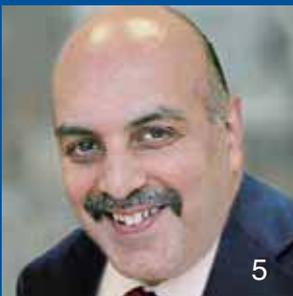
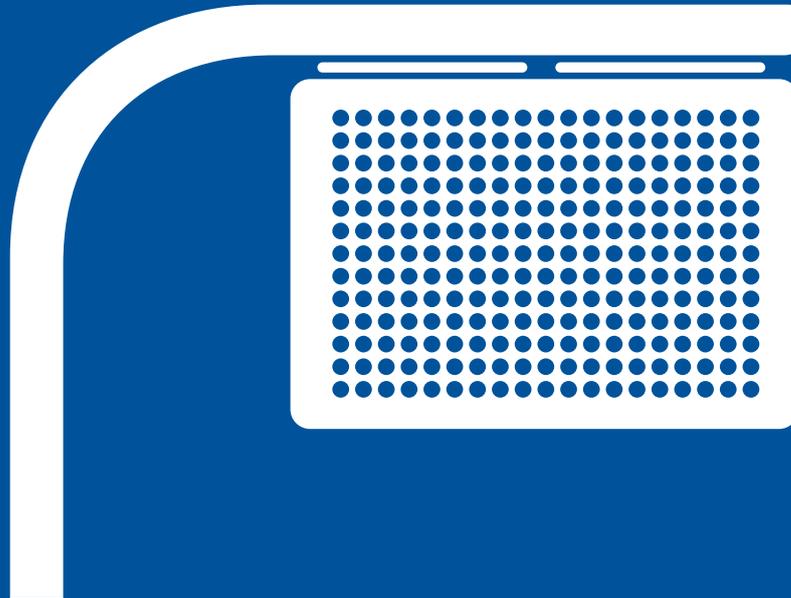
The Secretary of State for Transport has announced that Active Traffic Management should be the preferred means of increasing capacity on the motorway network. This approach blends modern technology with smarter operations to produce more reliable journeys. And we will be improving the productivity of maintenance contracts as we re-tender them, learning how we can use our traffic officer resources better (including taking on vehicle recovery contracts) and getting customers to help themselves by doing more pre-trip planning.

My thanks go to all those who have moved on from the Highways Agency for their contribution, in particular board members Hilary Chipping and Jerry England.

Finally, I would like to thank staff, both at the Highways Agency and in our vital supply chains, for their unflagging effort, enthusiasm and commitment to achieving the Highways Agency's objectives. I am pleased to be joining such a dedicated, forward thinking team of people whose successful record demonstrates their ability to rise to the challenges ahead.

**Graham Dalton**  
Chief Executive

# About us - who we are and what we do



## Board Structure

- 1. Graham Dalton**  
Chief Executive
- 2. Ginny Clarke**  
Network Services
- 3. Steve Williams**  
Human Resource Services
- 4. Derek Turner**  
Network Operations
- 5. Nirmal Kotecha**  
Major Projects
- 6. Mel Zuydam**  
Finance
- 7. Denise Plumpton**  
Information

## Non Executive Directors

- 8. Alex Jablonowski**
- 9. Andrea Gregory**
- 10. Tracey Barlow**



**Traffic Officer**

One of our traffic officers talking with the public at a Highways Agency Development Forum, Birmingham.



**Customers First Road Show**

Our Customers First Road Shows took place throughout the country during 2007. They provided an opportunity for staff to discuss how we can work more effectively to deliver Customer Promise.



**Public Exhibitions**

Key messages such as journey planning are promoted at the Eden Project, Cornwall.

**Who we are and what we do**

The Highways Agency, established in 1994, is an executive agency of the Department for Transport. Our respective roles and responsibilities and the governance of the relationship are set out in a formal framework document.

We have a small corporate centre in London and offices at eight locations across the country. We also have traffic officers working on motorways based in seven Regional Control Centres (RCC) and 32 outstations. A location map of our offices and RCC's is included on the inside back page.

Our Board includes our Chief Executive, six executive directors who are responsible for managing delivery of the Highways Agency's programme, and three non-executive directors. Details can be found in the Leadership and Corporate Governance section of this report.

We are responsible for operating, maintaining and improving the strategic road network in England on behalf of the Secretary of State for Transport. Our primary functions are to manage traffic, tackle congestion, provide information to road users and improve safety and journey time reliability, whilst respecting and minimising the adverse impact on the environment. Our formal aim, objectives and values are shown overleaf.

Our road network, ranging from motorways to single carriageway trunk roads (the major A roads), is valued at over £85 billion. It carries a third of all road traffic in England and two thirds of all heavy freight traffic. The network provides a vital service to commerce and industry and to the lives of individuals and communities, and is crucial to the success of the UK's economy. A network map is included on the inside front cover.

We fulfil our role by working closely with our partners and contractors to deliver an efficient and sustainable network that meets the needs of all our customers. We have forged strong links with other road administrations in Europe and around the world for the exchange of information, experience expertise and innovative ideas. We are also active participants in a range of high profile roads-related forums.

We put customers first in everything we do, listening to them, and gaining a better understanding of the way our network impacts on them, so that we better respond to their needs and expectations.

# About us

Our values - how we behave in fulfilling our objectives	
• Customer service	We put our customers first and aim to deliver world class quality of service.
• Teamwork	We work together in dynamic teams and partnerships.
• Continuous Improvement	We are committed to learning, innovation and flexibility.
• Diversity	We value people for who they are and their contributions.
• Best value	We provide quality services that provide value for money.
• Integrity	We build trust by acting with honesty, openness and fairness.

## How we fit with Department for Transport objectives

The Department for Transport's (DfT) aim is transport that works for everyone. The strategic objectives which support the aim focus on: sustained economic growth; improved environmental performance; strengthened safety and security of transport; and enhanced access to jobs, services and social networks.

The Highways Agency, as a key delivery agent of the DfT, has aligned its aim and objectives with the central department's vision. The Highways Agency uses a balanced scorecard to aid strategic planning and management of the business, and uses the scorecard as the framework for target setting from a corporate level through to work plans for individual staff members.

Following last year's Cabinet Office capability review of central government the DfT developed the '4ward' programme of change, aimed at developing the Department and its agencies' leadership, strategy and delivery capabilities. The Highways Agency has played its part in progressing the plan by implementing the Nichols Review recommendations, recruiting to key posts and applying updated leadership standards.

## Aim, Objectives and Values

Explaining our strategy for delivery:

We have a defined strategy and vision represented in our aim, objectives and values.

### Our aim

Safe roads, reliable journeys, informed travellers.

### Our prime objective

1. To deliver a high quality service to all our customers by:
  - Reducing congestion and improving reliability.
  - Improving road safety.
  - Respecting the environment.
  - Seeking and responding to feedback from our customers.



**Our customers**

We will provide helpful information to enable you to make choices before and during your journey.



**Safe journeys**

We will help you make your journeys safely and reliably.



**Speaking to our customers**

We will ask you for your views and act on feedback.

**Our enabling objectives**

2. To ensure more effective delivery through better working relationships.
3. To implement best practice and innovative solutions to improve service now and in the future.
4. To be a good employer.
5. To be an efficient agency with effective business processes and resource management systems.

**Customer Promise**

As part of moving the Highways Agency forward we have developed our Customer Promise following discussions with our customers, stakeholders, staff and suppliers. The dialogue generated the following statements that set out the key features of our services to customers simply and clearly.

Since introducing the Customer Promise we have started embedding its ethos with staff, suppliers and stakeholders by:

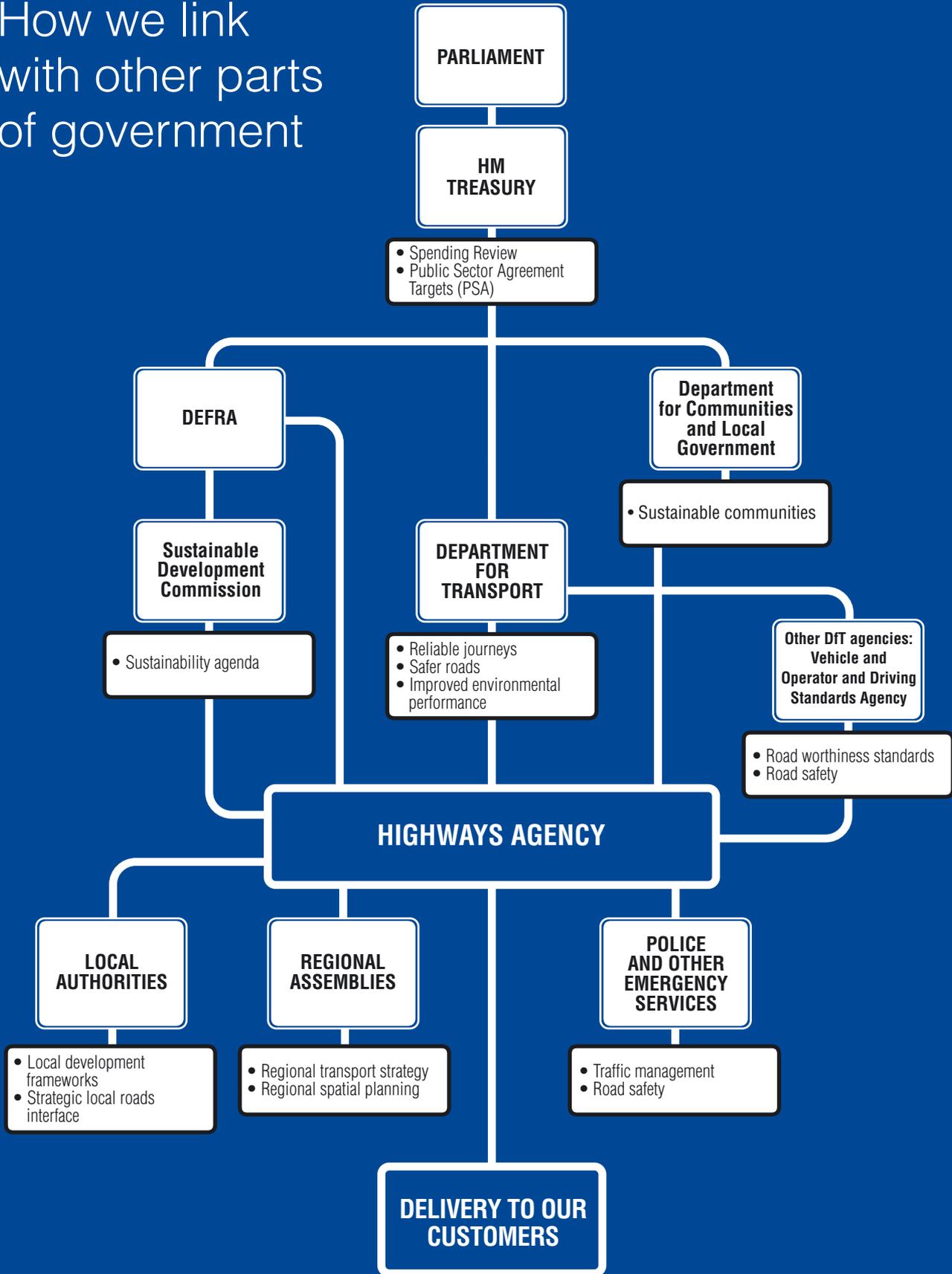
- Holding a series of roadshows with our staff.
- Explaining our role to stakeholders using the DVD 'A day in the life of the Highways Agency'.
- Building the Customer Promise into the development of a contractors' charter setting out the commitments we expect our strategic suppliers to sign up to.
- Reflecting the language of the Customer Promise in our communications.



**CUSTOMER PROMISE - Helping you with your journey**

- ✓ We will help you make your journeys safely and reliably.
- ✓ We will provide value for money and invest in improved services.
- ✓ We will provide helpful information to enable you to make choices before and during your journey.
- ✓ We will clear up incidents quickly and safely.
- ✓ We will limit any delays when carrying out roadworks and improvements.
- ✓ We will play our part in protecting the environment.
- ✓ We will ask you for your views and act on feedback.
- ✓ We will deal with you promptly, courteously and helpfully.

# How we link with other parts of government





**Access to ports**

Freights and movement of goods on our motorways and major A roads.



**Road safety**

Multi Agency Exercise with colleagues from the emergency services, testing our response to a serious motorway incident.



**Sustainable development**

Helping to reducing the environmental impacts of road travel on our network.



**High Goods Vehicle campaign**

Numbers of accidents involving Large and Heavy Goods Vehicles are far greater than we would like them to be. One of our initiatives to tackle this is through a Driver Information Programme titled "Heavy Good Vehicle".

**How we link with other parts of government**

The strategic road network supports a range of wider government policies and objectives by enabling the movement of people and goods. To deliver these wider policies the Highways Agency works effectively in partnership with other parts of the DfT, government and the public sector.

**Examples include our work with:**

- The Department for Transport on
  - access to ports, airports and multi-modal freight interchanges.
  - improving road safety.
  - reducing the environmental impacts of road travel.
  - DfT agencies in particular VOSA and DSA.

- The Department for Communities and Local Government and the DfT to support the growth and sustainable communities agenda.
- Regional Assemblies on developing regional spatial strategies and regional transport strategies.
- Local authorities on developing Local Development Frameworks and on development control, and on managing the interface between the local and the strategic road network.
- The police on traffic management and improving road safety.

Overall we contribute to a sophisticated policy mix which recognises the importance of the strategic road network in carrying much of the nation's lifeblood efficiently and effectively.

# Annual Performance Report

## *Gantry Mounted Signs*

A gantry sign being installed on the M25 junctions 1b-3. They allow flexibility for individual lane signalling and display advisory fog warnings, speed restrictions, lane closures and lane diversions.



**VMS**

These signs provide advance warning to drivers of emergencies, incidents and road management. They are aimed at improving safety and minimising the impact of traffic.



**'Just A Stones Throw' Campaign**

The campaign is aimed at 9-11 year olds and explains the science of what will happen - it carries the important message that "Your Actions Have Consequences" and encourages pupils to think before they act.



**M1 junctions 25-28**

23 kms (14 miles) of the M1 between junctions 25 and 28 will be widened to improve the flow of traffic, provide more reliable journeys and reduce the amount of congestion for road users.

## An overview of our performance in 2007-08

We aim to deliver a safe, reliable and free-flowing road network, where travellers can make informed choices about how and when they travel, whilst minimising the adverse impact of road traffic on the environment.

The measures we take to achieve this, such as managing the traffic on the network, adding capacity where appropriate and providing travel information services, are set out in this section of the report.

We fully met eleven and partially met two of our fourteen business plan targets, spent over 99% of our allocated budgets and delivered against challenging efficiency targets (see table).

Targets agreed with Ministers:		Performance in 2007-2008
Journey Reliability		Target to reduce the average vehicle delay on the 10% slowest journeys missed.
Programme of Improvements		Target partially met as a number of major projects were delayed while better value options were considered. Successful completion of the Priority Action Sites programme.
Influencing Travel Behaviour		<ul style="list-style-type: none"> <li>• Three new traffic information services implemented.</li> <li>• New travel plans introduced.</li> <li>• High occupancy vehicle lane opened on the M62/M606.</li> </ul>
Road Casualty Reduction		Our share of national target ahead of plan.
Road Surface Condition		Partially achieved. Road surfaces in good condition, but delay in developing a maintenance value-for-money indicator .
Environment		Targets on air quality, biodiversity, landscape, noise and water quality all achieved.
Road User Satisfaction		Target achieved for both motorways and trunk roads.
Efficiency		Our contribution towards DfT's efficiency target exceeded target by 20%.

Some of the above areas had more than one target set, and some targets had more than one part. Full details of our targets and comparisons with previous years are located on page 58 of this report.

# Improvements to the network



## Programme of improvements to the network

### Major road schemes

Major road improvements, those costing more than £5 million, add capacity to the strategic road network and help reduce congestion. This year we completed eight major schemes on the network, (bringing to 53 the total of strategic road schemes completed since 2001.) The A2/A282 Dartford Improvement and the A30 Bodmin to Indian Queens dual carriageway both opened ahead of schedule.

**21 major schemes are currently under construction.**

## Response to the Nichols review

Following the publication in March 2007 of the Nichols Review and the National Audit Office report into the Highways Agency's approach to cost estimating and project management we have been working to implement the recommendations of both reviews.

The programme team has made significant progress, including:

- Reorganising scheme management, grouping projects into three phases - Options, Development and Construction. Separate budgets are provided for each phase, with formal assessment before progression to the next stage.

- Introducing a new project control framework.
- Introducing more sophisticated cost estimation, replacing point cost estimates with cost ranges to reflect the uncertainties within schemes, particularly those early on in their life-cycle.

Additionally, we have created a Commercial Division within our Major Projects directorate responsible for producing and challenging estimated costs. We have put in place individual development programmes for staff to improve Programme and Project Management skills where necessary. The central department has also taken on a stronger role in sponsoring our major roads schemes.



**A30 Bodmin**

A30 Bodmin to Indian Queens Improvement.



**A3 Hindhead**

Tunnelling works have begun at the Devil's Punch Bowl, Surrey Hills. The project will deliver quicker, more reliable journeys on a safer road, and remove traffic from unsuitable country roads around Hindhead.



**A66 Temple Sowerby bypass**

The new bypass is designed to reduce traffic through the village by 95% significantly reducing the impact on the community of around 15,000 vehicles which use the A66 every day.

**case study**

**Tunnelling under the Devil's Punch Bowl**

Work began in February 2008 on boring the longest road tunnel under land in the UK, beneath the Devil's Punch Bowl, as part of the A3 Hindhead construction scheme. The scheme upgrades 6.5km of single carriageway road to dual-carriageway status, incorporating a 1.8km twin bore tunnel to protect the Surrey Hills area of outstanding natural beauty and Devil's Punch Bowl site of special scientific interest. The tunnel will remove all traces of the existing road from the landscape.

The scheme will bring real benefits to local people, whether they are drivers, horse riders, cyclists or pedestrians, as well as create a better habitat for local wildlife and preserve the beauty of the landscape.

**Major road schemes completed during 2007-2008**

- A428 Caxton Common to Hardwick Common, Cambridgeshire.
- A30 Bodmin Indian Queens improvement, Cornwall.
- A66 Carkin Moor to Scotch Corner improvement, Yorkshire.
- A66 Greta Bridge to Stephen Bank improvement, Yorkshire.
- A66 Temple Sowerby Bypass, Cumbria.
- M1 junctions 31-32 widening, Yorkshire.
- A2/A282 Dartford improvement, Kent.
- M25 junction 28/A12 Brook Street junction improvement, Essex.

**Highways Agency awarded Construction Clients' Charter status for the fifth year running.**

The Charter sets out the minimum standards that Government expects in construction procurement today, and is awarded to organisations on the basis of their development of a programme of cultural change and their commitment to achieving continuous improvement in their construction procurement and management.





## stone age

Archaeologists working on our M62 junction 6 improvement scheme have uncovered 7,000-year-old evidence of Stone Age settlements at Huyton on Merseyside - the earliest signs of human activity ever discovered in the area.



### *Tangmere Bridge*

The newly constructed bridge will provide a safer crossing for pedestrians and cyclists over the A27 between Tangmere and Boxgrove.



### *A500/A34 Hanford Roundabout*

This scheme will reduce congestion for all motorists travelling through the location and improve pedestrian and cyclist facilities.

## Small schemes programme

The Highways Agency's programme of smaller improvement schemes comprises projects each costing less than £5 million. These contribute to a number of our targets by delivering benefits such as improving safety, giving better accessibility for cyclists, pedestrians and equestrians, enhancing the environment, reducing delays and delivering improved reliability. In 2007-08 we completed over 200 of these projects.

## case study

### **New technology to improve the Hanford roundabout**

We began work in February 2008 at the A500/A34 Hanford Roundabout, Stoke-on-Trent to improve traffic flows, increase safety, and reduce congestion.

The work will install a traffic signal system, which uses electronic sensors to adjust traffic light signals in response to changing traffic flows. New road-level pedestrian and cycling crossings will replace the existing pedestrian underpass, improving safety at this busy roundabout.

The Highways Agency has worked closely with St Teresa's Catholic Primary School regarding their 'walking bus' of pupils that crosses Hanford Island, and is providing the organisers with a fob that will override the new traffic signals at crossing points to assist the pupils on their journey. The school is delighted that the improvements are being made. The new walkways at road level will provide a much safer and more pleasant route.

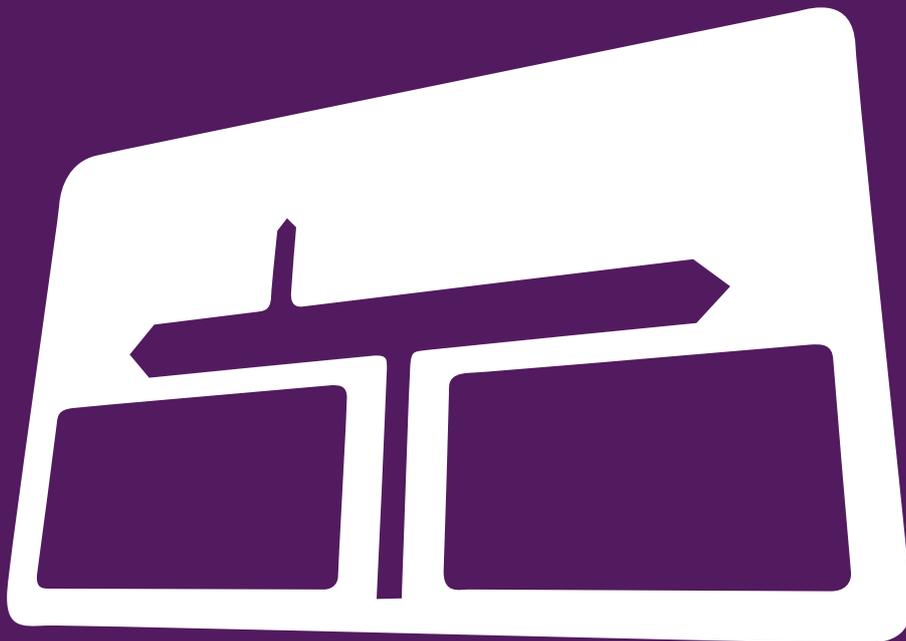
The scheme will provide improved experiences for drivers, pedestrians and cyclists.

*M25 junctions 1b-3 widening*

The M25 is one of the busiest routes in England, the upgrades to this part of the motorway are vital in tackling congestion and improving the journey time and reliability to the road user.



# Managing traffic



## Journey reliability

For our customers, unreliable journey times can cause significant frustration, making it hard for people to plan their journeys. Many roads perform reasonably well for much of the time. Even during weekday peak periods, around eight out of ten journeys on the motorway network can be made at an average speed of at least 50mph. Our challenge is to target our policies and delivery towards those roads and times that endure the worst congestion.

We were therefore set a challenging target to improve reliability, which was to reduce the average vehicle delay on the 10% slowest journeys on each of 91 routes which together cover the vast majority of the strategic road network. To achieve this we implemented a Reliability Delivery Plan.

## The aim of the Plan is to:

- Reduce the occurrence of incidents, and better manage those that do take place by means of our Traffic Officer Service.
- Manage traffic flows using active traffic management and ramp metering.
- Provide travellers with better information services to enable better travel choices for users of our network.
- Plan and manage vital road works more efficiently.



**Ramp metering**

Ramp metering at the M60 junction 2 helps reduce congestion by regulating the volume of traffic joining the motorway.



**Quick Moveable Barrier (QMB)**

A QMB machine is being used to place concrete safety barriers that close off traffic lanes. Using the QMB speeds this process up significantly and helps reduce traffic.



**Traffic Information**

Control Room Operators play a crucial role in reducing congestion and helping drivers make more reliable journeys.

The Delivery Plan has delivered substantial improvements to the worst journeys on our network, but has been unable to deliver the target. The average amount of time lost on the slowest 10% of journeys was measured to be 3.95 minutes per ten miles in 2007-08, compared with the baseline of 3.78 minutes per ten miles, set between August 2004 and July 2005. Therefore, in the last two years and eight months, the worst journeys on our network have lengthened in duration by an average of ten seconds for every ten miles travelled.

However, we delivered all the measures in our Delivery Plan to tackle congestion, the programme making a significant difference by bringing estimated savings in delays of about 14 seconds per ten miles. Therefore, without our intervention, we believe delays on the slowest journeys would have increased by more than twice as much.

We identified the following as being the key factors affecting performance:

- The target was always challenging, being set in the absence of any trend data to demonstrate past performance.
- Growth in traffic levels - traffic increased by around 2 to 3%.
- Major road works - the programme of major schemes in construction led to a 40% increase in the number of routes affected by road works.
- Particularly severe weather conditions - there was greater and more intense rainfall last year compared with baseline. The flooding over just two days in July 2007 accounted for over a quarter of the change in reliability.



**ramp metering**

Following the successful delivery of ramp metering at 30 congested sections of our network, we are now selecting 70 more sites for implementation by March 2009.

Work is continuing to improve our understanding of the factors that affect reliability performance and their complex inter-relationship. This will be taken forward to continue to target investment on measures that achieve best value improvements in reliability for the period 2008-11.

## case study

### Traffic Officers

This year traffic officers attended over 317,000 incidents between the hours of 6am and 10pm, an average of over 850 incidents a day. Over 85,000 of the incidents attended were either a threat to safety or were likely to cause congestion on our network. Traffic officers arrived at 80% of these incidents within 20 minutes, clearing over 87% within 45 minutes, meeting our targets.



*Traffic Officers at work*

The Traffic Officer Service is part of a Government drive to cut congestion and was developed jointly with the police.

## Traffic Officer Service

Incidents on our motorways have a significant impact on congestion. One of our key tools to manage traffic and reduce the impact of incidents is the Traffic Officer Service, which has taken over responsibility from the police for managing traffic on the motorway network in England. Around 1,500 traffic officers, control room staff and team managers work on the motorway network from seven RCC's and 32 outstations, providing a 24/7 service.



Now that the Traffic Officer Service is fully established, the Highways Agency measures its effectiveness through a performance framework. The framework is used to measure the activities that support the target for journey time reliability and also enables us to deploy resources on the network effectively. This is the first full year of reporting the performance of traffic officers hence there is no benchmark data.

Another primary role carried out by the Traffic Officer Service is keeping motorists informed by the accurate and prompt setting of signs and signals. During 2007-08 over 90% of signs and signals were set within three minutes and were either changed or removed within two minutes of receiving a request from traffic officers or police.

Traffic officers are clearing incidents quickly, reducing the impact of incident-related congestion, and reducing the risk of secondary incidents. There is increasing recognition of the service by road users, and their experience of the service is very positive. Traffic officers are frequently praised for their commitment and dedication to helping customers.

The Highways Agency continues to develop the service, for example securing new powers and supporting contractual means to deal with the removal of abandoned and broken down vehicles from our network. These new powers and supporting contract form part of the final transfer of traffic management responsibilities from the police, which will enable the Traffic Officer Service to deal end-to-end with all aspects of an incident outside police interest. The Highways Agency expects to award the National Vehicle Recovery Manager contract in Autumn 2008.



### Keeping you moving

ATM aims to help keep the traffic moving by making the best possible use of the space available on our existing motorways, rather than building more new roads.



### CCTV

Monitoring the progress of the M25 junction 25, Homesdale Tunnel. CCTV also improves response to incidents by the emergency services and effectively monitors and manages congestion.



### Car share lane

The new HOV (High Occupancy Vehicle) lane on the M606/M62 shows heavy traffic and an emptier HOV lane.

## Use of the hard shoulder - Active Traffic Management

The Active Traffic Management (ATM) programme uses existing and new technology, including comprehensive CCTV monitoring, automatic queue detection, the latest variable message signs capable of displaying text and images, and emergency refuge areas positioned away from moving traffic.

In October 2007 results were published for the first six months of full operation of ATM, including use of the hard shoulder as an additional running lane, on the M42 east of Birmingham. Results were very promising, and drivers on this section of the network are now able to better predict how long their journey will take.

### Use of the hard shoulder has reduced:

- Severe congestion.
- The occurrence of low speed levels.
- Variability of journey time.
- Evening peak average journey times.
- Personal injury accident rates.
- Vehicle emissions and fuel consumption.

As a result the pilot is to be extended to part of the M6 around Birmingham, for completion by summer 2011. The feasibility, benefits and costs of extending advanced signalling and traffic management systems more widely across the motorway network was examined in a study published by the central Department in March 2008. The study identified that there would be a strong economic case for wider implementation, both in place of planned widening schemes, at significantly lower cost, and in other locations not previously identified for widening.

## Car share lanes

The first dedicated high occupancy vehicle (HOV) or 'car share' lane on a UK motorway opened in March 2008 at the junction of the M606 and M62 for vehicles travelling from Bradford to Leeds. We expect the £5.3 million pilot to reduce peak time journeys for those sharing their car at the site by around eight minutes and to reduce the current 84% of vehicles using the junction that have only one occupant. Users of the other three lanes will also benefit from reduced vehicle numbers.

Where possible we are looking to bring together operational measures such as HOVs with travel plans that promote more sustainable travel choices. Travel plans are explained later in the Influencing Travel Behaviour section of this report.

# Making information available



## HAIL

HAIL advisors provide help and information about our network including current travel conditions that could effect your journey.



## VMS

We are now providing a new national information service to drivers - travel and delay times. They let drivers know about road conditions ahead, allowing them to make informed decisions during their journeys.

## Current information services

Since 2003, there has been a substantial increase in the use of travel information by people using the strategic road network. During the year, in line with our information strategy, we have improved existing information services and introduced new services. We have improved the quality and accuracy of the information provided through our variable message signs and the Highways Agency Information Line (HAIL) telephone and e-mail service.

Use of HAIL again increased significantly with our staff dealing with a wide range of questions about the work of the Highways Agency. The HAIL team also assisted people planning their journeys by providing information about travel conditions on the network.

## Better information for road users

We have introduced better information services to keep road users more informed about conditions on the road network and to help them make choices about the route, time and mode for their journeys. This contributes to reducing congestion and improving journey time reliability.



## overhead

The M42 in the West Midlands is the first motorway in our network to benefit from digital pictograms on the overhead electronic signs.

## After successful trials we introduced three new travel information services:

- Traffic Radio launched on digital radio in June 2007. The service provides real-time traffic information, updated every ten minutes at peak times.
- Real-time traffic camera images are being provided to approved websites, and high-quality moving images for TV travel news bulletins.
- The display of travel time information on our network. Our electronic motorway variable message signs show current estimates of journey times and any expected delays.

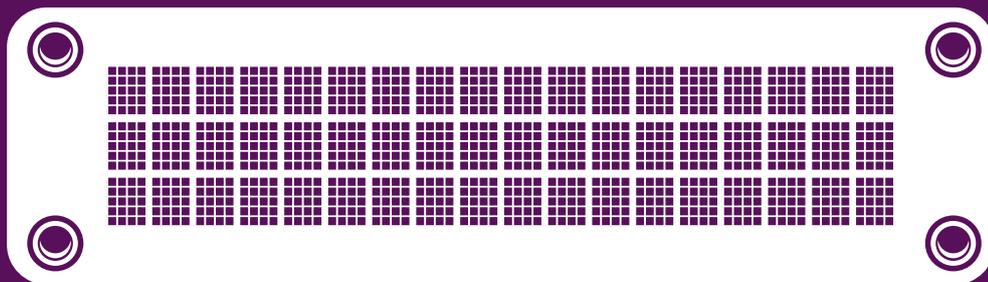




***New pictogram signs***

The five different types of pictogram signs will help warn drivers of dangers ahead including accidents, congestion, snow/ice, high winds or an increased skid risk. The internationally recognisable signs will also make it easier for foreign drivers to understand the warnings.

# Safety improvements



## Road safety

Our strategic road network remains amongst the safest in the world. Our motorways have fewer fatalities than comparable roads in Europe despite carrying more traffic. Engineering improvements are only part of the solution, and our road safety improvement activity is increasingly focused on working with key stakeholders, particularly higher risk groups to influence driver behaviour.

A number of initiatives, such as area safety action plans, are in progress, further increasing this partnership working through provision of information, education and listening to the views of customers and communities. This brings us much closer to the communities we serve and builds understanding of the needs and aspirations of our customers, leading to more acceptable solutions for all. The improved safety of our roads will make a real contribution to promoting sustainable communities.



**Accident surveying equipment**

Incident scene surveying equipment is currently used during collision investigations to collect comprehensive surveys of the scene.



**Customer Information**

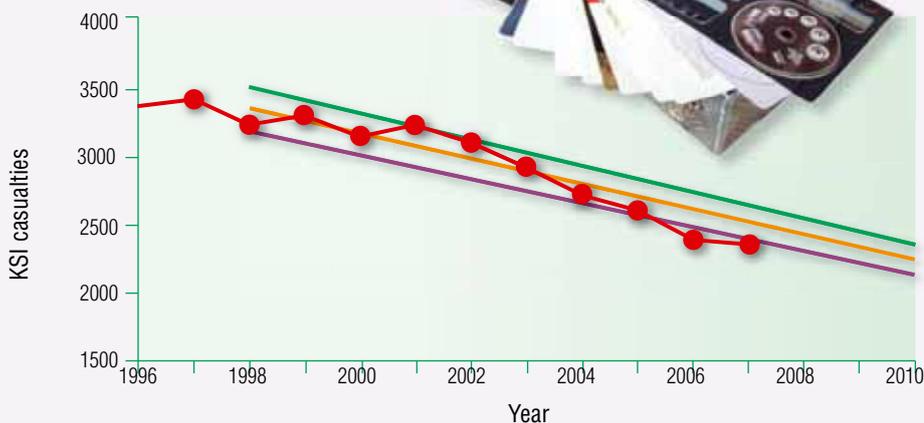
HAIL provides up-to-date traffic information.



**Winter driving**

In winter we keep our roads as clear of ice/snow as we can to help you get to your destination safely. You'll see our salt spreaders and snow ploughs out on the roads whenever freezing temperatures are forecast.

**Safety toolkit**



— Upper limit +5% — Lower Limit -5% — Target reduction — Actual casualties

KSI Casualty Target

We remain on target to achieve our part of the DfT's target for improved road safety of a 33% reduction in the number of people killed or seriously injured by 2010.

We continued to develop our driver information programme toolkit which supports the area safety action plans launched in 2006. The toolkit contains creative promotional material designed to raise awareness of the factors contributing to accidents.

We take road worker safety very seriously, and have developed systems and procedures to protect them. We have also established an accident frequency rate, against which we have set a target for improved safety in 2008-09. Further information on road worker safety can be found in the corporate social responsibility section of this report.



**gps**

Essex Police recently used our new GPS equipment to survey an incident scene on the M11 in just ten minutes while our traffic officers temporarily stopped traffic. Previously a full road closure would have been enforced - meaning a closure of around two hours.

**case study**

Our Strategic Safety Action Plan received a prestigious Prince Michael International Road Safety Award in the Public Education category in 2007.

## Maintaining the network



Maintenance of the network, to keep it safe and available for use, accounts for a third of our expenditure. We ensure the network is maintained to standard by assessing the actual road surface condition using state of the art techniques and survey vehicles which are able to capture road condition information travelling at normal traffic speed. We look at the levels of rutting, unevenness, and skid resistance. The Highways Agency has achieved the agreed predicted condition target within the allowable tolerance, and national roads condition survey data has been published for this year by the DfT.

In 2007 we began to implement an asset management strategy to provide a more consistent and integrated approach to maintaining highway assets. For the first time, when complete, key asset information will be managed via a unified management system. This will lead to better investment decisions for maintenance, ensuring the right interventions at the right time in the right place.



**New technology**

An asphalt patching system, being trialled on the M69 and M1, can carry out repair works in just a quarter of an hour.



**One month's work in a night**

The M3 junctions 1-2 westbound were closed overnight on 19th April for maintenance. Successful completed works saved further closures and disruption.



**Under the surface**

Works undertaken on the A34 south of Whitchurch and A34 Chilton, consisted of partial reconstruction of the worn out carriageway with repairs and enhancements to the drainage system, traffic signs, road markings and road restraint systems.

**Maintenance covers a wide range of activities including:**

- Structural repairs and maintenance of roads and structures.
- Resurfacing.
- Maintenance of the drainage network and barriers.
- Maintenance of lighting equipment and communication systems such as emergency telephones and electronic signs.
- Regular surveys and inspections to identify maintenance needs.
- Clearing debris and litter.
- Salting roads for winter. This year we have awarded a contract for a new fleet of winter service vehicles, with the first of the new fleet due to be operational next winter.

Wherever possible we undertake maintenance outside peak hours to minimise disruption to our customers and contribute to improved journey time reliability.

We continue to look for ways to further improve our maintenance activities, for example by:

- Listening to road users' views on what conditions they perceive to be acceptable and communicating effectively how we plan and carry out required maintenance.
- Investigating and investing in opportunities for working closely with local highways authorities to achieve targeted network performance levels, and co-ordinating maintenance works and winter service for efficient use of resources.
- Increasing the performance warranty period for new road surfacing materials.

To further enhance maintenance delivery, alongside our established managing agents who maintain the network and its structures, we have begun introducing dedicated agents - TechMACs - to maintain the technological infrastructure of the network.

TechMACs are in place in several of our regions and we are planning coverage of the entire network by 2010-11.

**Being better prepared**

As part of our annual winter service improvement cycle, we reviewed and issued guidance to ensure that motorways and major trunk roads were free from ice and snow during the winter season. Regional Severe Weather Desk exercises at the start of the winter demonstrated the full preparedness of our contractors, the Traffic Officer Service and the police.

# Research and strategic challenges



## Research and innovation

Research plays an important role in supporting the Highways Agency's business. We undertake research across the full range of our activities, drawing on new ideas from within the Highways Agency and from our supply chain, aimed at:

- Achieving a safe and serviceable network.
- Managing traffic.
- Influencing travel.
- Being a responsible owner.

### Some of the areas we examined included:

- Enhancing existing safety technology such as MIDAS (Motorway Incident Detection and Automatic Signalling system) and variable message signs.
- Applying new techniques to improve road worker safety.

- Examining how to speed up construction and maintenance.
- Investigating how we can continue to respond to climate change.
- Assessing how safety is affected by changing asset condition.

We have continued to act as co-ordinator on the European Commission funded ERA-NET ROAD project, collaborating with our equivalent bodies in eleven European member states. The project aims to achieve collaborative trans-national programming, financing and procurement of road research. Two pilot collaborative projects have been delivered successfully and we are now participating in a research programme to help deal more effectively with climate change.

## case study

### Innovative pictogram signs launched on M42

In February 2008 we began using digital pictograms on the overhead electronic signs on the M42. The pictograms will be used on the 11 mile Active Traffic Management (ATM) stretch of the M42 and will help road users see what conditions lie ahead.

The five different types of pictograms help warn of accidents, congestion, snow/ice, high winds or an increased skid risk.





**Public transport**

We are improving conditions for people accessing public transport services on or via our network.



**Noise reduction**

Traffic noise and light pollution are major concerns for communities living close to our road network.



**Cycling to work**

Staff are being encouraged to switch to greener forms of travel to get to and from work.

**Spatial planning and transport**

Integrating spatial and land-use planning with transport is key to promoting sustainable patterns of development and economic growth. New developments can sometimes add a substantial amount of extra traffic onto our roads. Yet, by influencing the location of new developments, we can reduce the impact of traffic by means of efficient land use. We therefore liaise closely with the DfT and the Department for Communities and Local Government (DCLG) to ensure that our network is taken into account when national policies are formulated.

We are playing our part in the delivery of the Government's housing agenda. For instance, we are contributing towards the planning of sustainable transport in the ten eco-towns announced in July 2007 by DCLG - these will be new, free-standing towns of 5,000-20,000 homes. We encourage developers to consult us early on in the planning process to discuss ways of keeping impacts to a minimum through site design, junction improvements, and to consider travel plans and other smarter travel choices.

We are aware of the implications of spatial planning in terms of our responsibilities for the trunk road network, and possible breaches of statutory limits on air quality, noise and in respect of water (run-off, flooding, and pollution) that may occur on or close to the highway. We therefore engage with development planning and control processes.

**Influencing Travel Behaviour**

Our Influencing Travel Behaviour programme has promoted sustainable travel initiatives aimed at cutting congestion on our roads and reducing emissions. It contributes to journey reliability through the development of travel plans for businesses and developments near the strategic road network.

We influence travel behaviour by promoting journey planning, car sharing, use of public transport, cycling, home working, video conferencing and use of public transport. The programme has targeted a diverse range of traffic generators including:

- Large companies.
- Housing schemes.
- Regeneration areas.
- Tourist attractions.



**Freight**

Movement of goods on our network.



**VMS**

Messages displayed on VMS are limited to those that help drivers complete their journey safely and efficiently.



**Cone laying machine**

The cone laying machine gives extra protection to workers and reduces congestion at roadworks on our busiest roads.

We work with companies on a voluntary basis to devise travel plans, or use the planning application system to formally require developers to include travel planning measures in their proposals. We have now promoted sustainable travel to some 1,100 companies and their 102,000 staff through voluntary schemes, and agreed developer-funded residential travel plans covering some 21,000 new homes.

Other Influencing Travel Behaviour initiatives include:

- Working with tourism authorities to smooth peak traffic flows.
- Encouraging modal shift initiatives with freight and coach operators.



**case study**

**Travel planning in action**

We have developed an Area Travel Plan with the 90 businesses and 5,000 staff based at the **Cambridge Science Park**, located next to the A14 Cambridge northern bypass. The plan, agreed with the county council and the agents for the park, included the creation of a dedicated website, staff travel surveys, the issue of promotional materials, the setting up of a car-share matching service and a travel “pledge” signing event to mark commitment to the process.

In the first year the numbers of trips made have reduced by around 7%, saving journey time and improving reliability.

And at **Blythe Valley Park**, a proposed large business complex located just off the M42 south east of Birmingham, we used the planning process to inject a monitoring and enforcement strategy into the travel plan negotiations between the local authority, Solihull MBC, and the developer.

To avoid a serious threat to M42 journey reliability we set a maximum traffic generation limit during peak times, and agreed measures to regulate access from the local road to the motorway.

**Freight expectations**

The Highways Agency and the Freight Transport Association (FTA) pledged to share transport advice and expertise and work together to improve journey times, safety, incident figures and breakdown recovery procedures.

# Respecting the environment



### Field Grasshopper

Our environmental strategy is helping to deliver improved protection for land, trees, wildlife and rivers alongside England's motorways and all major A roads.



### Sustainability

Wildlife Protection and Environmental workers on our network.

## case study

### Active Traffic Management

As well as taking measures to improve air quality at priority air quality management areas the Active Traffic Management scheme on the M42 won the Environment Award from Business Car Magazine in January for its resulting reductions in vehicle emissions of between 4 and 10 % in its first six months of operation.

Protecting and enhancing the environment is an increasingly important role for the Highways Agency. This year we have again successfully met our targets relating to air and water quality, biodiversity, landscape and noise. All schemes in our roads programme are set high standards of environmental mitigation, and we have improved our average performance against the criteria during the year.

To take account of the potential adverse effects on the historic environment of trunk road projects this year we have published new advice on cultural heritage assessment, and innovative guidance on historic landscape assessment. And we have begun compiling a database of historic assets on and adjacent to our land.



## escaped herd

Colleagues at the NTCC dealt with their 250,000th event last week since start of operations in November 2003. Lane one southbound and the on-slip at junction 26 M1 were both closed due to a herd of escaped bullocks from a nearby farm.

The corporate social responsibility section in this report deals in more detail with the Highways Agency's impact on the environment and our sustainable performance.

## Feedback from our customers



### Road users' satisfaction

Our commitment to seek and respond to feedback from our customers is shown through our national and area road users' satisfaction surveys, which are carried out throughout the year.

The National Road Users' Satisfaction Survey involves around 2,000 people annually who are interviewed at their own homes. It provides the results for our key performance indicator for road user satisfaction as well as other important information about how our customers use our network and services.

Satisfaction levels were measured across our three core objectives:

- Journey time reliability and congestion.
- Safety.
- Environment.

We achieved average annual scores for road user satisfaction of 89.7% for motorways and 87.9% for trunk roads against targets of 84.8% for motorways and 82.9% for trunk roads. On both motorways and trunk roads the highest satisfaction score was for quiet road surfaces.

Feedback from this survey gives us information to improve our services, understand customers' priorities and communicate with our customers more effectively.

The Area Road Users' Satisfaction Surveys are undertaken in each of our fourteen geographical areas involving interviews with over 11,000 people a year to identify local issues. The six monthly reports are used by the teams to understand what road users and those living near our network think about the roads in their areas. We also collect information about road users' experiences when driving through roadworks.



**Customer feedback**

We are committed to putting customers at the heart of our business, in line with our Customers First Corporate Plan.



**Building customer relations**

We held road shows to explain the problems litter causes and to hand out litter bags to the public.



**Improving services**

We have been developing ways to ensure that feedback received from road users, and other customers, is used to improve the way we carry out our services.

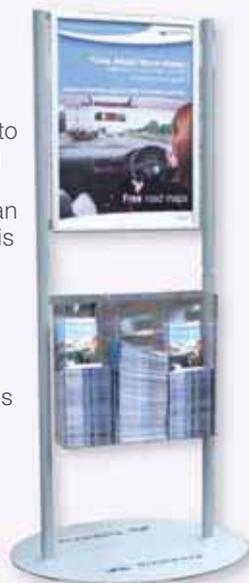


**Traffic Information**

We aim to tackle congestion through influencing travel behaviour. This can be done by providing access to information that enables people to make smarter travel choices.

**Public leaflets**

We have an important role to play in helping you plan your journey and can help you do this by providing you with an increasing number of different ways you can access information.



**Customer Beacon network**

Our network of Customer Beacons, representing teams across the Highways Agency, has been set up to understand customers' needs. They gather, evaluate, report and share feedback. Information they gather provides for a quarterly Customer Feedback Report to be published internally and also externally on the customer feedback section of our website. This report summarises what our customers have been saying and what action has been taken and how feedback has been used to, amongst other things: communicate more effectively; deliver services in a different way; commission research; develop policy; or improve internal processes.

We act in response to customer feedback in several ways. For example at a local level we have improved confusing diversion signing, carried out litter campaigns, changed junction layouts and improved information on the website about road projects.

At a national level, feedback has helped us to develop, amongst other things, an emergency customer welfare policy, and the roadside facilities policy.

## Improving efficiency



Improved efficiency is an important element in adding value to service delivery. We have developed a framework of performance indicators to measure efficiency improvements in our existing roads procurement and maintenance contracts for strategic roads.

The Highways Agency was set a target to achieve total efficiency gains of £200 million over the period 2005-2008 through its strategic roads procurement, approximately 25% of the DfT's efficiency target. We have achieved sustainable efficiencies of £249 million and non-sustainable efficiencies of £28 million during the three year period.

Efficiencies include delivering current maintenance and improvement schemes to specification at reduced cost and innovative process improvements in planning, design and construction leading to better value for money solutions.

### **Specific examples of efficiencies include:**

- Use of quick moveable barriers on the M25 junctions 1 to 3 and the A2/A282 Dartford improvements projects, providing savings of £6 million and £2.9 million respectively. This innovative barrier system, made up of reinforced concrete blocks, can be lifted and moved sideways at speeds of up to 10mph across carriageways, providing a safe environment for road workers. It enables more lanes to stay open for peak flow traffic and dispenses with cones entirely.



**Quick Moveable Barrier**

The QMB on the A2/A282 Dartford, places concrete safety barriers that close off lanes making it safer for roadworkers and can speed up the delivery of a scheme.



**Way we Work**

Workshops and team meetings are important in achieving consistency throughout the Highways Agency.



**A38 Dobwalls bypass**

The bypass of Dobwalls will reduce traffic through the village by approximately 90%.

- On the A38 Dobwalls Bypass savings of £2.8 million savings were generated as a result of design and construction efficiencies including the use of a pre-cast rather than an onsite built arch over the railway line, the use of local quarry waste rather than usual construction material, and a reduced construction period.

We have also implemented various measures to improve the efficiency of our use of energy and water on our office estate, and waste production, as part of our sustainable development commitments. Further details are included in the corporate social responsibility section of the report.

**Effective business processes**

The Highways Agency provides a wide range of services to our customers from a number of locations across the country. Our customers expect us to do this consistently, efficiently and effectively. To meet this expectation, it is important that we continue to follow the same best practice processes and procedures.

The Highways Agency's "Way we Work" quality management system helps us to do this. It is designed to give easy access to the processes and guidance we need to follow to do our jobs well and so to deliver the high quality services our customers expect. Way we Work is planned to be ISO9001 compliant by 2009.

**The system delivers:**

- **Consistency** across the organisation, with everyone using the same best-practice processes to deliver our customer promise.
- **Clarity** with one accessible point for information about how we do things, and by linking processes to our business objectives.
- **Continuously improved** processes to meet the Highways Agency's customers changing expectations more efficiently.
- **Compliance** to help reduce the risk of not doing things properly and jeopardising our good work.

# Corporate social responsibility



## Introduction

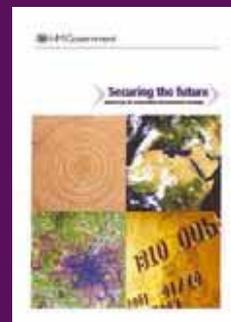
In 2007-08 we published our first Sustainable Development Action Plan (SDAP). The Business Plan for the same year sought to fully integrate sustainability into all our work areas. This year we are able to summarise the delivery of our first SDAP and report on our corporate social responsibility performance. Our challenge is to ensure our network is fit for purpose whilst safeguarding the environment for present and future generations, making sure our activities and practices have as little adverse impact as possible on society and the wider environment.

There are many diverse and interrelated challenges in achieving sustainability. We are seeking improved reliability and tackling capacity constraints against a backdrop of rising construction costs, environmental concerns and growing traffic volumes. In this report, we set out our progress towards further embedding the consideration of sustainability in our culture as well as in that of our supply chain.

Corporate social responsibility reporting is part of our effort to integrate sustainability into all aspects of our business. Our second Sustainable Development Action Plan published this year is another positive step in our journey to become a sustainable organisation seeking the transformation that, 'our business will be socially and environmentally responsible'.

We continue to use the four priorities for action set by the government's sustainable development strategy to report on our performance on:

- Sustainable consumption and production.
- Climate change and energy.
- Natural resource protection and environmental enhancement.
- Creating sustainable communities and a better world.



### *Action Plan*

Our new action plan supports the Government's strategy for a more sustainable future.



**Caring for the environment**

We own 30,000 hectares of land next to our roads and 14,000 of those hectares are planted with trees and shrubs.



**Severe weather**

We are working closely with the Met Office throughout the year so we have the latest information on weather conditions on our roads.



**Woodlands Office, Bedford**

The building is energy efficient and fitted out in a sustainable, environmentally sensitive manner.

Office waste	2004-2005	2005-2006	2006-2007	2007-2008	Trend
Total amount produced (t)	229	231	229	199	👍👍👍
Amount of waste per head* (kg)	118	117	114	102.5	👍👍
Percentage recycled	31.2%	36.4%	43.2 %	47%	👍👍👍
Monitored at 7 offices. * Based on staff numbers in these offices.					

**Sustainable consumption and production**

The Highways Agency procures large quantities of goods and services. We have a responsibility to ensure that these cause minimal adverse environmental and social harm, whilst balancing the need to achieve value for money in spending taxpayers' money. Sustainable procurement requires change and innovation in both technologies and behaviours, seeking:

- Better products and services, which reduce the environmental impacts from the use of energy, resources, or hazardous substances.
- Cleaner, more efficient production processes, which strengthen competitiveness.
- Shifts in consumption towards goods and services with lower impacts.

We are on target to exceed the government's sustainable operations targets relating to waste and recycling.

In all apart from one of our main offices, individual waste bins at the desk have been replaced by communal facilities, encouraging waste reduction and aiding separate collection of paper, glass and cans.

Consequently in 2007-08, the total amount of waste was reduced, and we increased our recycling rate by almost 4%, with just under half of our office waste being recycled. Awareness campaigns in our offices are well received by staff, and the message will be reinforced through a wider communications campaign in the year ahead.



**Treating sites**

Environmental worker testing sites to understand and enhance our environmental impact.



**Staff commuting to work**

We are working to reduce our own road mileage of staff travelling for work and commuting.



**Drainage**

We are working to adapt our network to new conditions such as higher flood risks.

**Climate change and energy**

Climate change is a global challenge, and we at the Highways Agency recognise that alongside business and individuals, we all have an important part to play in minimising the causes and managing the risks associated with a changing climate.

**We are addressing two distinct aspects:**

- o How we reduce our contribution to the causes of climate change.
- o How we adapt to a changing climate.

Business mileage (million miles)	2006-07	2007-08	Trend
Private car	2.17	2.04	👍
Hire car	2.28	2.19	👍

We have begun taking action to help the government achieve its targets for reducing the release of greenhouse gases.

Our main impacts in this area are through our customers travelling on our network, the energy we use powering our network and offices, and commuting and business travel by our staff and contractors. We also need to take opportunities to influence the users of our network so that they can reduce emissions from their journey choices.

Our business mileage is a real concern to us. We are therefore working to reduce our own road mileage of staff travelling for work and commuting. We are exploring the possibility of making comparisons with similar national organisations operating in the construction sector that operate multiple regional offices. We are confident of our data quality from 2006-07 and propose this to be the benchmark against which we want to make real progress in the future. Our new office travel plans will include targets for reducing business mileage. In addition we plan to publish information on business flight and rail mileage from 2008-09.

Electricity usage (offices)	Base year 2002-03	Last year 2006-07	This year 2007-08	Compared to base year	Compared to last year
kWh used in our offices	3,116,412	3,628,343	4,392,051	👎👎👎	👎👎
Per head	2,515	1,884	2,357	👍	👎👎
Measured in 6 offices 2006-07 as the two Bedford offices relocated to one office (7 offices previously)					

Gas usage (offices)	Base year 2002-03	Last year 2006-07	This year 2007-08	Compared to base year	Compared to last year
kWh used in our offices	2,656,673	1,812,534	1,976,133	👍👍	👎
Per head	4,355	1,514	1,680	👍👍👍	👎
Measured in 5 offices					

In our offices, our gas and electricity usage increased this year, the latter by over 20%. The large increase in electricity usage in the two new Highways Agency offices is a particular focus for facilities management teams.

We will be analysing the data and implementing a number of actions to reduce both our energy use and our carbon footprint, and will continue to endeavour to reduce consumption in all offices and regional control centres. We will consider closing offices over bank holidays and earlier in the evenings where we are not operating a 24/7 service.



No matter how successful the world is in reducing current and future carbon emissions, an amount of climate change is now considered to be inevitable. Changes in weather patterns may present new chronic threats to highways assets and operations.

We are therefore working to adapt our network to new conditions such as higher flood risks. We have developed a climate change adaptation strategy for the Highways Agency, that will allow all business areas to consistently assess the risks of climate change to their roles and responsibilities and develop action plans to manage these risks.

The Pitt Review into the floods of 2007 emphasised that critical infrastructure should be as resilient as possible and that service providers should be prepared and ready to respond.

**Reduce** the amount of the Earth's resources that we use.

**Reuse** Don't just bin it, could someone else make use of it?

**Recycle** Can the materials be made into something new?



## case study

### Flooding disrupts our network

Unprecedented downpours across the country caused widespread flooding in July 2007, resulting in travel disruption for many drivers. Particularly hard hit were the M5 and M50, which were closed in both directions. Traffic officers turned drivers around in the opposite direction where possible, and diverted drivers to Strensham Services where they provided emergency food and water. The Highways Agency issued travel advice to drivers via the media and websites in advance of the forecast rainfall and 24/7 throughout the flooding.

Highways Agency traffic officers and contractors also provided aid to flood prevention operations beyond the strategic road network. This included transporting emergency services staff, implementing local road closures and diversions, and provision of sandbags.



#### Record flooding

Traffic officer Bob West is seen on TV rescuing people stranded on the M5.

The Highways Agency learned from the floods and in September 2007 strengthened its emergency and contingency planning arrangements to include an element of humanitarian assistance, through the emergency customer welfare initiative.

This aims to provide basic emergency welfare support to people, pets and livestock stranded on the strategic road network, drawing on support from voluntary bodies such as the British Red Cross, WRVS and RSPCA. All contingency plans are tested through regular multi-agency exercises and real events, with a continuous revision cycle, and lessons learned being picked up through debriefing.

### Protecting natural resources and environmental enhancement

Our construction, maintenance and management operations affect the environment through emissions to air and water from our network and our offices, noise and light pollution, our use of natural resources such as aggregates and water, and the impact of our activities on biodiversity and habitats.

We aim to better understand and control our environmental impacts. We work to address adverse effects and enhance the diversity and richness of the trunk road corridor, protecting residents and valuable environmental sites near our roads.

Following successful piloting in 2006-07 we published advice notes formally launching our Environmental Information System (EnvIS) in July 2007.

National and regional environmental designations and the many elements that make up the tapestry of the highway's soft estate are mapped on the system. We will be supplementing EnvIS with the details of environmental mitigation built into our major improvement schemes.

Water is a valuable resource, but is one that we arguably too often take for granted in this country. We monitor water usage at five offices where we are sole or major occupier, and appear to be making steady progress in reducing usage overall and per head.



**Adverse driving conditions**

Drivers are advised to check the latest information on weather and road conditions before they set off, and to listen to travel news bulletins during their journey.



**Evidence of wildlife**

Environmental officers working on behalf of Highways Agency on wildlife surveys.



**Wet roads**

Traffic officers attending and helping a breakdown on the hard shoulder of the motorway.

Water usage	Base year 2002-03	Last year 2006-07	This year 2007-08	Compared to base year	Compared to last year
Water used in our offices in m <sup>3</sup>	8,140	8,140	8,140	👍	👍👍
Per head/year	2,515	1,884	2,357	👍👍👍	👍👍
Measured in 5 offices					

**Update on Business Plan environmental objectives and KPIs**

In 2007-08 we fully met all elements of our environmental key performance measure with four exceeded.

Indicator	2007-08 Target	Performance	Commentary
Air quality	Implement measures to improve air quality of at least 2 out of 21 prioritised AQMAs	👍👍👍	Improvement measures implemented at 2 AQMAs
Biodiversity	Achieve at least 7% of the published HA biodiversity action plan	👍👍👍	9.8% of our priority Biodiversity Action Plan actions achieved (cumulative delivery: 62.6%)
Landscape	Introduce at least 9 planting schemes to enhance the landscape	👍👍👍	16 planting schemes completed
Noise	Treat at least 900 lane km with lower noise surfacing of which 20 lane km are on concrete roads	👍👍👍	1055km treated with lower noise surfacing
Water	Treat at least 4 high priority pollution risk water outfall sites	👍👍👍	5 sites treated
<b>OVERALL:</b>	<b>Achieve an average score of no less than 95% across the 5 sub-targets</b>	👍👍👍	<b>Achieved 100%</b>

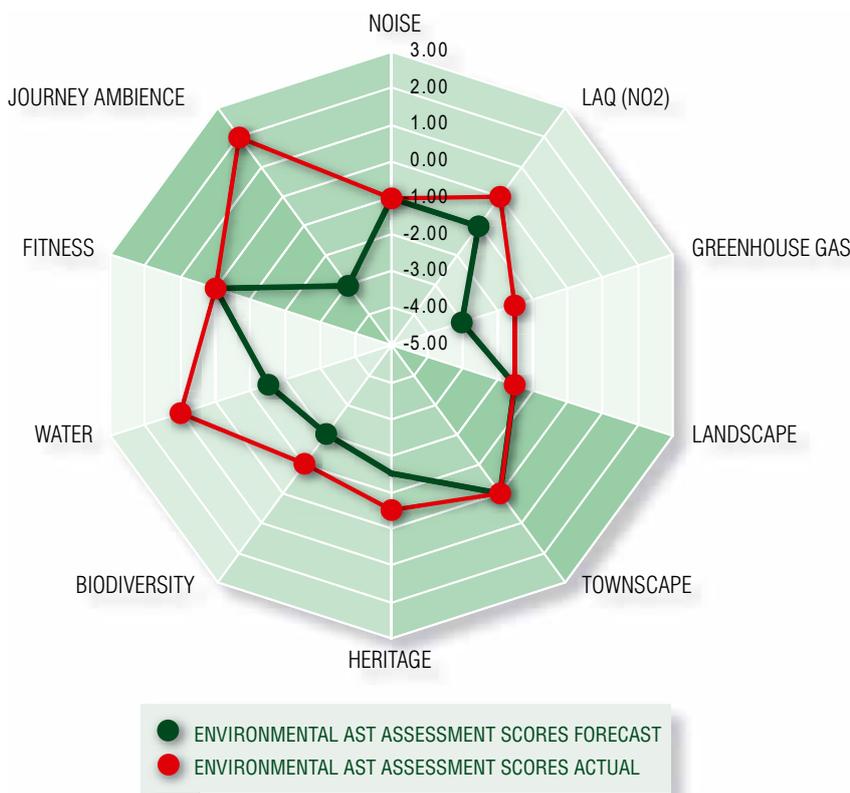
1. An AQMA (Air Quality Management Area) is declared by a local authority where the air quality objective for one or more of the nine pollutants in the Air Quality Strategy is unlikely to be met by the specified date.

## case study

### Bat bridges on trial

We are using the new A38 Dobwalls bypass in Cornwall to pilot the use of special structures to help bats find their way across the new road. This is just one of a series of measures to reduce the environmental impact of the new road.

Before the bypass the bats would navigate to and from their roosts using hedges, and flying fairly closely to the ground. To prevent the bats being hit by the new traffic flows, the “bat bridges”, consisting of a metal structure with wires and mesh stretched in a V-shape, guide the bats across the road at a safe height above the traffic.



### England's rich historic landscape

New guidance to protect historic landscapes, the first published advice of its kind for England, has been developed by the Highways Agency, in collaboration with other landscape and cultural heritage government and non-government bodies. It provides advice on the assessment of historic landscape character and the effects of road schemes using the analysis of topography, archaeological remains, historic buildings and the natural world.

The new guidance will help scheme designers to prepare more sensitive designs that integrate better with the environment and reduce the impact of road schemes on sites of historic interest.

In addition, for a second year we applied a wider performance measurement to our major schemes work, analysing the extent to which our major improvement projects deliver the government's environmental objectives for transport investment.

We compare the forecast impact of a scheme with that after improving design and mitigation measures.

Six of the ten measures showed an improved performance.



**Bat bridges**

Bat bridges on the A38 Dobwall bypass help bats find their way across the new road.



**Listening to our customers**

Understanding the needs of our disabled customers at the Mobility Show.



**New emergency roadside telephones**

New telephones will give greater accessibility for people with special needs particularly deaf and disabled drivers. A text facility allows deaf people to communicate with the RCC.

**Creating sustainable communities and a better world**

The way we deliver our services affects the lives of our customers, staff and contractors as well as those people living and working in communities local to our network.

**Looking after our disabled customers**

We have comprehensively revised our traffic officer procedures for assisting disabled customers whose vehicles have broken down on motorways. Some significant changes have been incorporated based on feedback gathered from a range of our disabled customers at events held to explore their experiences and ideas.

For example as a result of consultation with hearing impaired customers we now interpret roadside telephones left off the hook as calls

**Caring for our customers and stakeholders**



*We aim to keep our customers informed:*

The M1 Widening Junction 25-28 team in Major Projects, in conjunction with Arup, was awarded the 2007 Association for Geographical Information Award for Innovation and Best Practice (Central Government Category).

The award was for the development of new interactive screens and other innovative technology that were used at the public consultations for the M1 junction 21-30 widening. The team's aim was to improve the consultation process and encourage public participation.

for help, and the scene is monitored by CCTV or a patrol sent to investigate.

We have reviewed our roadside facilities policy after consulting a wide range of groups including the disabled. One proposal that we will consider during 2008 is the development of an independent quality award scheme aimed at providing customers with information on the facilities and standards of motorway service areas, encouraging operators to improve upon them for the benefit of travellers.

**Our website**

We have improved the accessibility of our website for disabled customers after reviewing with specialists Abilitynet, and we now work to Public Accessibility Standard 78 which sets out best practice. Although the overall site design was described as excellent by Abilitynet, some barriers to accessibility were found and corrected, such as pictures lacking written descriptions, meaning that those using screen readers were given no information on the images shown.



## case study

### Help for disabled drivers

Disabled motorists rely on access to accurate and reliable information about the road network and the facilities located on it or near to it.

The Highways Agency has partnered with the PIE Guide (Public Information Exchange Ltd) and Directgov to insert information about its traffic and travel information services within the second edition of the UK Blue Badge Atlas that is used by disabled drivers, Blue Badge holders and carers, as well as community transport groups and bus teams. The Atlas provides disabled drivers with essential journey planning, specific parking and driving information in one useful publication.

Copies will be distributed directly to disabled people via UK councils issuing Blue Badges, sold via charities and associations to their members and will be available in high street shops.



### network magazine

A bi-monthly publication for Highways Agency staff.



### You Make It Happen Awards

Brian Harbord, winner, Integrity, and Celestine Barnes, highly commended, Teamwork.

## Caring for our staff and contractors

### Staff involvement

We aim to engage and involve all our staff with regular team briefings, a weekly news update and a bi-monthly magazine for staff and our supply chain, plus a new audio magazine for traffic officers. We consult regularly with staff and their recognised trade union representatives. We aim to make full use of the skills and talents of staff, and provide staff with opportunities to influence decisions affecting their jobs and careers.

### Training and development

We have made good progress in building our project management capabilities, with over 250 staff achieving external qualifications with the Association for Project Management, and in PRINCE2 methodology. 91 staff achieved membership of the Institute of Leadership and Management, and almost 200 gained the Certificate of Traffic Management.

We also provided a wide range of core training courses to over 1,400 delegates.

Our **You Make It Happen** awards acknowledged the people from across all areas of the Highways Agency who had been nominated by their colleagues as being exceptional examples of our values.



**Staff involvement**

We aim to engage and involve all our staff with regular team briefings.



**Training and development**

Highways Agency Traffic Learning Centre.



**Diversity in the work place**

We value the skills and experience that people from various ethnic groups and people with disabilities bring to the workforce.

**case study**

**Responding to the floods**

A special award went to the small team from our Bristol office who represented us on a 24/7 basis for over a week on a multi-Agency Gold Command, managing the emergency response to the floods, and allowing front line staff to concentrate on the priority task of maintaining operations on our network.

**Diversity in the workplace**

The Highways Agency is committed to diversity both in service delivery and employment. We have developed action plans for race, disability and gender as part of the DfT equality scheme.

We have developed and launched new diversity pages on our intranet which take on board feedback from a volunteer group of disabled staff. In addition we have benchmarked our intranet with organisations across the country which highlighted other improvements we plan to implement by March 2009.

We have provided training in our race equality duties to over 100 policy owners to enable them to undertake equality impact assessments. We incorporate clauses in our contract documents to ensure our supply chain considers race equality issues when working for us. And we have supported 15 staff from under-represented racial groups to undertake a positive action leadership development programme.



**Emergency planning exercise**

Traffic Officers attending Operation Valentine - a multi-agency mock up incident exercise held in the North West. Simulating a serious motorway accident to test the emergency services' responsiveness.



**Road workers**

Our road network and construction sites can be extremely hazardous places to work. We continually review our standards and introduce new measures to help reduce accidents at major and temporary road work sites.



**Traffic Learning Centre**

On-road training for traffic officers.

**Work-life balance**

Through our flexible working policy, all staff can apply to vary their working patterns to suit their lifestyles: options might include term-time and/or part time working, compressed hours, home working or job share.

Special work arrangements	% of staff	
	2006-07	This year
Part-time working	5.7%	6%
Home based	1.6%	1%

The Highways Agency's 'Approach to Flexible Working' has been recognised with a Special Commendation at the Birmingham Best Business Awards. The approach brings benefits to employees and the Highways Agency, with a more productive, engaged and diverse workforce. We invest in the physical and mental health of our staff, and address issues both in the workplace and in the home.



Our health and well being strategy builds on the successful and popular 'Well Being at Work' programme which offers physical health checks and information about how to cope with stress. We have increased the focus on training and supporting our managers to take more responsibility for 'people issues'.

**Health and safety management**

We take the health and safety of our staff very seriously. In April 2007 we implemented our new Health and Safety Management System (HSMS). This is a set of management procedures ensuring that the same standards apply across the whole Highways Agency, whether on the road or in the office, and to internal staff and those of our contractors. The system delivers effective and consistently good health and safety performance.

Guidance was issued to staff on the use of the system, and we continue to develop the competence of our people in all aspects of health and safety through a suite of training courses.

We use electronic reporting systems to record incidents involving agency staff, and to report incidents and near misses involving our supply chain to our national health and safety team. We use the data to increase accident and incident awareness and to quickly share lessons learned.

**Traffic Officer Service - Improvements in health and safety**

A programme to improve incident reporting is in place and has showed substantial success over the past year. Near miss reporting has increased significantly. Developments include an easy to use booklet, a monitoring toolkit and a comprehensive A-Z guide.

Number of incidents	Last year 2006-07	This year 2007-08
In our offices	117	108
Including traffic officers	50	59
Out of the office	222	390
Including traffic officers	212	381
<b>Total:</b>	<b>339</b>	<b>488</b>
Of which were RIDDOR reportable <sup>†</sup>	<b>17</b>	<b>39</b>

<sup>†</sup> **RIDDOR:** Reporting of Injuries, Diseases and Dangerous Occurrence Regulations 1995, the regulation requires the reporting of certain types of work-related accidents.

In addition, a rolling two-year programme of internal safety audits of the Traffic Officer Service has commenced.

#### Incidents during the year

The statistical returns for the year are shown in the table above. Incident numbers have increased due to the greater number of staff working on-road with live traffic and as a result of the improvement in reporting. We are taking action to manage and control these activities, both through our Traffic Learning Centre and by strong leadership on protecting road workers.

In 2007-08 we made lifting and handling a training priority, as it is major cause of injuries.

### Improving our road workers' safety

Some 3,000-4,000 people are working on the strategic road network at any one time. Ensuring their safety is extremely important to us.

Live carriageways rank amongst the most dangerous of working environments, and have a correspondingly high fatality rate.

To reduce risks to a minimum, working with our suppliers and stakeholders, we continued to build on the road worker safety action plan introduced in 2006-07. The plan adopts a range of approaches: physically removing workers from the traffic, changing driver behaviour, and using technology.

For example, we have successfully:

- Adopted mechanised cone laying and trialled the use of quick moveable barriers, eliminating the need for road workers to stand close to fast-moving traffic.
- Developed innovative cone taper layouts.
- Trialled the use of temporary gantries which avoid the need to place signs on the carriageway.
- Surveyed road users' experiences of driving through road works so that we can better target education.
- Used average speed enforcement at road works to improve compliance with speed limits.

Our updated strategy for 2008-11 aims to build on our successes, driving progress, changing behaviours and improving communications.



**Tread carefully**

Check tyres regularly to reduce to reduce your risk of an accident and to also help cut your fuel bills.



**Going Green**

Some 800,000 tonnes of waste material was used to create the new A30 Bodmin to Indian Queens dual carriageway, new junctions and side roads, making it the largest “green” road project in the country.

## Creating a fairer world

We recognise, as a large employer, that we can participate in the promotion of fairer trade practices by promoting the use of fair trade products in our offices. The caterers in our Bedford and Leeds offices use fair trade and local products, and we make a contribution to Wells for India from each bottle of water sold in our office catering facilities.



**DfT Smarter Driving**

The DfT campaign encourages the existing driving public to consider: purchasing a car with a more fuel efficient engine; and the way they treat their engine when they drive.

[www.dft.gov.uk/actonco2?q=smarter\\_driving](http://www.dft.gov.uk/actonco2?q=smarter_driving)

## What next?



Our next steps are to develop a climate change risk assessment methodology as part of our adaptation strategy. This will enable us to incorporate climate change considerations into our design standards and specifications, routine maintenance, operating procedures and the development of contingency plans.

We are also developing a carbon accounting framework to better understand the carbon footprint made by our construction, maintenance, and operational activities. We will publish details in our 2008-09 Annual Report. The information will be used to set benchmarks for targets relating to carbon management.

We will also be exploring mechanisms to incentivise our supply chain to achieve carbon reductions by use of green energy and recycling materials.



**A2 Pepperhill to Cobham scheme**

The new route will reduce journey times, improve safety for road users and provide environmental benefits such as reduced noise levels and improved air quality.

# Looking forward

These are our priorities for delivery in 2008-09:

## Reliability

Our new Reliability Delivery Plan consists of a programme of actions aimed at minimising the increase in journey time unreliability. It builds on our existing programmes and services, and contains new services that we will deliver over the next three years. The Delivery Plan covers many aspects of our work on managing motorways, managing incidents and information services as set out below.

## Investing in the network

In 2008-09 15 major schemes are due to be completed, and work will begin on two others.

Work continues to add capacity to the M25, our biggest current project, with the contract award expected during 2008-09.

We will embed and build on improvements started in 2007:

- Roll out the Project Control Framework to all major projects from 1 April 2008.
- Utilise new performance measures based on Earned Value Management techniques.
- Monitor and assess the benefits that these changes are delivering and to ensure that there is a process of continuous improvement.

## Managing motorways

We will play a key role in taking forward the work programme published by the Secretary of State for Transport in March 2008 in the Advanced motorway signalling and traffic management feasibility study.

We will extend Active Traffic Management to further sections of motorway around Birmingham. Work will start by the end of 2008 with completion of the first phase expected in 2010.

We will examine in detail where hard shoulder running could be implemented more widely, for example the M1 south of Leeds, and around Bristol, Manchester and Southampton.





**Why are traffic officers needed?**

Traffic on our roads costs us all around £3 billion every year and a quarter of this is caused by collisions. Traffic officers will help the police manage incidents to reduce this traffic.



**Traffic Radio**

With information direct from our National Traffic Control Centre, we update Traffic Radio every 10 minutes, every 20 outside busy times. Information when you want it - no need to wait.



**Information Point**

There are information terminals at locations across England, including motorway services. They receive up to the minute information from our National Traffic Control Centre.

We plan to extend coverage of the automatic incident detection system, (MIDAS); from 1,200kms to 1,400kms over the next three years.

We will extend the application of controlled motorways and investigate further sites suitable for ramp metering or motorway access management.

We will monitor the success of our first car share lane at the M606/M62 junction near Bradford, and look at ways to integrate priority lane concepts with innovative traffic management.

We will be extending the use of these technologies to our all purpose trunk roads. On the A14 corridor we plan between 2008 and 2010 to implement automatic incident detection, VMS for strategic traffic management, CCTV and automatic number plate recognition cameras for traffic and incident management and road safety improvements.

**Traffic incident management**

We aim to improve still further our incident management capacity by:

Driving efficiency gains using our comprehensive Traffic Officer Service performance measurement regime, in particular developing the service on three fronts:

- Extending deployment to include more key stretches of major A roads as well as motorways.
- Emergency vehicle recovery - letting a National Vehicle Recovery contract to facilitate quicker and more efficient removal of broken down and abandoned vehicles.
- Roll out of Incident Support Units on all routes managed through DBFO (Design/Build/Finance/Operate) contracts.

Starting in 2008-09 over the next three years we will develop:

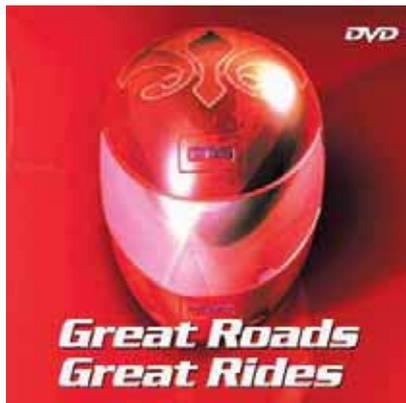
- Optimised incident management arrangements for our own staff and our suppliers using desk-top and live exercises.
- Research projects to investigate new ways of tackling congestion caused by incidents.
- Airwave communications for our incident support units, facilitating better interaction with the police at incident scenes.
- Off-network diversions when a significant incident has occurred.
- Incident screens to make accidents less visible from the opposite carriageway thereby reducing congestion.
- Strategic alliances with key stakeholders and partners, and draw on best practice both nationally and internationally to enhance incident response capability.





### *A rubbish tactic!*

Bag It! Bin It! litter bags were handed out to fans when Reading played Liverpool at the Madejski stadium in June 2007. The campaign was advertised on the ground's giant screen at half-time.



### *Great Roads, Great Rides Campaign*

We want riders to enjoy using our network, and to do it safely. A DVD called "Great Roads, Great Rides" takes riders step by step through everything they need to know.



### *M25 Holmesdale Tunnel*

Work to refurbish the Holmesdale tunnel and improve junction 25 of the M25 was completed three months early in September 2007.

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## Informing our customers

Planned enhancements to our information services include:

- Expanding Traffic Radio broadcast content to roads that may not be part of our network, providing a wide-ranging traffic information service.
- Experimenting with displaying travel times on mobile electronic variable message signs through major roadworks.
- The provision of streamed CCTV images through the web.
- Installing around 180 information points at locations such as major shopping centres, ports and airports.

## Safety

We will continue to introduce new measures to improve road user safety and our network safety performance.

We will be working with various groups of road users, industry and emergency services to develop driver information programmes aimed at improving driver behaviour within local communities.

We will use the improved incident reporting data from our health and safety management system to monitor the safety of our own staff and our supply chain contractors.

We will review our approaches to occupational health management, recognising the importance that good health plays in business delivery.

## Maintenance

We will continue working to maintain our network assets at an optimum level by ensuring the right interventions at the right time in the right place. This year will see significant steps taken in the development of an integrated asset management strategy, which will combine an asset data warehouse with performance reporting, optimisation and modelling tools. As part of this strategy, in 2008-09 we are commencing implementation of a service provider cost capture process, which will be contractually embedded by 2011.



**Green days**

We have paid for pollution control bins placed alongside slip roads along the M6, Cumbria. They contain pollution control equipment that help to protect the surrounding area if there is a road traffic incident.



**Clothes Show Live**

Public exhibitions are an exciting opportunity to speak to customers that we haven't reached before.



**M1, between Junctions 31-32**

A record for erecting overhead gantries over a live motorway - nine in four nights on the M1 widening scheme.

**Environmental matters**

**Key initiatives include:**

- Capture of data on greenhouse gas emissions arising from our business.
- Publication of road noise maps and an action plan for England's roads.
- Continued population of our cultural heritage database and develop cultural heritage asset management plans for sites near our network.
- Research into measures to further mitigate the impact of floods on the network.

**Influencing travel behaviour**

We will continue promotion of planning-based and voluntary travel plans, and implement travel plans at Highways Agency offices by March 2009.

**Customer engagement**

Develop and support our network of stakeholder account managers across all business areas.

Improve and strengthen stakeholder engagement by combining regional road user and environmental committees.

Identify and implement enhancements to our stakeholder database, facilitating more detailed reporting, and allowing targeting of areas for improvement.

**Efficiency improvements**

We will deliver in the next three years £144 million in efficiency gains as part of the DfT's value for money delivery agreement with HM Treasury.

We plan to deliver net savings of 2% in technology procurement in 2008-09 with 5% savings in technology installation.

We will deliver our services using 8% less administration funding by rationalising our estate and modernising our workforce strategy. This frees up resources for frontline services for our customers.

# Leadership and corporate governance



## Relationship with our parent department

The Highways Agency is sponsored by the Department for Transport. Following the Nichols review and the publication of the Cabinet Office's Capability Review of the Department in summer 2007 we have been working together to clarify our respective roles and responsibilities, and to implement a common set of leadership standards developed from the Professional Skills for Government model. These arrangements will be formalised in a revised Framework Document which will be published during 2008-09.

## Highways Agency Board structure

The Highways Agency's Board and its five supporting sub-groups have a single programme of work, ensuring close alignment and linkage of items discussed in senior management meetings and in corporate communications.

The groups are used to capture the views of the wider senior management team, with regular rotation of membership amongst the team. The five sub groups and their main functions are:



**Traffic Officer**

We put drivers at the forefront of our operations to help tackle the growing problems of congestion on our roads. Our sole aim is to keep traffic moving to help make your journey as safe and as reliable as possible.



**Considerate Constructors Awards**

The A428 Caxton Common to Hardwick improvement works and the A421 Great Barford Bypass won silver and bronze respectively.



**Mobile VMS**

Mobile VMS's can be placed on the hardshoulder on our network to provide traffic information.

**Agency transformation group (ATG)**

Provides direction and momentum to change activity in the Highways Agency. The group looks at major cross-cutting initiatives, and champions business improvement and innovation.

**Performance delivery and investment group (PDIG)**

Manages a framework for in-year performance management, improves cost management, and develops and improves the investment appraisal process.

**Strategy and planning group (SPG)**

Oversees a long-term (10 years +) strategic planning framework which directly influences the Highways Agency's corporate, business and management planning (including customer focus) over the next three years and beyond.

**National operations group (NOG)**

The group currently focuses on delivery of the journey time reliability and safety targets.

**Audit Committee**

Advises the board on key risks and control issues.

**FOOTNOTE:**

<sup>i</sup> ATG and SPG are made up of five Board members including one non-executive, (PDIG: 4 directors, one non-executive), and several members of the Highways Agency's senior management.

The NOG is made up of five directors and several members of the Highways Agency's senior management.

<sup>ii</sup> The **Audit Committee** is made up of the three non-executive directors, one of whom chairs it, and two Highways Agency Board members and the Head of Internal Audit. The Chief Executive, Head of Internal Audit, Finance Director and representatives from the DiT and National Audit Office attend but have no vote. The independent chairman of the Audit Committee advises as appropriate on key risk and control issues.



**A3 Hindhead**

The project will complete the dual carriageway link between London and Portsmouth and remove a major source of congestion, bringing benefits to road users, local residents, and the highly prized environment.



**Customers First**

Promoting the Highways Agency's core messages at Gardener's World Live.



**Customer Road Show**

Our staff are committed to putting customers at the heart of our business.

**Corporate governance**

An integral part of delivering improved service is to ensure that the Highways Agency continues to operate sound mechanisms for internal control through:

- Planning procedures to ensure future programmes are aligned with government policy and our strategic direction.
- Clear capital investment control mechanisms, supported by techniques such as investment appraisal, value management and value engineering.
- Clear, consistent, continuously improved and compliant processes.
- Sound project management and project sponsorship disciplines.
- Procurement processes that reflect best practice and best value.

- Established management processes for project management and information technology security.
- Transparent processes and checks in place to ensure effective corporate governance.
- Sound asset management processes, including management of our property portfolio.

**Risk management**

The Board identifies and actively manages the major operational and strategic risks facing the Highways Agency and has action plans to manage them. During the year, action by the Board substantially reduced our exposure to many of these risks. For example, procedures for dealing with disruptions to the network were refined and proved robust in dealing with the summer flooding.

The current top risks are in the areas of:

- Ensuring the safety of the Highways Agency's staff and supply chain.
- Maintaining stakeholder confidence in the Highways Agency.
- Justifying or obtaining the necessary funding to deliver our objectives as expected by stakeholders.
- Action to meet the PSA reliability target demonstrating reduced levels of congestion.
- Disruption of the network arising from a major traffic, security or freak weather incident.
- Maintaining stakeholder relations to ensure success of our major projects.
- Providing trusted, reliable, useful and effective management and other information and achieving the required standards of information security.



**A2/A282 Dartford**

Aerial image of the M25 junction 1b-3.



**Winter maintenance**

Following the award of a £45 million four-year framework contract, the first of a new fleet of winter service vehicles for our network will be on the road in time for 2008-09 winter.



**www.highways.gov.uk**

Our website contains real-time traffic information. You can view current traffic conditions and check any forthcoming roadworks and events.

- Shortage of appropriately skilled people in the Highways Agency or supply chain and/or excessive turnover of staff.
- Cultural or staff engagement issues delaying or preventing organisational change and service delivery.
- Ensuring a key project goes ahead as planned.
- Operation of traffic management on controlled motorways.

Directors may also highlight major risks from their parts of the business where they need to:

- Give assurance that a major risk is under control.
- Raise the need for action by the Board to manage a risk.

These risks are added to the Board's corporate risk log. All business areas also report their key risks to the Board with their performance reports as a matter of routine.

**Reporting of personal data related incidents**

The DfT publishes tables in the Departmental Resource Accounts providing details of the number and nature of personal data related incidents occurring in the Department. Incidents are recorded when electronic equipment or documents are lost or stolen.

**Actions being taken to manage information risk**

Within the Highways Agency we have taken the following actions to minimise risks:

- Senior managers are required to report on how they have ensured confidentiality, integrity and availability of the information assets in their stewardship.
- Information risk appears on the Board risk register and is kept under regular review.
- A review of exposure to information risk carried out in-year showed that the Highways Agency is steward of only relatively small amounts of personal data.
- A programme of work is under way to ensure that our management of information risks and information assets continues to meet our business requirements and accepted practice in industry and government.

# How we performed against Ministerial Targets

Key Performance Measure	2007-08 Targets - Explained	2007-08 Targets	Result	Outcome/ Comments	Result 2006-07	Result 2005-06
Deliver the PSA target to make journeys more reliable on the strategic road network.	1. Make journeys more reliable on the strategic road network by ensuring that the average vehicle delay on the 10% slowest journeys is less in 2007-08 than the baseline period.	Delays less than 3.78 minutes per 10 miles	3.95 minutes per 10 miles	<b>Not met</b> (see note 1)		
	2. Open at least 23 major national and regional schemes between April 2005 and 31 March 2008.	23	24	<b>Met</b>		
	3(i). Develop a target by 30 September 2007 to measure progress in developing and delivering major schemes, and	September 2007	September 2007	<b>Met</b> (see note 2)		
	3(ii). Continue to work towards achieving by 31 March 2008, at least 2,666 of 2,806 progress points (see note 3) for delivery of the strategic roads programme.	2,666	2,452	<b>Not met</b> (see note 4)	1,901	1,042
	4. Complete a cumulative total of at least 85 priority action sites at junctions.	85	85	<b>Met</b> (see note 5)	76	68

Key Performance Measure	2007-08 Targets - Explained	2007-08 Targets	Result	Outcome/ Comments	Result 2006-07	Result 2005-06
Deliver improvements to journeys by making information available to influence travel behaviour and inform decisions.	5(i). Implement the new driver information services agreed by Ministers in 2006-07, and	3	3	<b>Met</b>		
	5(ii). Develop further services for Ministerial consideration during 2007-08. (see note 6).	At least 2	2	<b>Met</b>	3	
	6. Evaluate the benefits of the voluntary travel plans introduced in 2006-07 and, introduce at least 18 travel plans (making a cumulative total of at least 28).	18	18 new plans introduced; 2006-07 plans evaluated (see note 7)	<b>Met</b>	8	3
	7. Implement high occupancy vehicle (HOV) lane at the junction of the M606 and M62.	March 2008	March 2008	<b>Met</b>		
Deliver the Highways Agency's agreed proportion of the national target. By 2010 reduce by a third (i.e. to 2,238) the number of people killed/seriously injured on trunk roads compared with the 1994-98 average of 3,366.	8. Reduce by at least 841 to 2,525.	2,525	2,360 (See note 8)	<b>Met</b>	2,399	2,609
Maintain the network in a safe and serviceable condition.	9(i). Maintain a road surface condition index of $100 \pm 1$ (see note 9), and	99-101	100.8	<b>Met</b>	99.6	99.5
	9(ii). Develop a value for money indicator by September 2007.	March 2008	Not met	<b>Not met</b> (see note 10)		

Key Performance Measure	2007-08 Targets - Explained	2007-08 Targets	Result	Outcome/ Comments	Result 2006-07	Result 2005-06
Mitigate the potentially adverse impact of strategic roads and take the opportunities to enhance the environment taking into account value for money.	<b>Achieve average score of no less than 95% across the 5 following sub-targets.</b> (see note 11):	<b>95</b>	<b>100</b>	<b>Met</b>	<b>97</b>	<b>100</b>
	<b>Air Quality:</b> implement measures to improve the air quality in at least 2 prioritised Air Quality Management Areas (AQMA's), making a cumulative total of 6 completed improvements in the 32 priority areas.	2	2	<b>Met</b>	2	2
	<b>Biodiversity:</b> Achieve at least 7% of the published HA Biodiversity Action Plan, which extends across 15 targets (making a cumulative total of 41% of the HA BAP completed).	7%	9.79%	<b>Met</b>	13.9%	12.1%
	<b>Landscape:</b> Introduce at least 9 planting schemes to enhance the landscape.	9	16	<b>Met</b>	9	15
	<b>Noise:</b> Treat at least 900 lane km of road surface with lower noise surfacing of which 20 lane km are on concrete roads.	900km	1,016.6km Concrete roads exceeded 20km	<b>Met</b>	91.6km	237.8km
	<b>Water Quality:</b> Treat at least 4 of the high priority pollution risk water outfall sites.	4	5	<b>Met</b>	4	8
11. Improve the environmental performance of major schemes by improving the average score for the environmental sub-criteria in the Appraisal Summary Table, in at least 5 out of the 10 sub-criteria.	5	6	<b>Met</b>	5		
Deliver a high level of road user satisfaction.	12. Improve road user satisfaction by reducing the gap between the 2006-07 targets and total road user satisfaction by 5% across core objectives.	82.9% Trunk roads	87.9%	<b>Met</b>	82.0%	83.8%
	<ul style="list-style-type: none"> <li>• Journey reliability and congestion</li> <li>• Safety</li> <li>• Environment</li> </ul>	84.8% motorways	89.7%		84.5%	87.8%

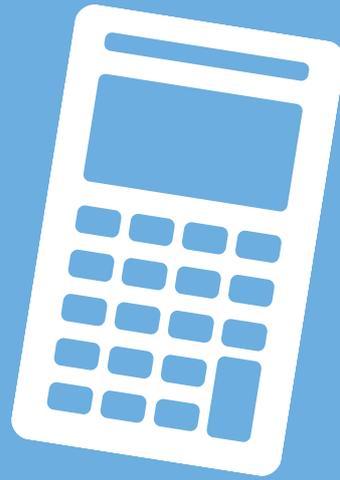
Key Performance Measure	2007-08 Targets - Explained	2007-08 Targets	Result	Outcome/ Comments	Result 2006-07	Result 2005-06
Deliver the Highways Agency's contribution to the Department's efficiency target.	13. Deliver efficiency improvements in roads procurement through adding value to service delivery of <b>£200m</b> (cumulative) in 2007-08.	£200m	£238.3m	<b>Met</b>	£156.4m	£71.4m
	Deliver our programme within the allocated administration budget, which requires an efficiency improvement of <b>at least £1m</b> .	£1m	£1m	<b>Met</b>	2.5% (see note 12)	2.5%

## Notes

### For the areas shaded in grey no comparable year target exists.

- (1) Target not met due to a number of underlying factors including:
  - Target set in the absence of trend data;
  - Impact of traffic growth greater than anticipated;
  - Short-term disruption of major roadworks on the measured routes, and
  - One-off large scale events such as the flooding in 2007.
- (2) Detailed monitoring measures were developed by 30 September 2007, but quantified targets could not be set until the programme for 2008-09 had been approved by Ministers in March 2008. The DfT agreed that the target could be considered met if the 2008-09 targets were set by March 2008.
- (3) The major schemes progress points method is an enhanced way of measuring and monitoring progress of the targeted programme of improvements (TPI). Each major scheme incorporates a number of events, including 4 'key events' and points are awarded when they are completed. Key events comprise: invitation to tender, award of contract, start of works and road opening. Progress points up to a maximum of 100 are awarded for each road scheme.
- (4) Progress on a number of major projects was delayed as a result of an in depth review of their scope and costs being undertaken, including the consideration of implementing Active Traffic Management measures as an alternative to widening. These project reviews ensured that the Highways Agency was taking forward those projects that provided the best business case and better value for money.
- (5) After completing surveys on 13 of the sites the Highways Agency concluded that on value for money grounds no further work should be undertaken. These 13 sites count against the target.
- (6) The three new driver information services implemented are a traffic radio service, real time CCTV images on our website and high-quality moving images for TV travel news bulletins, and the display of travel time information on our variable message signs (VMS). The two further services for which business cases were put to the Minister are the Highways Agency Information Points and Highways Agency Mobile schemes.
- (7) Monitoring on the eight travel plans introduced in 2006-07 was undertaken during the year, and will continue while the longer term impacts and benefits are assessed. Twelve of the plans introduced in 2007-08 were agreed as part of planning conditions for new developments; development may not necessarily take place for a number of years, or at all in some cases.
- (8) Due to the compilation method these figures - by necessity - reflect the calendar, and not the financial year. Also, the size of the Highways Agency's network, on which the figures have been calculated, has reduced over the period in which comparative statistics are presented.
- (9) The measure of road surface condition is based on surveys covering rutting, unevenness, and skid resistance. The target takes account of the fact that it is not practical or sustainable to maintain the whole road network in as-new condition. The condition at which the road network is to be maintained each year is equated to a road surface condition index score of 100 and is the target level at which the road network will be maintained. To allow for variability/uncertainty in annual condition scores, a tolerance is allowed in the target.
- (10) Progress has been made towards establishing a cost and efficiency indicator, which is a pre-cursor for a value for money indicator, but not itself a value for money indicator.
- (11) The measure is calculated by applying a simple arithmetical mean across the results of the five sub targets; the results being expressed as a percentage.
- (12) The comparable target in prior years required efficiency improvements to be expressed in percentage terms.

# Financial review



# Financial Review

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# Management commentary

## Financial Statements

These cover the period 1 April 2007 to 31 March 2008 and have been prepared in accordance with a direction issued by Her Majesty's Treasury (HMT) under Section 7 of the Government Resources and Accounts Act 2000. A copy of the direction may be accessed online on the Treasury website at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

The financial statements of the Highways Agency are audited by the Comptroller and Auditor General (C&AG) head of the National Audit Office.

The financial statements have been prepared in accordance with HMT's Financial Reporting Manual (FReM).

As an executive agency of the Department for Transport (DfT) the Highways Agency's financial statements are consolidated within the resource accounts produced and published by the DfT. These are available online on the DfT website at [www.dft.gov.uk](http://www.dft.gov.uk).

## Significant accounting policies

There are several areas of the Highways Agency's financial statements where accounting judgements have a significant impact on financial outturn. These are outlined below:

### Valuation of the trunk road network

As explained in Note 1.4 to the accounts, professional valuers undertake a full valuation of the network at intervals not

exceeding five years. The valuation process requires the use of assumptions and estimates.

The valuations are recorded in the Agency Valuation System (AVS). The AVS model is used in the years between full valuations to generate updated values for the trunk road network by recording material capacity changes as well as the application of indices for the costs of land, and road construction. (For details of the indices used see note 1.4 to the accounts). The cost of the network includes any irrecoverable VAT. It also includes estimates for works preparation, supervision, lands acquisition and compensation costs.

An adaptation of renewals accounting is used to estimate depreciation of the road network. Renewals accounting is only acceptable if the network is maintained in a steady state. Annual condition surveys of the network have confirmed this to be the case since 2001-02. All other network assets are depreciated on a straight line basis.

### Recognition and the valuation of provisions

Due to the long-term nature of the Highways Agency's road improvement activities certain assumptions, judgements and estimates are made in the recognition and valuation of provisions relating to compensation claims and acquisition of land. The Highways Agency is also subject to contractual and

damages claims. We assess the likelihood of adverse judgements or outcomes, as well as the ranges of probable and estimated losses. Our assumptions regarding the recognition and valuation of provisions are based on a variety of data sources, and experience.

### Apportionment of Private Finance Initiative (PFI) payments between capital, interest and service elements

The Highways Agency has a number of PFI agreements for the provision of new infrastructure and its subsequent maintenance for a fixed period of time, typically 30 years.

Judgements and estimates are made to apportion the payments made to the contractor between capital repayment and interest elements, with the remainder of the PFI payment recorded as a service charge in the operating cost statement. Further details regarding valuation of PFI assets can be found in Note 1.14.

## Funding of the Highways Agency

Resources to fund the Highways Agency's day-to-day costs and capital investment programme are obtained through the Parliamentary supply process and allocated within the main DfT Estimate.

Our funding takes account of income generated by the Highways Agency, such as recoveries of costs for work carried out on behalf of third

parties or rental income from surplus properties. More details of operating income can be found in note 5 to the accounts. In addition to the above, private sector funding is available under PFI and Public Private Partnerships (PPP) arrangements. The choice between public and private financing is made on a value for money basis.

### Financial results

The Highways Agency Request for Resources voted by Parliament for the year was £6.5bn.

The Highways Agency's budget is divided into Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME):

	2007-08 Actual £m	2007-08 Budget £m	Variance £m
Total Resource Departmental Expenditure Limit (DEL)	1,807	1,812	(5)
Total Annually Managed Expenditure (AME)	3,561	3,596	(35)
<b>Total Net Resource Outturn</b>	<b>5,368</b>	<b>5,408</b>	<b>(40)</b>
Capital DEL	1,054	1,062	(8)
<b>Total Agency Request for Resources (RfR)</b>	<b>6,422</b>	<b>6,470</b>	<b>(48)</b>

- DEL budgets are firm three year plans set in the Spending Review
- AME budgets apply to items that are demand-led or exceptionally volatile, where the Highways Agency could not be expected to absorb the effects of volatility in its DEL; the notional charge

for cost of capital on the network (£2.8bn) is the principal item falling into this category.

The Highways Agency used its DEL resource and capital budgets to within 0.5% (£13m).

In addition to exercising effective financial and budgetary control, we used our resources to fully meet 11, and partially meet 2 of our 14 key business plan targets (see page 58 of the annual report for full details, including comparisons with prior years).

### Financial position

The total asset value of the Highways Agency is £85,494m, almost all of which relates to the trunk road infrastructure.

Cash flow forecasts are provided to DfT on a monthly basis. Funding is drawn down when required as the Highways Agency aims to keep minimal cash at bank and is not subjected

to significant liquidity risks. The value of other current assets (stock and debtors) is also relatively low.

As at 31 March 2008, the Agency reported an overdrawn position of £58.850m at Bank. This was due to BACs payments in transit of £68.984m, which subsequently

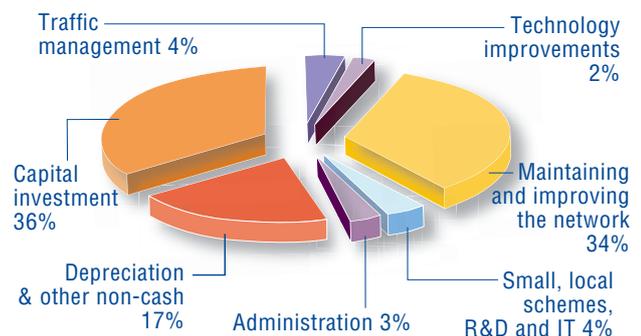
cleared at bank on 1 April 2008 - see Note 10.

More than 75% of the Highways Agency's liabilities are of a long-term nature. These include provisions for future lands acquisition and compensation liabilities, as well as amounts relating to our outstanding PFI liabilities which are repayable over the life of the contracts. In the period assets to the value of £43m were brought into operation as part of the National Road Telecommunications Service (NRTS) and will be repaid over the remaining term of the contract.

### How we used our resources in 2007-08

The main areas of expenditure (known as main sub-programme areas), other than the cost of capital and depreciation are illustrated below:

#### Analysis of DEL expenditure



The trunk road infrastructure is one of the most valuable single public assets in the UK, and maintenance of it consumes a high proportion (over 36%), of the Highways Agency's budget (excluding cost of capital charges). This includes replacing and maintaining

surfaces, bridges and other structures. It also includes associated upkeep such as fencing, drainage, lighting and signage and the cost of keeping the network moving in winter.

## Capital Investment

During 2007-08 £1,054m (2006-07 £1,118m) was

Scheme	Expenditure in 2007-08 (£m)
M1 Junction 6A to 10 widening	86
A2/A282 Dartford improvement	60
A2 Bean to Cobham widening (Phase 2: Pepperhill to Cobham)	52
A3 Hindhead improvement	51
NRTS	43
	<b>292</b>

invested in the road network. Eight Highways Agency-funded major schemes opened for traffic in the year. The total expenditure was across some 1,200 schemes, with the 50 highest value schemes accounting for £875m (2006-07 1,200 schemes, 50 highest value, £880m) of the total. As detailed above, just under £300m was spent on four major road schemes and the National Roads Telecommunications Services project (NRTS):

## Widening the M25

The largest capital project in the Highways Agency's portfolio is the M25 Design, Build, Finance and Operate (DBFO) contract, which encompasses the capital works to create four lanes on most of the remaining three lane sections of the M25, as well as responsibility for maintaining the motorway and

its structures over a 30 year period. The Highways Agency has announced the provisional

	Resource	Capital
	£m	£m
Programme pay and allowances	60	-
Major Improvements	216	833
Traffic Manager	49	16
Maintaining the Network	788	108
Smaller Schemes and R&D	95	98
Capital charges & other non-cash	4,294	51
Technology Improvements	83	137
Administration	89	21
<b>Total</b>	<b>5,674</b>	<b>1,264</b>

*Budgets for 2008-09 were published in the Highways Agency 2008-09 Business Plan*

preferred bidder, Connect Plus, a consortium consisting of Balfour Beatty, Skanska, Atkins and Egis Projects.

They were selected from a shortlist of three construction and finance groups that submitted tenders. The contract is expected to be awarded late in 2008.

## Government and the Highways Agency spending plans

The second Comprehensive Spending Review, (CSR), the Government's long-term fundamental review of government expenditure, was published in autumn 2007. It identified what further investments and reforms are needed to equip the UK for the global challenges of the decade ahead, and issued departmental budget allocations and Public Service Agreement (PSA) targets for 2008-09, 2009-10 and 2010-11. The Highways Agency's share of the DfT budgets

was agreed in autumn 2007 and included the following budgets for 2008-09:

The spending plans incorporate the Highways Agency's share of DfT's annual efficiency gain targets, which were introduced following the Gershon efficiency review in July 2004. During the 3 year period from 2005 to 2008 the Highways Agency achieved sustainable efficiencies of £249m and non-sustainable efficiencies of £28m.

Planned administrative spending has reduced marginally overall for the next year, with any pay or pension cost increases being absorbed. Details of pensions' arrangements can be found in notes 1 and 2 to the accounts, and in the Remuneration Report.

The 2008-09 capital budget of £1,264m is an increase of some 19% over the budget for 2007-08, and continues the planned escalation of the Highways Agency's capital expenditure programme to support the delivery of associated congestion and safety improvement targets.

## Market stability

The highway sector at the beginning of the reporting period was affected by the increased demand for global resources such as cement, steel and bitumen. As the year progressed, inflationary pressures affecting the wider economy such as the price of agricultural land, the costs of energy and transport have started to come into play and been increasingly reflected in the actual costs paid for highway work. The full impact of increased commodity prices, typically 40% of total construction costs, have been partially mitigated by more constrained increased costs of labour and equipment over the period.

In order to manage these pressures the Highways Agency, in liaison with DfT, undertook a periodic review of market conditions and made a prediction of future inflation, which for 2007-08 was successful in delivering the Highways Agency's programme. Estimates of the impact of inflation on future years' programmes will be reviewed later this year in the light of increased demand for infrastructure projects such as Cross Rail, tempered by reductions in the commercial construction market.

## Relationship with suppliers

The Highways Agency is committed to the prompt payment of bills for goods and services received and aims to settle 98% of undisputed

invoices within contract terms. During 2007-08 the Highways Agency paid 98.4% (2006-07 98.9%) of undisputed invoices within terms. No interest was incurred under the Late Payment of Commercial Debt (Interest) Act 1998.

## Dartford-Thurrock Crossing road user charging scheme

The Transport Act 2000 Sections 163 and 167 of Part 3 Chapter 1 and subsequent secondary legislation gives powers to introduce a road user charging scheme at the Dartford -Thurrock Crossing. A contract with Le Crossing Company Limited to manage the crossing and collect the charges has been in place since 1 April 2003. All monies received are passed on to the Highways Agency and subsequently to the Department for Transport. The Highways Agency publishes separate accounts for the Dartford-Thurrock Crossing road user charging scheme under Section 3(1) (b) of the Trunk Road User Charging Schemes (Bridges and Tunnels (Keeping of Accounts) (England) Regulations 2003.

In December 2006 the Department consulted on changes to the charging regime at the Dartford Crossing, in response to congestion pressures. Following consultation the Department announced that it accepted the case in principle for a discount scheme for local residents, and that it would consult. That consultation was announced to

Parliament on 7 February and commenced on 15 February. Considerable design work has been undertaken to allow for differential charges, and it is hoped that the new charging regime will be implemented around the end of 2008.

## M6 Toll road

The M6 Toll road in the West Midlands was constructed by Midland Expressway Ltd (MEL) under a public private partnership arrangement with the Highways Agency, and opened in 2003. MEL paid for construction of the road, and is recouping the costs by collecting tolls over the 50 years until the road reverts to public ownership in 2054. As part of the arrangement, under the Highways Act, the Highways Agency incurred the costs of land acquisition and is making compensation payments to those affected by the building of the road. These costs will be reimbursed to the Highways Agency six years following the road opening to traffic, in 2009, and amount to approximately £100m at March 2008.

## Severn River Crossings

A £60 million subordinated loan was granted to Severn River Crossing Plc (SRC) in 1992 as part of the consideration for a concession agreement for the operation and maintenance of the existing Severn River crossing and the design, construction, operation and maintenance of a second crossing. SRC recover the construction costs by charging tolls to use the bridge.

The loan and related interest is repayable at the end of the concession period, which is the earlier of 2022 and SRC achieving a pre-determined cumulative revenue target from tolls. It is predicted the concession period will end in early 2016 after which responsibility for the operation and maintenance of bridges reverts to the Highways Agency.

The Highways Agency publishes a separate account providing details of the subordinated debt due to the Consolidated Fund.

### Board member interests

Alan Pickett, director of Safety, Standards and Research Directorate from 12 October 2007 to 31 March 2008 has a son employed at Mott MacDonald, a supplier of services to the Highways Agency. The Highways Agency paid this company £32,251 in 2007-08. Mr Pickett played no role in the awarding of these commissions. He retired from the Highways Agency on 18 April 2008.

### Auditors

The statutory audit of the Highways Agency's financial statements is undertaken by the National Audit Office (NAO) and cost £300,000 (2006-07 £300,000). In addition £13,983 (2006-07 £14,999) was paid to the NAO in respect of the audit of the 2006-07 Dartford-Thurrock Road User Charging Scheme account.

### Statement as to disclosure of information to auditors

In so far as the Accounting Officer (AO) is aware, there is no relevant audit information of which the entity's auditors are unaware, and the AO has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

### Significant events since the end of the financial year

Archie Robertson, Chief Executive and Accounting Officer, left the Highways Agency on 23 May 2008. Mel Zuydam, Finance Director, was appointed interim Chief Executive and Accounting Officer for the period 24 May 2008 until 29 June 2008. The new permanent Chief Executive Accounting Officer, Graham Dalton, took up his post on 30 June 2008.

### Date of issue

The Agency account has been authorised for issue on 7 July 2008 by the Accounting Officer.



**Graham Dalton**  
Accounting Officer  
**03 July 2008**



*A3 Hindhead*

The main tunneling works started in February 2008, and the tunnel is planned to be open for traffic in mid 2011.

# Remuneration Report for the year ended 31 March 2008

The remuneration of the Highways Agency's senior civil servants for current and future years is determined by the Department for Transport's Remuneration Committee in accordance with recommendations of the independent Review Body on Senior Salaries.

## Remuneration Committee

The Remuneration Committee is comprised of the Department for Transport's Permanent Secretary (as Chairman), all DfT Directors General and a non-executive board member. For the year to 31 March 2008 its members were:

## Remuneration Policy for Senior Civil Servants within the Highways Agency

The remuneration policy is based upon work and recommendations of the Review Body on Senior Salaries. In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff.

in the Government's departmental expenditure limits; and

- the Government's inflation target.

The Review Body also takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at [www.ome.uk.com](http://www.ome.uk.com).

## Pay System and Performance Management

The Senior Civil Service pay system is a pay band structure, underpinned by a tailored job evaluation scheme (JESP - Job Evaluation for Senior Posts). JESP provides a consistent basis for comparing the relative value of jobs within and across Departments. It broadly ensures that people with particular levels of responsibility have access to salaries within the same range, and supports equal pay.

Performance is assessed against measurable key objectives and targets, agreed between the individual and his/her manager (performance agreement). Annual salary increases are based upon pay awards recommended by the Review Body and depend upon performance; the Remuneration Committee allocates the base pay award across the Department's senior civil servants using a matrix of salary level and performance tranche.

Performance Tranche (top, middle, low satisfactory, low unsatisfactory) is based on achievement against the

<b>Robert Devereux<sup>1</sup></b>	Permanent Secretary, Department for Transport
<b>Stephen Hickey</b>	Director General, Safety, Service Delivery and Logistics
<b>Simon Webb</b>	Director General, International Networks and Environment
<b>Bronwyn Hill</b>	Director General, City and Regional Networks
<b>Mike Mitchell</b>	Director General, Rail and National Networks
<b>Barbara Moorhouse</b>	Director General, Corporate Resources Group
<b>Archie Robertson<sup>2</sup></b>	Chief Executive, Highways Agency
<b>Ann Hemmingway</b>	Non-executive Director, Department for Transport

<sup>1</sup> Robert Devereux became DfT Permanent Secretary on 21 May 2007

<sup>2</sup> Archie Robertson left the Highways Agency on 23 May 2008

The full Committee makes pay decisions for Directors and Deputy Directors. Decisions on pay for Directors General are taken by the Permanent Secretary, with advice from Ann Hemmingway, the Non-Executive Director.

- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out

performance agreement, overall track record and growth in competence and contribution relative to others operating broadly at the same level. The Remuneration Committee, using recommendations provided by the Directors General, make final decisions on tranche allocation.

Non-consolidated bonus payments may also be made. For senior staff on a fixed term contract these are based upon performance against defined criteria. Staff on open-ended contracts receive bonuses dependent upon the recommendations of the Review Body and their performance relative to others.

### Remuneration Policy for Non-Executive Directors

The Highways Agency undertook a review of the fees payable to non-executive directors during 2006, comparing them with other DfT agencies. As a result rates were increased with effect from 1 September 2006.

### Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when other appointments may be made.

Unless otherwise stated below, senior managers hold appointments that are open-ended until they reach the normal retiring age of 60, with a maximum notice period of six months. Early termination, other than for misconduct, would result in the individual receiving compensation as

set out in the Civil Service Compensation Scheme. Those on a fixed period contract have a maximum notice period of five weeks. Early termination may result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Further information about the work of the Civil Service Commissioners can be found at [www.civilservicecommissioners.gov.uk](http://www.civilservicecommissioners.gov.uk).

Fixed term contracts may be extended or converted to open-ended, subject to

agreement of the Civil Service Commissioner and consistent satisfactory performance. Non-Executive Directors are generally appointed for a fixed term of two years. Contracts are renewable for further fixed terms if both parties agree. In the event of early termination, for whatever reason, there is no provision for compensation. Details of the service contract for each senior manager and letters of appointment for the non-executive directors who served during the year are:

	Date of initial appointment	Unexpired term 31/3/08 (months*)
<b>Executive Director</b>		
Archie Robertson	24/11/2003	2
Ginny Clarke	02/07/2001	15
Mel Zuydam	01/06/2004	9
Steve Williams	12/03/2001	Open-ended
Derek Turner <sup>6</sup>	07/03/2005	2
Denise Plumpton	17/01/2005	22
Alan Pickett <sup>1</sup>	12/10/2007	See footnote 1
<b>Directors leaving before 31/03/08:</b>		
Keith Miller <sup>2</sup>	19/04/2004	–
Jerry England <sup>3</sup>	19/03/2007	–
Hilary Chipping <sup>4</sup>	11/09/2001	–
<b>Non-executive Director</b>		
Tracey Barlow	01/08/2007	16
Alex Jablonowski	28/09/2004	6
Andrea Gregory	01/09/2005	11
<b>Non-executive Directors leaving before 31/03/08:</b>		
John Doran <sup>5</sup>	28/09/2004	–
* months remaining from 31/03/07		
<sup>1</sup> Alan Pickett joined the Board on 12 October 2007 on a temporary basis as Director of Safety, Standards and Research (SSR) Directorate. He retired on 18 April 2008.		
<sup>2</sup> Keith Miller took early retirement from the Agency. His last day of service was 31 August 2007.		
<sup>3</sup> Jerry England acted as interim Director of Major Projects Directorate until 11 October 2007. Ginny Clarke took on the post from 12 October 2007 on a temporary basis while the recruitment process for a permanent Director took place. Nirmal Kotecha was appointed to the Board on 14 April 2008 as substantive Director of Major Projects Directorate.		
<sup>4</sup> Hilary Chipping took early retirement from the Agency. Her last day of service was 31 December 2007.		
<sup>5</sup> John Doran completed his contract with the Agency. His last day of service was 27 September 2007.		
<sup>6</sup> Derek Turner's contract was extended to 5 June 2008 and is currently being negotiated.		

## Salary and Pension Entitlements (Audited)

The following sections provide details of the remuneration and pension interests of the Highways Agency's senior civil servants.

	<b>2007-08</b>		<b>2006-07</b>	
	<b>Salary, including performance pay £000</b>	<b>Benefits in kind (to nearest £100)</b>	<b>Salary, including performance pay £000</b>	<b>Benefits in kind (to nearest £100)</b>
Archie Robertson	175-180	-	165-170	-
Denise Plumpton	150-155	-	150-155	-
Derek Turner	135-140	-	135-140	-
Mel Zuydam	130-135	-	130-135	-
Ginny Clarke	115-120	-	110-115	-
Steve Williams	115-120	-	100-105	-
Alan Pickett	80-85	-	75-80	-
Hilary Chipping <sup>1</sup>	80-85	-	100-105	-
Keith Miller <sup>2</sup>	35-40	-	95-100	-
Jerry England <sup>3</sup>	225-230	-	15-20	-

<sup>1</sup> Hilary Chipping stood down from her position as Executive Director and departed from the Agency on 31 December 2007 by way of compulsory early retirement. This arrangement was agreed between the Department for Transport and Mrs Chipping, and arose from a significant restructuring of several of the Agency's main operating directorates, and the corresponding adoption of a more streamlined Board structure. Mrs Chipping was paid five months salary in lieu of notice. Under the terms of the Civil Service Compensation Scheme, Mrs Chipping will receive a total of £530,000.

<sup>2</sup> Keith Miller stood down from his position as Executive Director and departed from the Agency on 28 February 2007 by way of compulsory early retirement. This arrangement was agreed between the Department for Transport and Mr Miller to facilitate a fundamental re-structuring of the Agency's Major Projects Directorate and the implementation of the recommendations of the Nichols and NAO reviews on cost and programme management. Mr Miller was paid his full salary during his notice period (six months to 31 August 2007).

<sup>3</sup> Jerry England was appointed as interim Director of Major Projects Directorate from 19 March 2007 through a recruitment consultant. The amounts reported above were paid to the recruitment company, and are VAT inclusive. We do not regard these payments as being of a third party nature.

### Salary

'Salary' includes gross salary, performance pay or bonuses received in year, overtime, London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation. The payment of legitimate expenses is not part of salary.

### Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. There were no benefits in kind. During the year no compensation was payable to former senior managers, and no payments were payable to third parties for the services of a senior manager.

### Pension Benefits (Audited)

Pension benefits are provided through the Civil Service pension arrangements for which details are given in note 2 to the Financial Statements. Factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Hewitt Bacon & Woodrow Scheme Actuary.

**Pension Benefits (Audited)**

	Accrued pension at age 60 as at 31 March 2008	Real increase in pension at age 60	CETV at 31 March 2008	CETV at 31 March 2007	Real increase in CETV as funded by employer	Employee contributions and transfers-in	Compensation Lump Sum in Payment awarded
	£000	£000	£000	£000	£000	£	£000
Archie Robertson	5-10 no lump sum	0-2.5 no lump sum	149	100	30	3,948	–
Denise Plumpton	5-10 no lump sum	5-10 no lump sum	152	91	31	16,920	–
Derek Turner	5-10 no lump sum	0-2.5 no lump sum	105	62	30	3,948	–
Mel Zuydam	5-10 no lump sum	0-2.5 no lump sum	104	66	23	3,948	–
Ginny Clarke	40-45 plus 120-125 lump sum	0-2.5 plus 0-2.5 lump sum	835	720	10	1,528	–
Steve Williams	40-45 plus 120-125 lump sum	0-2.5 plus 2.5-5 lump sum	967	825	37	1,514	–
Alan Pickett	35-40 plus 115-120 lump sum	0-2.5 plus 5-7.5 lump sum	971	857	47	566	–
Hilary Chipping	35-40 plus 90-95 lump sum	0-2.5 no lump sum	746	685	20	2,642	–
Keith Miller <sup>1</sup>	35-40 plus 105-110 lump sum	5-7.5 plus 7.5-10 lump sum	735	651	122	565	45

<sup>1</sup> Keith Miller took early retirement from the Highways Agency, last day of service, 31 August 2007.

**The Cash Equivalent Transfer Value (CETV)**

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

**Real increase in the value of the CETV**

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the Board member (including the value of any benefits transferred from another pension scheme or arrangement) and using common market valuation factors for the start and end of the period.

**Remuneration of Non Executive Directors**

The non-executive directors of the Board received the following remuneration for their services during the year ended 31 March 2008:



**Graham Dalton**  
Accounting Officer  
03 July 2008

	£000's
Alex Jablonowski	25-30
Andrea Gregory	10-15
Tracey Barlow	10-15
John Doran	5-10

The amounts reported above were paid to the individual or the individuals's company inclusive of VAT where applicable. We do not regard these payments as being of a third party nature.

## Statement of Highways Agency and Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Highways Agency to prepare for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Agency during the year.

The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Agency at the year-end and of its income and expenditure, recognised gains and losses, and cash flows for the financial year.

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 HM Treasury, including 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; and
- prepare the Accounts on a going-concern basis.

The Permanent Secretary for the Department for Transport has appointed the Highways Agency Chief Executive as an additional Accounting Officer of the Department with responsibility for the Highways Agency and for preparing the Agency's Accounts and for transmitting them to the Comptroller and Auditor General.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Agency's assets are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in Managing Public Money. Details may be accessed online at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

## Statement regarding disclosure of information to the Auditors

As Accounting Officer I have taken all the steps necessary to make myself aware of any relevant audit information and to establish that the National Audit Office have been made aware of that information in connection with their audit.

Insofar as I am aware there is no relevant audit information of which the National Audit Office is unaware.

## Statement on the System of Internal Control within the Highways Agency

### The scope and purpose of the system of internal control

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Agency's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

The Highways Agency's system of internal control was in place for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts. It accords with Treasury guidance.

The system of internal control<sup>i</sup> is designed to manage risk of failure to achieve policies, aims and objectives to a reasonable level rather than to eliminate all risk; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Risk management informs a number of internal control processes designed to fulfil the Agency's control objectives.<sup>ii</sup>

### The risk and control framework

I have established a framework of responsibility for risk management, with appropriate support, guidance and procedures<sup>iii</sup> in all parts of the Agency's business.<sup>iv</sup>

My staff work closely with their counterparts in the Department for Transport to ensure that risk management systems are compatible, there is clear accountability for managing risks, joint action is taken where appropriate to manage risks, and the Department is kept informed of risks as appropriate.

The Highways Agency Board sets the Agency's risk appetite<sup>v</sup> in line with that of the DfT Board. The Board remains committed to good risk management in the interests of improved delivery.

The Board identifies strategic risks<sup>vi</sup> to the Agency's business. Managers identify and evaluate risks to successful delivery of the Agency's operational and control objectives when they prepare and monitor directorate and divisional management plans.

I hold regular meetings with Ministers when operational risks are discussed. Ministers receive direct reports about risks to key initiatives. They receive reports on risks to delivery of Public Service Agreement Targets through the DfT reporting system.

I am keenly aware that risks to public stakeholders arise from many aspects of the development and operation of the strategic highways network.

While developing new works, the Agency involves the public in risk management through the normal consultation process. My senior staff and I regularly meet with stakeholder groups and cover their views on risks to their interests in these meetings. Road Safety risks are managed through a developing set of safety action plans based on the views from the public and stakeholders with the objective of meeting the targets set by the DfT Road Safety Strategy.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review consists of discussions with my Head of Internal Audit and the chair of the Audit Committee. It is informed by the work of my internal auditors, stewardship reports from the executive managers within the Highways Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

During the year my predecessor as Accounting Officer reviewed the Agency's handling of personal data to ensure that the associated risks remain under satisfactory control. A summary of information related incidents is included in the Management Commentary to the Department for Transport's Resource Accounts 2007-08, and the actions being taken by the Agency to manage information risk are set out in the risk management section of in this report.

I have been advised on the implications of the result of this review of the effectiveness of the system of internal control by the Board<sup>vii</sup> and the Audit Committee<sup>viii</sup>. Measures to address weaknesses and ensure continuous improvement of the system are in place, and as a result of my review and the advice received my predecessor as Accounting Officer commissioned

- work to ensure that management of the Agency's information assets, handling of personal data and management of information risks continues to meet current & future business needs and represents good practice. The scope of this work includes:
  - o Strengthening senior managers' stewardship of and accountability for information assets;
  - o Ensuring that assets are properly classified according to their sensitivity and that the appropriate physical and logical security is applied;
  - o Enhancing our strategic and operational risk management framework to ensure information risks are given the appropriate weight; and
  - o Ensuring the culture of information security in the Agency is enhanced through a comprehensive training programme,
- a trial of continuous monitoring of our financial transactions and associated electronic records to assess whether it will provide a cost-effective improvement to the Agency's system of internal control; and
- improvements in the Investment Control Framework as a result of lessons learned from a post-implementation review.

The Agency's corporate governance arrangements are designed to comply with the *Code of Good Practice on Corporate Governance in Central Government Departments*<sup>x</sup>. They are illustrated below.<sup>x</sup>

My Head of Internal Audit provides regular reports on key risk and control issues, to standards defined in the Government Internal Audit Standards, and an annual independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement.

The Head of Internal Audit's opinion for the year 2007-08 is that on the basis of the evidence obtained during 2007-08 he is able to provide an overall substantial assurance rating on the adequacy and effectiveness of the Highways Agency's arrangements for corporate governance, risk management and internal control, which were found to be operating effectively with some minor exceptions.

In his opinion there are no significant weaknesses that fall within the scope of issues that should be reported in the Statement on Internal Control.

Actions to rectify specific weaknesses identified by my internal auditors are under way. In the Statement on Internal Control for 2006-07 my predecessor as Accounting Officer reported that he had commissioned action to:

- Improve cost estimating, programme and project management, and other areas as a result of the Nichols review; and
- further improve processes and guidance as part of a 3-year programme.

As a follow-up I can report that:

- Work to implement the Nichols review recommendations is substantially complete; and
- Work to improve processes and guidance is on target and has already provided tangible benefits in efficiency and effectiveness and a programme of internal reviews aimed at ensuring our quality management system complies with ISO 9001 *Quality Management Systems – Requirements* is under way.



**Graham Dalton**  
Accounting Officer  
**03 July 2008**

## Statement on the System Of Internal Control within the Highways Agency

**The system of internal control** is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

### ii Control objectives

- We have clear strategic direction, objectives, responsibilities and key targets in support of government policies;
- We ensure efficiency, best value, integrity, propriety and regularity in the use and stewardship of public funds and assets and that clear accountability for expenditure and stewardship of assets is in place;
- We manage our projects and contracts to ensure delivery on time, within budget and to the appropriate quality;
- The information and advice we use and provide is Trusted, Reliable, Useful and Effective; and
- Our people, partners and procedures comply with relevant legal, government, departmental and technical standards and requirements.

### iii Capacity to handle risk

The Highways Agency's directors and other senior managers lead risk management in their commands, supported by a team of risk management co-ordinators led by a risk management adviser. Risk management guidance is available to all staff. The guidance outlines key aspects of the risk management process and identifies the main reporting procedures. Senior managers have received training in risk management tailored to their responsibilities and concerns.

<sup>iv</sup> Risk management is an integral part of the Agency's management and project planning procedures. Staff and managers are required to identify new or increased risks and opportunities as part of the routine performance reporting process. Risk is a standard agenda item in team meetings in many areas of the Agency.

Risks are reviewed, the effectiveness of risk treatments and their impact on residual risk is monitored, and changes identified and evaluated throughout the year, as part of routine management activity. Risk owners include reports on their handling of operational risk as part of their wider stewardship reports. The Board allocate the management of strategic risks to nominated directors who report back as appropriate through the year.

<sup>v</sup> The **Agency's risk appetite** is set to ensure that

- All risks with a high impact on the Agency's performance, stewardship of public funds, stewardship of the environment or the reputation of the Agency or the wider government receive focussed, cost-justified management attention, and
- Where appropriate, action is escalated through the line management chain to DfT and Ministers.

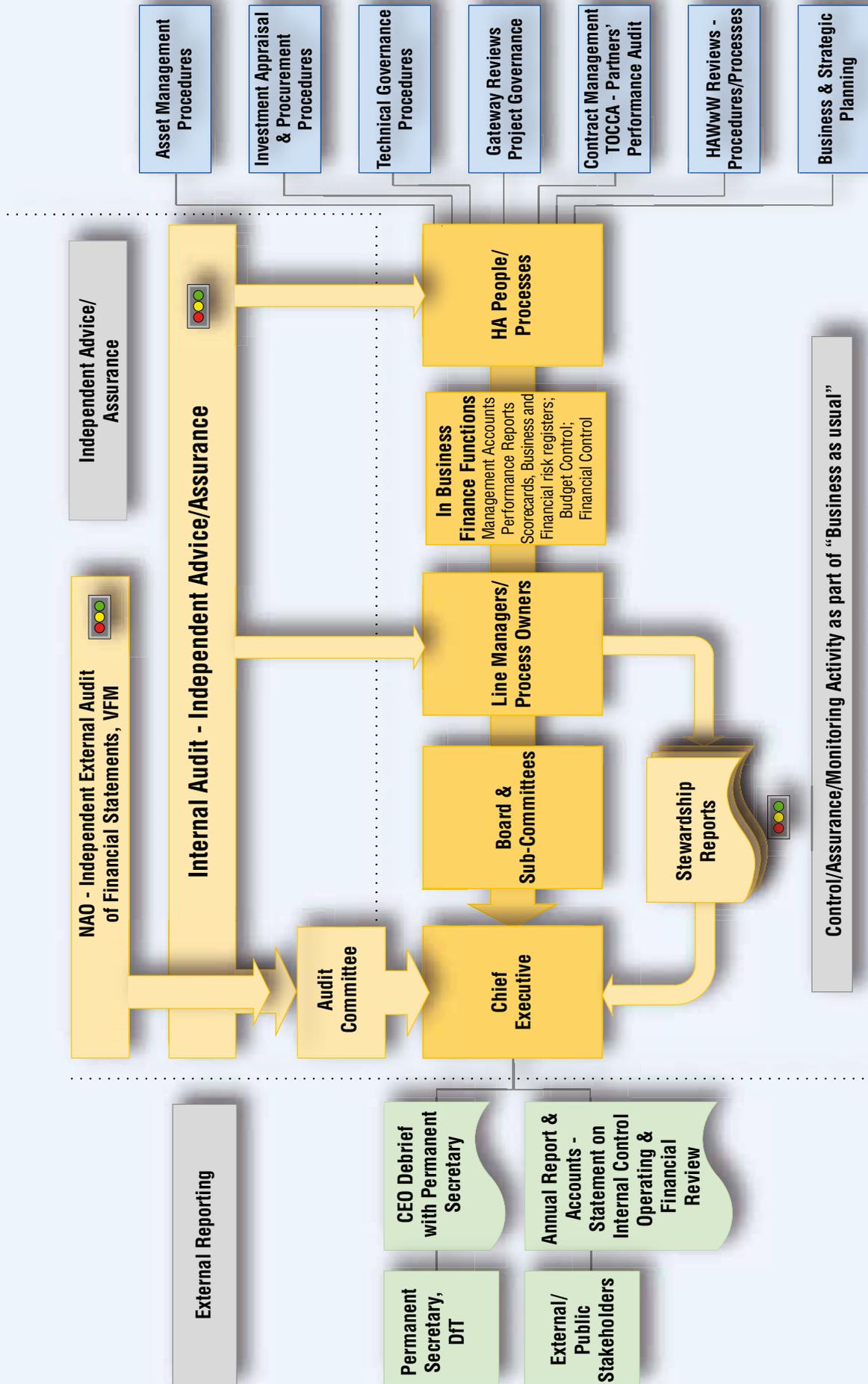
<sup>vi</sup> The key **strategic risks managed by the Board** are shown elsewhere in this annual report.

<sup>vii</sup> The **Highways Agency Board** (which comprises the senior members of the Agency and three independent non-executive directors) meets frequently to consider the plans, performance and strategic direction of the Agency, the most important risks to successful delivery of those plans and the Agency's stewardship of public assets;

<sup>viii</sup> The **Audit Committee** is made up of the three non-executive directors, one of whom chairs it, and two Highways Agency Board members and the Head of Internal Audit. I, together with my Head of Internal Audit, Finance Director and representatives from the DfT and National Audit Office attend but have no vote. The independent Chairman of the Audit Committee advises as appropriate on key risk and control issues.

<sup>ix</sup> <http://www.hm-treasury.gov.uk/media/71D/48/daocorp-governancecode.pdf> Disclosures about how the Board and its sub-committees operate, the independence of non-executive directors, and the Audit Committee's terms of reference are elsewhere in this annual report.

# Highways Agency governance framework



## The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Highways Agency for the year ended 31 March 2008 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### Respective responsibilities of the Highways Agency, the Chief Executive and auditor

The Agency and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the information, which comprises the Management Commentary and Remuneration Report, included in the Annual Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal control reflects the Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Management Commentary and Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Highways Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

## Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2008, and of the net operating cost, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder; and
- the information which comprises the Management Commentary and Remuneration Report, included within the Annual Report, is consistent with the financial statements.

## Opinion on Regularity

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

## Report

I have no observations to make on these financial statements.

## T J Burr

Comptroller and Auditor General

National Audit Office, 157-197 Buckingham Palace Road, Victoria, London, SW1W 9SP

9 July 2008

**Operating Cost Statement for the year ended 31 March 2008**

	Note	Staff Costs £000	2007-08 Other Costs £000	Income £000	restated 2006-07 Total £000
<b>Administration Costs</b>					
Staff costs	2	60,989			60,804
Other administration costs	3		35,027		36,872
Operating income	5			(2,351)	(3,276)
<b>Programme Costs</b>					
Staff costs	2	52,715			47,060
Other programme costs	4		5,281,131		5,019,482
Operating income	5			(77,371)	(71,447)
<b>Totals</b>		<b>113,704</b>	<b>5,316,158</b>	<b>(79,722)</b>	
<b>Net Operating Cost</b>				<b>5,350,140</b>	<b>5,089,495</b>
<b>Net Resource Outturn</b>				<b>5,368,528</b>	<b>5,119,165</b>

Net Resource Outturn represents the Net Operating Cost excluding operating income not appropriated in aid (see note 5).  
All income and expenditure is derived from continuing activities.

**Statement of Recognised Gains and Losses for the year ended 31 March 2008**

	Note	2007-08 £000	2006-07 £000
Net gain on the revaluation of tangible fixed assets	6	3,608,045	5,773,902
Reversionary interest on M6 toll road	13	7,240	12,366
Net gain/(loss) on other in year adjustments relating to prior year transactions	13/14	228,340	(55,786)
<b>Recognised gains &amp; losses for the financial year</b>		<b>3,843,625</b>	<b>5,730,482</b>

The notes on pages 84 to 114 form part of these accounts

**Balance Sheet as at 31 March 2008**

	Note	31st March 2008 £000	restated 31st March 2007 £000
<b>Fixed Assets</b>			
Tangible assets	6	85,492,311	81,591,436
Intangible assets	7	1,736	2,613
		<b>85,494,047</b>	<b>81,594,049</b>
<b>Debtors: amounts falling due after more than one year</b>	9	223,725	198,865
<b>Current Assets</b>			
Stocks	8	21,606	25,302
Debtors: amounts falling due within one year	9	180,313	104,649
Cash at bank and in hand	10	(58,850)	333
		<b>143,069</b>	<b>130,284</b>
<b>Creditors: amounts falling due within one year</b>	11	(554,212)	(598,944)
<b>Net Current Liabilities</b>		<b>(411,143)</b>	<b>(468,660)</b>
<b>Total Assets less Current Liabilities</b>		85,306,629	81,324,254
<b>Creditors: amounts falling due after more than one year</b>	11	(1,331,936)	(1,328,952)
<b>Provisions for liabilities and charges</b>	12	(681,555)	(582,289)
		<b>83,293,138</b>	<b>79,413,013</b>
<b>Taxpayers' Equity</b>			
General fund	13	39,278,532	38,979,346
Revaluation reserve	14	44,014,606	40,433,667
		<b>83,293,138</b>	<b>79,413,013</b>

The notes on pages 84 to 114 form part of these accounts



**Graham Dalton**  
Accounting Officer

**3 July 2008**

**Cash Flow Statement for the year ended 31 March 2008**

	Note	2007-08 £000	restated 2006-07 £000
<b>Net Cash Outflow from Operating Activities</b>	16a	(1,521,266)	(1,228,248)
<b>Capital Expenditure and Financial Investment</b>	16b	(991,019)	(1,032,287)
<b>Payment of Amounts Due to the Consolidated Fund</b>		(7,423)	(3,259)
<b>Financing</b>	16c	2,460,525	2,262,576
<b>Decrease in cash in the period</b>		(59,183)	(1,218)

The notes on pages 84 to 114 form part of these accounts

## Notes to the 2007-08 Accounts

### 1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2007-08 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits the choice of accounting policy, the accounting policy that has been judged to be most appropriate to the particular circumstances of the Highways Agency for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted by the Highways Agency are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

#### 1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, and stocks where material, at their value to the business by reference to their current costs.

#### 1.2 Trunkings/Detrunkings

The detrunking of roads as part of the Government's policy announced in the 1998 White Paper to transfer responsibility for non-core network routes to local authorities is treated as a transfer of function.

Merger accounting principles are applied with opening balances adjusted for the cumulative effect of the detrunking/trunking and comparative figures for the preceding period restated. All other detrunkings are not covered by merger accounting principles and treated as in year adjustments.

#### 1.3 Prior Year Adjustments

Material adjustments applicable to prior periods arising from either changes in accounting policy, correction of fundamental errors, or the value of trunked/detrunked roads are accounted for as prior year adjustments. Opening balances are adjusted for the cumulative effect of the prior year adjustment and comparative figures for the preceding period are restated.

All prior year adjustments relate to detrunkings and have given rise to the following restatement to balances as at 1 April 2007:

		<b>As previously stated £000</b>	<b>Adjustment £000</b>	<b>As restated £000</b>
Infrastructure assets - cost	6	93,004,342	(846,808)	92,157,534
Infrastructure assets - depreciation	6	(11,448,633)	91,040	(11,357,593)
		<b>81,555,709</b>	<b>(755,768)</b>	<b>80,799,941</b>
General fund	13	39,460,241	(480,895)	38,979,346
Revaluation reserve	14	40,708,540	(274,873)	40,433,667
Capital maintenance	4	504,616	(2,044)	502,572

## 1.4 Tangible Fixed Assets

Tangible fixed assets are categorised into network assets and non-network assets. Network assets relate to the motorways and trunk roads in England, which form a single integrated network. The network infrastructure consists of carriageways, including earthworks, tunnelling and road pavements, roadside communications, bridges and other structures, and land and buildings within the highway's perimeter. Non-network assets include land and buildings outside the highways perimeter, non operational buildings, plant and equipment and information technology. All residential properties owned by the Highways Agency and not part of an existing scheme under construction are reported as dwellings and valued at open market value.

### Capitalisation Policy

Expenditure on tangible fixed assets is capitalised if the cost of the asset or a grouping of related assets is equal to or greater than:

- Network infrastructure £100,000
- Non network assets (excluding land) £2,000
- Land no minimum

Items falling below these values are charged as an expense and shown in the Operating Cost Statement. Other than assets included within the network infrastructure and ring-fenced relocation projects, there are no grouped assets.

Expenditure on road building schemes in the course of design or construction is capitalised when it is reasonably certain the scheme will be completed: -

- The cost of schemes within the discretion of the Highways Agency will be capitalised from inception; and
- The cost of major schemes which are subject to approval by Ministers are only capitalised once their inclusion in the Department's programme of major schemes has been agreed. Until that point any costs are charged as an expense and shown in the Operating Cost Statement

Where a scheme is subsequently withdrawn from the Secretary of State's road programme, cumulative design expenditure is written-off to the Operating Cost Statement. Any retained land and property is transferred to land and buildings or dwellings, as appropriate, and valued as an asset held for resale.

The costs of our internal staff that can be directly attributed to the construction of an asset have been capitalised.

## Valuation

### *Infrastructure Assets*

The network infrastructure, which is intended to be maintained at a specific level of service potential by continual replacement and refurbishment, is valued at depreciated replacement cost following renewals accounting principles as set out in the Government Financial Reporting Manual (FRoM). Annual condition surveys are used to assess whether the network has been maintained in a steady state since the previous survey.

The infrastructure asset valuation is based on a standard costs model. External professional surveyors undertake a full valuation of the network at intervals not exceeding five years using internal costing and physical assets records provided by the Highways Agency. In the years between full valuations, the value of the network is adjusted to reflect:

- a) Movements in prices using appropriate published indices (see below);
- b) Expenditure on new schemes or enhancements which increase the capacity of the network; and
- c) Detrunings (refer to note 15).

Certain large structures are valued at historic prices appropriately indexed, or insurance valuations have been used as the best approximation of replacement cost.

A full valuation of the network infrastructure was last carried out by EC Harris LLP, professional surveyors, during the year ended 31 March 2005.

Between full valuations the values are adjusted using the following indices:

Roads and structures	ROCOS (resource cost index of road construction); published on a quarterly basis by the Department for Business, Enterprise and Regulatory Reform (BERR)
Communications	BEAMA (British Electrotechnical & Allied Manufacturers) index sourced from its website.
Land	Land indices published twice yearly by the Valuation Office Agency (VOA)

### *Assets Under Construction*

Assets in the course of design or construction are capitalised at the lower of actual and expected standard cost. This is a two stage process:

- During the course of construction capital additions are made at actual costs; and
- A review of the additions is carried out and an adjustment is made to reflect the difference between actual and estimated standard costs.

### *Land and Buildings, including Dwellings*

Freehold land and buildings have been valued on the basis of open market value for existing use. Assets held for resale, being land and property released from road schemes, are valued at open market value, less provision for selling costs where material.

Land and buildings are freehold and leasehold. Some Regional Control Centres are leasehold properties under 50 years and defined as short leasehold properties.

External professional surveyors undertake a full valuation of these assets at intervals not exceeding five years, and between valuations the values are adjusted using regional land and building indices published twice yearly by the VOA.

The land and buildings assets were last fully valued as follows:

Asset	Valuation Date	Undertaken By
Yate Store	1 July 2004	Donaldson's LLP, professional surveyors
Federated House	29 July 2004	Donaldson's LLP, professional surveyors
Motorway Maintenance Compounds	1 October 2006	VOA
Motorway Service Areas	31 March 2005	VOA
Surplus properties (including dwellings)	31 Dec 2003	VOA

### *Plant and Equipment*

Structural steelwork is stated at current cost using the current market value of steel. Other plant and machinery is stated at current cost using monthly plant and equipment indices supplied by BERR.

### *Information Technology*

Information Technology consists of IT Hardware and Database Development. Database Development is the development of Highways Agency IT databases and is stated at cost. Other information technology assets are stated at current cost using monthly plant and equipment indices supplied by BERR.

## 1.5 Depreciation

### *Infrastructure Assets*

The Highways Agency applies a modified version of renewals accounting, as described in FReM, to calculate depreciation for network assets that meet the renewals criteria. Assets that qualify for renewals accounting are not depreciated, instead expenditure incurred in maintaining the asset's operating capacity is expensed as a proxy for depreciation.

In addition an annual condition survey of the assets is undertaken, and the value of any material variation in operating condition revealed by the survey is taken to the Operating Cost Statement as an impairment charge or conversely an improvement credit.

The following infrastructure assets are subject to renewals accounting:

- Surface layer of flexible pavements
- Sub pavement layer of determinate life pavements
- Fencing, drainage, lighting, signage, kerbs, footways
- Road markings and studs
- Rigid concrete pavements

All other infrastructure assets and definable components, with determinable finite lives are depreciated at rates calculated to write off the assets over their expected useful lives on a straight line basis as follows:

	Life in years
• Road bridges, tunnels and underpasses	20 to 120
• Road culverts	20 to 120
• Retaining walls	20 to 120
• Gantries	20 to 120
• Road communications assets	15 to 50

Expenditure incurred on network structures and communications assets is capitalised, to the extent that it restores the service potential of the asset that has previously been consumed and reflected in depreciation.

The following infrastructure components are considered to have an indefinite life and are not depreciated:

- Freehold land
- Sub pavement layer of long life pavements
- Earthworks

### **Non-Network Assets**

No depreciation is provided on freehold land. Other assets are depreciated at rates calculated to write off the assets over their expected useful lives on a straight-line basis as follows:

<p><b>Property</b></p> <ul style="list-style-type: none"> <li>• Freehold buildings</li> <li>• Leasehold buildings</li> <li>• Historic leasehold building</li> <li>• Surplus properties awaiting sale</li> </ul>	<p><b>Life in years</b></p> <ul style="list-style-type: none"> <li>up to 60 years</li> <li>length of the lease</li> <li>length of the lease</li> <li>no depreciation</li> </ul>
<p><b>Plant and Equipment</b></p> <ul style="list-style-type: none"> <li>• Winter maintenance equipment</li> <li>• Office equipment</li> <li>• Communications equipment</li> <li>• Vehicles</li> <li>• Test equipment</li> <li>• IT equipment</li> <li>• Database development costs</li> <li>• Structural steelwork</li> <li>• Assets in storage</li> </ul>	<p><b>Life in years</b></p> <ul style="list-style-type: none"> <li>25 years</li> <li>5 to 10 years</li> <li>15 to 25 years</li> <li>5 to 10 years</li> <li>5 to 10 years</li> <li>5 years</li> <li>5 years</li> <li>10 years</li> <li>no depreciation</li> </ul>

Assets in storage include overhead gantries and become a network asset once issued from stores. These are kept in controlled conditions and do not deteriorate. They have a design life in excess of 60 years. Whilst not depreciated, they are subject to an annual impairment review.

### **1.6 Intangible Fixed Assets**

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £2,000 or more is incurred. These are valued at cost and amortised at rates calculated to write off the assets on a straight-line basis over their useful lives, which are considered to be three to five years.

### **1.7 Stocks**

Stocks are valued at cost, or current replacement cost where materially different. Long-term stock holdings for special structures (such as tunnels and bridges) where there are no recent purchases are valued at estimated replacement cost. Where excess or obsolete stock holdings have been identified, a provision has been made to reduce the carrying value to estimated net realisable value.

## 1.8 Research and Development

Expenditure on research is not capitalised. Expenditure on development expenditure is capitalised if it meets the criteria specified in the FReM. Expenditure that does not meet the criteria for capitalisation is treated as an expense and shown in the Operating Cost Statement in the year in which it is incurred.

Fixed assets acquired for use in research and development are depreciated over the life of the associated project.

## 1.9 Operating Income

Operating income is income that relates directly to the operating activities of the Highways Agency.

It principally comprises fees and charges for services provided on a full-cost basis to external customers in both the public and private sectors. It includes not only income appropriated in aid of the Estimate but also income due to the Consolidated Fund, which in accordance with the FReM is treated as operating income. Operating income is stated net of VAT.

## 1.10 Administration and Programme Expenditure

The Operating Cost Statement is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury.

Administration costs reflect the costs of running the Highways Agency and include expenditure on administrative staff (such as wages and salaries, training and development and travel expenditure) and associated costs including accommodation, communications and office supplies.

Programme costs reflect the costs of operating, managing, maintaining and improving the motorway and trunk road network. It includes staff costs where they directly relate to service delivery.

## 1.11 Capital Charge

A charge, reflecting the cost of capital utilised by the Highways Agency, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) as follows:

### Tangible and Intangible Fixed Assets

The cost of capital charge is based on opening values, adjusted for the effects of any in year revaluations and adjusted for in-year additions at cost, disposals as valued in the opening balance sheet (plus any subsequent capital expenditure prior to disposal), impairments at the amount of the reduction of the opening balance sheet value (plus any subsequent capital expenditure), and depreciation.

### All Other Assets Less Liabilities

For all other assets less liabilities the cost of capital charge is based on the average carrying amount.

## 1.12 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which are described in Note 2. The defined schemes are unfunded and are mostly non-contributory except in respect of dependants' benefits. The Highways Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year.

## 1.13 Leases

The costs of operating leases are charged to the Operating Cost Statement on a straight-line basis over the course of the lease.

## 1.14 Private Finance Initiative (PFI) transactions

PFI transactions are accounted for in accordance with Technical note No. 1 (Revised), 'How to Account for PFI Transactions', as required by the FReM. This is available online at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).

Where the balance of risks and rewards of ownership of the PFI property is borne by the Highways Agency, the property is recognised as a fixed asset and the liability to pay for it accounted for as a finance lease. The asset and liability are both initially recorded at the fair value of the property and the asset is subsequently revalued and depreciated in accordance with accounting policies 1.4 and 1.5. The liability after inclusion of imputed finance charges, is reduced as payments for the property are made. The remainder of the PFI payment (i.e. the full contract payment, less the capital repayment and the imputed financing charges) are recorded as a service charge in the operating cost statement.

PFI assets are recognised the property comes into use.

Where the balance of risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating cost.

Where at the end of the PFI contract all or part of the property reverts to the Highways Agency for a specified value, the difference between the expected fair value of the residual asset on reversion at the start of the contract and any agreed payment on reversion is built up over the life of the contract to ensure proper allocation of payments between the cost of services under the contract and acquisition of the residual interest. Capitalisation of residual interest is disclosed within Tangible Fixed Assets under Assets under Construction.

The Highways Agency currently has twelve PFI properties in service that are recognised as being assets of the Agency. The capital value of the pre 2005-06 PFI schemes was estimated using the public sector comparator. From 2005-06, the capital value has been based upon the PFI contractor's best estimate of capital cost at the time the contract is awarded.

In respect of the M6 toll, the reversionary interest is based on the current net book value (NBV) of the M6 toll road. The NBV is projected forward then discounted back, with the balance being built up and indexed over the life of the assets until they revert back to the Highways Agency in 2054.

## 1.15 Provisions

### 1.15.1

The Highways Agency provides for legal and constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of management's best estimate of the expenditure required to settle the obligation and, where appropriate, this is supported by independent professional advice. Provisions are charged to the Operating Cost Statement unless they have been capitalised as part of additions to fixed assets.

### 1.15.2 Early Departure Costs

The Highways Agency is required to meet additional costs of benefits for employees who retire early from the date of early retirement until the age of 60, when the liability is assumed by the PCSPS. The Agency provides in full for this cost when the early retirement programme and similar schemes have been announced and the obligation becomes binding.

## 1.16 Contingent Liabilities

Where appropriate, liabilities that have only a possible chance of crystallising and do not meet the provisions criteria have been classified as contingent liabilities.

## 1.17 VAT

Most of the activities of the Highways Agency are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Input VAT on certain contracted-out services is recovered through the Department for Transport's VAT registration, under annual Treasury Direction. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

## 1.18 Estimation Techniques

Estimation techniques are the methods adopted to arrive at estimated monetary amounts for income and expenditure during the reporting period and the valuation of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. There may be several alternative estimation techniques, which could produce a range of results. The significant estimation techniques for the Highways Agency include the valuation of the trunk road network where the application of indices and standard costs generate a valuation.

## 2. Staff Numbers and Costs

Staff costs comprise:

	2007-08			2006-07
	Permanent staff £000	Others £000	Total £000	Total £000
Wages and salaries	95,889	6,249	102,138	96,902
Social Security costs	7,394	-	7,394	7,164
Other pension costs	18,750	-	18,750	17,870
<b>Total cost</b>	<b>122,033</b>	<b>6,249</b>	<b>128,282</b>	<b>121,936</b>
Capitalised staff costs	(14,578)	-	(14,578)	(14,072)
<b>Total Net Staff Costs</b>	<b>107,455</b>	<b>6,249</b>	<b>113,704</b>	<b>107,864</b>

Permanent staff are those staff with a permanent employment contract with the Highways Agency. Wages and salaries includes gross salaries, performance pay or bonuses, overtime, London weighting or London allowances, recruitment and retention allowances, private office allowances, ex-gratia payments and any other taxable allowances or payments as well as costs relating to agency, temporary and contract staff engaged by the Agency on a contract to undertake a project or task. The payment of legitimate expenses is not part of salary.

### Pension Costs

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Highways Agency is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2007-08, employers' contributions of £18,750,000 were payable to the PCSPS (2006-07 £17,870,000) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation.

From 2008-09, the salary bands will be revised but the rates will remain the same. (The rates will be changing with effect from April 2009). The contribution rates are set to meet the cost of the benefits accruing during 2007-08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £57,535 (2006-07 £47,000) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £724 (2006-07 £1,782), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

#### Retirements due to ill-health

Five persons (2006-07: 3 persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to nil, as the costs are borne by the PCSPS.

#### Average number of persons employed

The average number of full time equivalent (FTE) persons employed (including senior management) during the year was as follows:	Permanent staff	2007-08		restated
		Others	Total	2006-07 Total
<b>Staff funded from administration budgets</b>				
Staff engaged on maintenance projects	829	81	910	955
Specialist support staff - Engineering, Finance, HR, IT and Procurement	86	8	94	101
Management and administrative staff	471	46	517	528
<b>Staff funded from programme budgets</b>				
Traffic Officer staff	1,508	13	1,521	1,455
Direct support to front line delivery staff	145	15	160	115
Staff engaged on capital projects	338	13	351	353
<b>Average FTE persons employed</b>	<b>3,377</b>	<b>176</b>	<b>3,553</b>	<b>3,507</b>

The 2006-07 figures for staff funded from administrative budgets have been restated. This is due to improvements made to the Agency's business systems to recognise the link between the roles of specialists and managers to the delivery of non-capital projects.

**3. Other administration costs**

	Note	2007-08 £000	2006-07 £000
<b>Communication</b>		1,181	1,374
<b>Consultancy</b>		1,657	1,662
<b>Information technology</b>		132	259
<b>Maintenance</b>		1,561	657
<b>Professional services</b>		330	81
<b>Recruitment and training</b>		3,020	3,072
<b>Rent, rates and building costs</b>		4,757	5,144
<b>Stationery, postage and printing</b>		989	1,032
<b>Travel and subsistence</b>		3,675	3,924
<b>Other administration costs</b>			
Provision for doubtful debt		3	24
Other costs		1,935	1,176
		<b>19,240</b>	<b>18,405</b>
<b>Rentals under operating leases:</b>			
Hire of plant and machinery		265	175
Other operating leases		7,563	7,404
		<b>7,828</b>	<b>7,579</b>
<b>Non-cash items:</b>			
Depreciation			
tangible fixed assets	6	2,894	3,841
Amortisation			
intangible fixed assets	7	929	1,016
Impairment of non roads fixed assets	6	-	370
Write down of Information Technology assets	6	-	2,203
Cost of capital charge		709	925
Notional costs			
Auditors' remuneration and expenses		300	300
Payroll and superannuation services		260	260
Provisions:			
Provided in the year	12	2,867	1,973
Total: non-cash items		<u>7,959</u>	<u>10,888</u>
		<b>35,027</b>	<b>36,872</b>

*Payroll and superannuation services are provided by the Department for Transport.*

**4. Other programme costs**

	Note	2007-08 £000	restated 2006-07 £000
<b>Research and development expenditure</b>		13,792	12,580
<b>Capital maintenance</b>		488,572	502,572
<b>Current maintenance</b>		534,714	482,020
<b>Interest on PFI finance leases</b>		74,885	73,029
<b>PFI service charges</b>		160,528	158,261
<b>Other programme costs</b>			
Provision for doubtful debt		492	(1,634)
Provision for slow moving stock		1,042	(3,400)
Other		53,515	36,390
		<b>1,327,540</b>	<b>1,259,818</b>

**Non-cash items:**

Depreciation:			
tangible owned fixed assets	6	286,428	212,254
tangible fixed assets held under PFI leases	6	22,498	35,111
Impairment of non network fixed assets	6	1,123	10,330
Write down in value of network assets	6	684,213	596,098
Cost of capital charge		2,833,422	2,697,943
Notional costs			
Legal services		270	462
Payroll and superannuation services		224	224
Loss on sale of programme assets		1,541	791
Provisions:			
provided in the year	12	123,872	206,451
Total: non-cash items		3,953,591	3,759,664
		<b>5,281,131</b>	<b>5,019,482</b>

For comparative purposes, the 2006-07 capital maintenance figure has been reduced by £2,044,000 being spend relating to roads detrunked and trunked in the current year, and treated as a de-merger in accordance with accounting policy 1.3. This adjustment is also reflected in the Cash Flow Statement.

## 5. Operating income

Operating income principally arises from:

- fees and charges for work carried out on a full-cost basis to external customers in both the public and private sectors;
- rental income from offices where the Agency is the main occupier and surplus accommodation is let to other organisations;
- rental income from properties acquired for road schemes which have yet to be disposed of;
- recoveries from third parties in respect of claims for damage to the motorways and trunk roads;
- interest receivable, including interest on the Severn Bridge subordinated loan (see note 9);
- grants and contributions from the European Union; and
- other income includes contributions on schemes.

Operating income analysed by classification and activity is as follows:	£000	2007-08 £000	£000	2006-07 £000
	Appropriated in aid	Not Appropriated in aid	Total	Total
<b>Administration income</b>				
Fees and charges to external customers	933	-	933	836
Cost recoveries/rental income from surplus accommodation	986	-	986	2,094
Other income	241	191	432	346
	<b>2,160</b>	<b>191</b>	<b>2,351</b>	<b>3,276</b>
<b>Programme income</b>				
Fees and charges to external customers	17,285	-	17,285	24,741
Rental income from properties	3,622	-	3,622	3,160
Claims for damage to Network	12,992	-	12,992	12,717
Interest receivable	-	7,011	7,011	10,901
European Union income	-	1,014	1,014	4,196
Recovery of costs incurred on M6 toll scheme	13,568	502	14,070	10,276
Other	18,976	1,262	20,238	5,456
Profit on sale of fixed assets	1,139	-	1,139	-
Recoveries in excess of budgeted AinA	(8,408)	8,408	-	-
	<b>59,174</b>	<b>18,197</b>	<b>77,371</b>	<b>71,447</b>

Under the Department's Request for Resources 1 subhead E certain income is available for offset against costs of the Highways Agency in determining its Net Resource Outturn. This income is known as Appropriations in Aid (AinA).

Other income, not available for offset against the costs of the Agency, is known as Not Appropriated in Aid.

Recoveries in excess of AinA for the Agency may be netted against AinA shortfalls elsewhere within the Department's consolidation boundary.

### Disclosure under the HM Treasury Fees and Charges Guide\*

Fees and Charges provided to external and public sector customers can be analysed as follows:

	2007-08			2006-07		
	Income £000	Full Cost £000	Surplus/ (deficit) £000	Income £000	Full Cost £000	Surplus/ (deficit) £000
Fees and charges to external customers	18,218	18,218	-	25,577	25,577	-
Cost recoveries/rental income						
- administration	986	986	-	2,094	2,094	-
Rental income from programme properties	3,622	4,066	(444)	3,160	940	2,220
Claims for damage to Network	12,993	13,676	(683)	12,717	13,030	(313)
Interest receivable, of which:						
Severn River Crossing Plc loan	6,917	-	6,917	6,547	-	6,547
Midland Expressway Ltd debtor	502	-	502	4,277	-	4,277
European Union income	1,014	-	1,014	4,196	-	4,196
Retail price index increase on						
Midland Expressway Ltd (MEL) debt	3,071	-	3,071	2,317	-	2,317
Recovery of other costs from MEL	8,147	8,147	-	7,959	7,959	-
Recovery of Safety Camera scheme costs	1,877	1,877	-	1,429	1,429	-
Recovery of costs incurred on other schemes	16,127	16,127	-	1,957	1,957	-
Profit/loss on sale of fixed assets	1,139	-	1,139			
Other income	5,109	297	4,812	2,493	257	2,236
	<b>79,722</b>	<b>63,394</b>	<b>16,328</b>	<b>74,723</b>	<b>53,243</b>	<b>21,480</b>

The financial objective for each of these services is full recovery of the service costs in accordance with the HM Treasury Fees and Charges Guide.

\* The purpose of the above table is to comply with the disclosure requirements of the HM Treasury Fees and Charges Guide, and is not for SSAP 25 Segmental Reporting purposes.

## 6. Tangible Fixed Assets

	Infrastructure Assets £000	Assets under construction £000	Land & Buildings excluding Dwellings £000	Dwellings £000	Plant & Machinery £000	Information Technology £000	Total £000
<b>At Replacement Cost or Valuation</b>							
At 1 April 2007 restated	92,157,534	397,937	282,139	59,452	105,567	101,643	93,104,272
Adjustment to opening position	240,506	14,955	(6,411)	(18,000)	-	-	231,050
Capital additions	-	1,054,083	436	3,508	664	2,456	1,061,147
AuC Valuation adjustments	-	(684,213)	-	-	-	-	(684,213)
Disposals	-	-	(1,967)	(3,604)	(576)	(4,612)	(10,759)
Revaluation	4,027,033	-	19,566	7,883	1,066	-	4,055,548
Impairments	-	-	(164)	(60)	(60)	(1,325)	(1,609)
Transfers	256,180	(276,955)	1	-	1,793	18,943	(38)
Reclassifications	-	-	(512)	512	(1,436)	1,436	-
<b>Balance at 31 March 2008</b>	<b>96,681,253</b>	<b>505,807</b>	<b>293,088</b>	<b>49,691</b>	<b>107,018</b>	<b>118,541</b>	<b>97,755,398</b>
<b>Accumulated Depreciation</b>							
At 1 April 2007 restated	11,357,593	-	17,441	-	78,837	58,964	11,512,835
Adjustment to opening position	(4,530)	-	-	-	-	-	(4,530)
Charge for the year	281,466	-	4,084	-	4,391	21,879	311,820
Impairment	-	-	-	-	(41)	(446)	(487)
Disposals	-	-	-	-	(484)	(3,570)	(4,054)
Revaluation	445,886	-	1,105	-	512	-	447,503
Reclassifications	-	-	-	-	(830)	830	-
<b>Balance at 31 March 2008</b>	<b>12,080,415</b>	<b>-</b>	<b>22,630</b>	<b>-</b>	<b>82,385</b>	<b>77,657</b>	<b>12,263,087</b>
<b>Net Book Value</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance at 31 March 2008</b>	<b>84,600,838</b>	<b>505,807</b>	<b>270,458</b>	<b>49,691</b>	<b>24,633</b>	<b>40,884</b>	<b>85,492,310</b>
Balance at 31 March 2007 restated	80,799,941	397,937	264,698	59,452	26,730	42,679	81,591,436
<b>Asset financing</b>							
Owned	82,602,726	386,914	268,244	49,691	24,633	18,875	83,351,083
On-balance sheet PFI contracts	1,998,112	-	2,214	-	-	22,009	2,022,335
M6 reversionary interest	-	118,893	-	-	-	-	118,893
<b>Net book value at 31 March 2008</b>	<b>84,600,838</b>	<b>505,807</b>	<b>270,458</b>	<b>49,691</b>	<b>24,633</b>	<b>40,884</b>	<b>85,492,310</b>

## Infrastructure Assets

The opening position has been restated

to reflect amendments to records held on the Highways Agency's road asset databases.

These adjustments are routine rather than related to changes in accounting policy or from a correction to a fundamental error in the prior year and are as follows:

- Dimensional variances – an adjustment of £292,317,000 reflecting better information on the dimensions of individual bridges and other structures; and
- Valuation adjustments of (£47,281,000) arising from a number of schemes capitalised in prior year.

## Assets under Construction

The balance as at 1 April 2007 has been adjusted to include:- £7,240,000 of reversionary interest for the M6 toll road, and £7,715,000 of transfers in from lands and dwellings where the assets had been reported as surplus in previous years - see below.

## Non network assets

The balance as at 1 April 2007 has been adjusted by £24,411,000. This relates to land and dwellings that were acquired in previous years' as part of a road scheme but were deemed surplus. During the year, the properties were reclassified as non-surplus and therefore should be regarded as assets under construction.

### Analysis of Land and buildings, excluding dwellings is as follows:

	2007-08 £000	2006 -07 £000
Freehold buildings (93.5%)	257,746	252,256
Long leasehold buildings (50+ years)	-	-
Short leasehold buildings (less than 50 years)	12,712	12,442
<b>Total</b>	<b>270,458</b>	<b>264,698</b>

## 7. Intangible Fixed Assets

	<b>Software Computer licences £000</b>
At Replacement Cost or Valuation	
Balance at 1 April 2007	6,340
Capital additions	14
Disposals (licence expiries)	-
Transfers & reclassifications	38
<b>Balance at 31 March 2008</b>	<b>6,392</b>
Accumulated amortisation	
Balance at 1 April 2007	3,727
Charge for the year	929
Disposals (licence expiries)	-
<b>Balance at 31 March 2008</b>	<b>4,656</b>
<b>Net Book Value</b>	<b>£000</b>
<b>Balance at 31 March 2008</b>	<b>1,736</b>
Balance at 31 March 2007	2,613

Software Computer Licenses provide rights to use software developed by third parties.

## 8. Stocks

	<b>31 March 2008 £000</b>	<b>31 March 2007 £000</b>
Communications/electrical equipment	15,197	19,448
DART Tags - a facility for regular users of the Dartford-Thurrock Crossing	3,458	3,067
Highway damage repair items - barriers and parts for repair of bridges, tunnels and special structures	1,853	1,834
Salt	621	654
Uniforms for Traffic Officers working on the trunk road network	477	299
<b>Total</b>	<b>21,606</b>	<b>25,302</b>

## 9. Debtors

### 9. (a) Analysis by type

	31st March 2008 £000	31st March 2007 £000
<b>Amounts falling due after more than one year:</b>		
<b>Other debtors, of which:</b>		
Severn River Crossing Plc subordinated loan	92,215	88,814
Severn River Crossing Plc deferred interest	30,499	23,582
Midland Expressway Limited M6 concession	100,940	86,379
Staff relocation housing loans	71	90
	<b>223,725</b>	<b>198,865</b>
	31st March 2008 £000	31st March 2007 £000
<b>Amounts falling due within one year:</b>		
Trade debtors	5,976	6,329
Deposits and advances	8,495	9,263
VAT	84,478	69,950
Other debtors	1,878	4,522
Prepayments and accrued income	5,850	3,787
Amounts due from Consolidated Fund in respect of supply	73,636	10,798
	<b>180,313</b>	<b>104,649</b>

A £60 million subordinated loan was granted to Severn River Crossing Plc (SRC) on 26 April 1992 as part of the consideration for a concession agreement granted by the Secretary of State for the operation and maintenance of the existing Severn River crossing and the design, construction, operation and maintenance of a second crossing.

The loan is indexed by reference to the Retail Price Index and carries an interest rate of 6% per annum. It is repayable at the end of the concession period, which is the earlier of 2022 and SRC achieving a pre-determined cumulative revenue target from tolls. It is predicted the concession period will end in early 2016.

Under a re-financing agreement in 2002-03 interest on the subordinated loan is deferred and is repayable at the end of the concession period.

Midland Expressway Ltd (MEL) entered into a contract with the Highways Agency on 28 February 1992 to build and maintain the M6 toll road. The debtor balance represents costs incurred by the Agency in their capacity as agents for land acquisition and compensation payments. These costs will be reimbursed to the Agency six years following the road open to traffic, which was achieved in December 2003.

Eight members of staff have relocation housing loans (2006-07: 20).

Deposits and advances includes £1,508,000 (2006-07 £3,037,000) of advances made to utility companies under the New Road and Street Works Act (NRSWA) 1991 and £6,842,000 (2006-07 £6,087,000) of road scheme related prepayments.

**9. (b) Intra-Government Balances**

	Amounts falling due within one year		Amounts falling after more than one year	
	31st March 2008 £000	31st March 2007 £000	31st March 2008 £000	31st March 2007 £000
<b>Balances with:</b>				
Other central government bodies	158,674	81,556	-	-
Local authorities	2,238	2,072	-	-
NHS bodies	-	88	-	-
Public corporations and trading funds	-	9,162	-	-
Intra - government balances	160,912	92,878	-	-
<b>Balances with bodies external to government</b>	19,401	11,771	223,725	198,865
<b>Total Debtors</b>	<b>180,313</b>	<b>104,649</b>	<b>223,725</b>	<b>198,865</b>

**10. Cash at bank**

	31st March 2008 £000	31st March 2007 £000
Balance at 1 April 2007	333	1,551
Net cash (outflow)/inflow	(59,183)	(1,218)
<b>Balance at 31 March 2008</b>	<b>(58,850)</b>	<b>333</b>

The following balances at 31 March are held at:

Office of HM Paymaster General	(58,859)	329
Commercial banks and cash in hand	9	4
	(58,850)	333

## 11. Creditors

### 11. (a) Analysis by type

	31st March 2008 £000	31st March 2007 £000
<b>Amounts falling due within one year:</b>		
Other taxation and social security	11	22
Trade creditors	21,843	51,132
Accruals and deferred income	467,017	491,142
Amounts payable under PFI contracts	49,167	42,710
Consolidated fund extra receipts due to be paid to the Consolidated Fund		
received	8,523	4,868
receivable	455	564
Amounts due to DfT in respect of Dartford River Crossing road user charges	6,908	6,042
Other creditors	288	2,464
	<b>554,212</b>	<b>598,944</b>

	31st March 2008 £000	31st March 2007 £000
<b>Amounts falling after more than one year:</b>		
Amounts payable under PFI contracts	1,159,830	1,165,568
Accruals and deferred income	5,401	7,744
Consolidated fund extra receipts due to be paid to the Consolidated Fund in respect of:		
Severn River Crossing plc subordinated loan	92,215	88,814
Severn River Crossing plc subordinated loan interest	30,499	23,582
Midland Expressway Ltd concession	37,211	36,709
Other Creditors		
Payable in respect of the Midland Expressway Ltd concession	6,780	6,535
	<b>1,331,936</b>	<b>1,328,952</b>

**Accruals and deferred income comprise:**

	<b>31 March 2008 £'000</b>	<b>31 March 2007 £'000</b>
Amounts payable relating to road schemes	415,660	370,404
Lands related costs accruals	-	78,256
PFI shadow tolls	23,437	24,803
Administration accruals	5,466	4,976
Other	22,454	12,703
	<b>467,017</b>	<b>491,142</b>

The Severn River Crossing Plc (SRC) subordinated loan relates to the £60 million index-linked loan advanced on 26 April 1992 (Note 9). The loan carries an interest rate of 6% per annum and is indexed by reference to the Retail Price Index. The indexed loan and deferred interest is repayable by SRC at the end of the concession period, currently estimated to be 2016. Upon repayment by SRC, the monies are payable to HM Treasury Consolidated Fund.

The Midland Expressway Ltd (MEL) creditor relates to the recovery of costs from MEL (Note 9) which, upon repayment is payable to HM Treasury Consolidated Fund. Costs will be reimbursed to the Highways Agency in 2009.

During 2007-08 a review of land and property acquisition liabilities was undertaken. Liabilities previously classified as accruals have been reassessed as provisions owing to the uncertainty of the timing and amounts due.

**11. (b) Intra-Government Balances**

	<b>Amounts falling due within one year</b>		<b>Amounts falling due after more than one year</b>	
	<b>31st March 2008 £000</b>	<b>31st March 2007 £000</b>	<b>31st March 2008 £000</b>	<b>31st March 2007 £000</b>
<b>Balances with:</b>				
Other central government bodies	9,515	6,294	159,925	149,105
Local authorities	385	1,126	-	-
Public corporations and trading funds		497	-	-
Intra - government balances	<u>9,900</u>	<u>7,917</u>	<u>159,925</u>	<u>149,105</u>
<b>Balances with bodies external to government</b>	544,312	591,027	1,172,011	1,179,847
<b>Total Creditors</b>	<b>554,212</b>	<b>598,944</b>	<b>1,331,936</b>	<b>1,328,952</b>

## 12. Provisions for Liabilities and Charges

	Land and property acquisition £000	Engineering and construction services £000	Bridge strengthening £000	Tunnels £000	Early retirement £000	Migration, pension & other liabilities £000	Total £000
Balance at 1 April 2007	216,691	68,642	142,729	138,087	1,901	14,239	582,289
Provided in the year	64,983	49,630	1,621	123,600	1,100	5,782	246,716
Provisions not required written back	(24,774)	(15,238)	(8,953)	-	(7)	(7,165)	(56,137)
Provisions utilised in the year	(92,392)	(44,363)	(9,500)	(20,203)	(743)	(2,368)	(169,569)
Reclassifications	78,256	-	-	-	-	-	78,256
Balance at 31 March 2008	242,764	58,671	125,897	241,484	2,251	10,488	681,555

### Land and Property Acquisition

Land and property acquisition provisions relate principally to the estimated cost of planning blight, discretionary and compulsory acquisition of property and compensation for property owners arising from physical construction of a road scheme. It may take several years from the announcement of a scheme to completion of the road and final settlement of all liabilities; it is expected that these costs will be incurred in the period up to 2016.

### Engineering and Construction Services

The provision for engineering and construction services is required to meet the estimated cost of work to meet generally accepted highways' standards after a road has been opened for traffic and disputed contractual claims. It represents costs that may be incurred within the next 3 years.

### Bridge Strengthening

The provision is required to strengthen bridges and other structures to comply with legal minimum requirements, as established by European Community legislation and authoritative statements by Ministers in Parliament. It is expected that these costs will be incurred in the period up to 2011.

### Tunnels

The Secretary of State is required to bring long tunnels on the Trans-European Roads Network up to new safety standards. The tunnels related works are scheduled to be completed before the deadline of 2014 set in the Directive.

## Migration, Pensions and Other Liabilities

The provision for migration relates to the estimated cost of transferring certain Highways Agency functions from London to the regions and offices in Hemel Hempstead to the offices in Birmingham. It represents costs that may be incurred within the next 5 years.

Other liabilities include those to third parties who have suffered damage or injury as a result of the road network being damaged and are entitled to submit a claim to the Highways Agency for compensation. A provision has been made which estimates the number and value of the claims received as at 31 March 2008 that will actually be settled. It is expected that the majority of these costs may be incurred within the next 5 years.

These can impact on both the Capital Expenditure and Operating Cost Statement.

### In year increases and decreases in provisions

Capital Expenditure provisions increased by £63,840,000 (2006-07 £83,871,000) during the year. The following provisions were charged to the Operating Cost Statement:

	<b>31st March 2008 £000</b>	<b>31st March 2007 £000</b>
<b>Programme:</b>		
Land and property acquisition	5,020	(1,360)
Engineering and construction services	5,594	(14,673)
Bridge strengthening	(7,332)	83,957
Tunnels	123,600	138,087
Pensions and other liabilities	(3,010)	440
	<b>123,872</b>	<b>206,451</b>
<b>Administration:</b>		
Early retirement	1,093	468
Other	1,774	1,505
	<b>126,739</b>	<b>208,424</b>

### 13. General Fund

The General Fund represents the total assets of the Highways Agency less liabilities, to the extent that the total is not represented by other reserves and financing items.

	2007-08 £000	2006-07 £000
<b>Balance at 1 April 2007</b>	39,460,241	39,951,861
<b>Prior period adjustment:</b>		
Detrunckings	(480,895)	(436,518)
Trunkings	-	-
<b>Adjusted opening balance</b>	<b>38,979,346</b>	<b>39,515,343</b>
<b>Net Parliamentary funding</b>	2,498,202	2,300,284
Amounts due (to)/ from Consolidated Fund in respect of supply	73,636	10,798
<b>Net operating cost for the year</b>	(5,350,140)	(5,091,539)
Consolidated Fund extra receipts payable to the Consolidated Fund	(18,389)	(32,006)
Non cash charges:		
Auditors remuneration	300	300
Legal services	270	462
Payroll and superannuation services	484	484
Cost of capital charge	2,834,131	2,698,868
	<b>2,835,185</b>	<b>2,700,114</b>
In year adjustments relating to prior year transactions:		
Write back excess AinA not recognised on consolidation	-	2,225
Reversionary interest on M6 toll road	7,240	12,366
Adjustments to network fixed assets	155,917	(35,497)
In year spend on detrunked and trunked roads	(1,994)	(2,067)
	161,163	(22,973)
Realised element of revaluation reserve (note 14)	99,529	80,220
<b>Balance at 31 March 2008</b>	<b>39,278,532</b>	<b>39,460,241</b>

## 14. Revaluation Reserve

The Revaluation Reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

	2007-08 £000	2006-07 £000
<b>Balance at 1 April 2007</b>	40,708,540	35,284,654
Prior period adjustment:		
Detrunckings	(274,873)	(249,507)
Trunkings	-	-
<b>Adjusted opening balance</b>	<b>40,433,667</b>	<b>35,035,147</b>
Net gain/(loss) on revaluation	3,608,045	5,773,902
In year adjustments relating to prior year transactions		
Adjustments to network fixed assets	89,120	(20,289)
Adjustments to non-network fixed assets	(16,697)	-
Realised element of revaluation reserve (note 13)	(99,529)	(80,220)
<b>Balance at 31 March 2008</b>	<b>44,014,606</b>	<b>40,708,540</b>

## 15. Transfer of functions to/from Local Authorities

In furtherance of government's policy announced in the 1998 White Paper to transfer responsibility for non-core network routes to local authorities, the Highways Agency negotiated and transferred the following assets:

Detruncked section of the road:	Local authority	Date of transfer	Asset value £000
<b>Major detruncking programme</b>			
<b>A435</b> M42 J3, junction with A46 at Alcester	Warwickshire	28-Jan-08	82,361
<b>A446</b> M6 J4, junction with A435 / A38	Warwickshire	28-Jan-08	66,869
<b>A449</b> Dudley Boundary. Kingfisher roundabout	Staffordshire	01-Oct-07	228,559
<b>A5195</b> Junction with A5 Bassets Pole	Staffordshire	01-Nov-07	4,978
<b>A590</b> Barrow, Hollywood Park Roundabout	Cumbria	01-Jul-07	22,068
<b>A529</b> Hardings Roundabout	North Yorkshire	01-Oct-07	111,548
<b>A650</b> Airville Road, Bradford Boundary	City of Bradford Met District Ccl	01-Oct-07	135,887
<b>Programme of major schemes</b>			
<b>A30</b> Bodmin to Indian Queens	Cornwall	01-Jun-07	28,831
<b>A428</b> Caxton Common to Hardwick	Cambridgeshire	01-May-07	31,279
<b>A66</b> Temple Sowerby bypass	Cumbria	01-Dec-07	43,388
			<b>755,768</b>

In the instance of the programme of major schemes, a new section of road has been built to improve the road network. The old section has then been detruncked to the relevant local authority.

**Trunked section of road**

**NIL**

**16. Notes to the Cashflow**

	Note	2007-08 £000	restated 2006-07 £000
<b>16. (a) Reconciliation of Operating Cost to Operating Cash Flows</b>			
Net operating cost		(5,350,140)	(5,089,495)
Adjustment for non-cash transactions	3/4	3,960,411	3,770,552
(Increase)/decrease in stock	8	3,696	(1,629)
(Increase)/decrease in debtors	9	(100,525)	(41,824)
less movement in debtors relating to items not passing through the OCS		62,837	6,082
(Decrease)/increase in creditors	11	(41,748)	283,507
less movement in creditors relating to items not passing through the OCS		113,772	(77,638)
Use of provisions	12	(169,569)	(77,803)
<b>Net Cash Outflow from Operating Activities</b>		<b>(1,521,266)</b>	<b>(1,228,248)</b>
<b>16. (b) Analysis of Capital Expenditure and Financial Investment</b>			
Tangible fixed asset additions - investment in the network	6	(990,243)	(1,033,819)
Tangible fixed asset additions - investment in non network assets	6	(7,064)	(7,588)
Intangible fixed asset additions	7	(14)	(9)
Proceeds of disposal of fixed assets		6,302	9,129
<b>Net Cash Outflow from Investing Activities</b>		<b>(991,019)</b>	<b>(1,032,287)</b>
<b>16. (c) Analysis of Financing</b>			
From the Consolidated Fund (Supply) - current year		2,498,202	2,300,284
From the Consolidated Fund (Supply) - prior year		10,798	4,716
Less detrunking spend		(1,994)	(4,111)
Capital element of payments in respect of on balance sheet PFI contracts		(46,481)	(38,313)
<b>Net Financing</b>		<b>2,460,525</b>	<b>2,262,576</b>
<b>16. (d) Reconciliation of Net Cash Requirement to Decrease in Cash</b>			
Net cash requirement		(2,571,838)	(2,311,083)
From Consolidated Fund (Supply) - current year		2,498,202	2,300,284
From Consolidated Fund (Supply) - prior year		10,798	4,716
Amounts due to the Consolidated Fund received and not paid over		8,523	4,868
Amounts due to the Consolidated Fund - received in a prior year and paid over		(4,868)	(3)
Amounts from the Consolidated Fund unspent		-	-
<b>Decrease in Cash</b>	<b>10</b>	<b>(59,183)</b>	<b>(1,218)</b>

## 17. Capital commitments

These relate to the Highways Agency's commitment to make future capital payments on major road network and IT schemes, where the main works contract has been awarded, to the extent that this commitment has not been provided for in the accounts.

	<b>31st March 2008 £000</b>	<b>31st March 2007 £000</b>
Contracted capital commitments for which no provision has been made	733,769	723,518

## 18. Commitments under operating leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	<b>31st March 2008</b>		<b>31st March 2007</b>	
	<b>Land &amp; Buildings £000</b>	<b>Other £000</b>	<b>Land &amp; Buildings £000</b>	<b>Other £000</b>
Expiry within one year	982	733	323	643
Expiry after one year but not more than five years	387	2,924	1,279	373
Expiry thereafter	6,752	-	6,840	-
	<b>8,121</b>	<b>3,657</b>	<b>8,442</b>	<b>1,016</b>

## 19. Commitments under Private Finance Initiative

The Highways Agency has entered into the following on balance sheet PFI contracts for the design, build, finance and operation of sections of the network:

- M1-A1 Yorkshire link
- A1(M) Alconbury to Peterborough
- A419/A417 Swindon to Gloucester
- A50/A564 Stoke - Derby link
- M40 Junctions 1-15
- A19 Dishforth to Tyne Tunnel
- A30/A35 Exeter to Bere Regis
- A69 Carlisle to Newcastle
- A1(M) Darrington to Dishforth
- A249 Iwade to Queenborough
- - National Traffic Control Centre
- - National Roads Telecommunications Services

The substance of the PFI contract is that the Highways Agency has a finance lease, with the asset being recognised as a fixed asset of the Agency. Payments under PFI contracts comprise two elements – imputed finance lease charges and services charges.

Imputed finance lease obligations under on balance sheet PFI contracts comprise:

	<b>31st March 2008 £000</b>	<b>31st March 2007 £000</b>
Rentals due within one year	121,246	115,080
Rentals due after two but no more than five years	456,540	448,733
Rentals due thereafter	1,552,885	1,552,257
	<b>2,130,671</b>	<b>2,116,070</b>
Less interest element	(921,674)	(907,792)
	<b>1,208,997</b>	<b>1,208,278</b>

### Charge to the Operating Cost Statement and Future Commitments

The total amount charged in the Operating Cost Statement in respect of the service element of on balance sheet PFI transactions was £160,258,000 (2006-07 £158,261,000).

Service element payments to which the Highways Agency is committed during the year following the year of these accounts are given in the table below, analysed according to the period in which the commitment expires.

	<b>31st March 2008 £000</b>	<b>31st March 2007 £000</b>
Obligations under the service element of PFI contracts comprise:		
Expiry within one year	-	-
Expiry within two to five years	20,706	17,313
Expiry within six to ten years	52,428	37,364
Expiry within eleven to fifteen years	-	-
Expiry within sixteen to twenty years	127,586	155,772
Expiry within twenty one to twenty five years	-	42,419
Expiry within twenty six to thirty years	10,190	12,882
Expiry within thirty one to thirty five years	-	-
	<b>210,910</b>	<b>223,331</b>

## 20. Financial instruments

FRS 13 “Derivatives and Other Financial Instruments” requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Due to the largely non-trading nature of its activities and the way in which government departments and agencies are financed, the Highways Agency is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk that would be typical of the listed companies to which FRS 13 mainly applies. The Agency has limited powers to borrow or invest surplus funds and, except for relatively insignificant forward purchases of foreign currency, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Agency in undertaking its activities.

### Liquidity Risk

The Highways Agency’s net revenue resource requirements are mainly financed by resources voted annually by Parliament to the Department for Transport.

The Agency is not therefore exposed to significant liquidity risks.

### Interest Rate Risk

All of the Agency’s financial assets and its financial liabilities carry nil or fixed rates of interest and the Agency is not therefore exposed to significant interest rate risk.

### Exchange Rate Risk

The Agency undertook a small number of foreign currency transactions only to cover overseas travel and conference costs and is not exposed to significant exchange rate risk.

### Fair Values

Set out below is a comparison in book values and fair values of the Agency’s financial obligations in respect of its PFI contracts.

#### Basis of Fair Valuation

	31st March 2008		31st March 2007	
	Book value £000	Fair value £000	Book value £000	Fair value £000
<b>Financial Liabilities:</b>				
Finance lease obligations including on-balance sheet PFI imputed finance lease obligations	1,208,997	662,630	1,208,278	628,724
	<b>1,208,997</b>	<b>662,630</b>	<b>1,208,278</b>	<b>628,724</b>

The fair value has been calculated using the net present value (NPV) of future capital payments, discounted at the rate implied in the individual contracts.

**21. Contingent Liabilities and Assets disclosed under FRS 12**

<b>21 (a) Contingent Liabilities</b>	<b>31st March 2008 £000</b>	<b>31st March 2007 £000</b>
Land & property acquisition	390,744	463,598
Tunnels	-	123,600
Engineering & construction services	8,447	4,627
Other	8,366	14,597
<b>Gross balance</b>	<b>407,557</b>	<b>606,422</b>

**Land and Property Acquisition**

Contingent liabilities from land and property acquisition arise from the following sources:

**Acquisition and Blight**

The construction of any major road construction scheme invariably requires the acquisition of property. The Acquisition and Land Act 1973 gives the Secretary of State the power to make compulsory purchases. Possible purchases for schemes in the Secretary of State's major projects programme are included as contingent liabilities until the point when Compulsory Purchase Orders are made and a reliable estimate is available.

In addition, road schemes, when announced, can adversely impact surrounding property values and The Town and Country Planning Act 1990 provides for individuals to claim compensation for the blight of their properties. Possible blight costs for schemes in the major projects programme are included as contingent liabilities until the point when Blight Notices are issued and a reliable estimate is available.

**Compensation for Loss After Construction**

Home owners can apply for compensation for lost value ('injurious affection') under Part 1 of The Acquisition and Land Act 1973, where property, which was not acquired for a road scheme, has lost value because of physical factors, including noise, light, dirt, smell and vibration, associated with the new or improved roads.

Claims become inevitable once the construction phase is started and the Highways Agency accounts for the constructive obligation as a provision. A legal obligation crystallises one year after the road has opened for traffic when homeowners are entitled to lodge claims that are normally settled in less than a year. Such obligations are treated as contingent liabilities until the start of construction work.

**Claims in Dispute**

As at the balance sheet date, the Highways Agency is involved in a number of property cases that have been referred to the Lands Tribunal for resolution or are otherwise in dispute. The Agency has provided for, in its accounts, management's best estimate of the outcome of these cases although this may be exceeded by the actual outcome.

**Engineering and Construction Services**

The Highways Agency is involved in a number of arbitration cases in respect of contractual claims for engineering and construction services and has provided for the best estimates of the outcome of these cases, although this may be exceeded by the actual outcome.

**Tunnels**

The contingent liability reported as at 31 March 2007 has been recognised as a provision in 2007-08 – refer Note 12.

## Other Contingent Liabilities

Other claims relate to management estimates for damages to the road network for which no claim has been received at the year-end and are based on prior years' experience.

### 21 (b) Contingent Assets

The Highways Agency seeks to dispose of property surplus to requirement promptly at the best price reasonably obtainable in the market. Sometimes there is uncertainty over potential use of the property and planning permissions, and in these cases the Agency may decide to sell the property at the underlying land value.

In these circumstances, the Agency will incorporate a "clawback" clause into the terms of the sale, under which it is able to reclaim a percentage of any increase in value arising from a grant of planning permission, for a given term after the sale has been agreed.

As it is not known for some years after the initial disposal whether any further income will arise the Agency has a contingent asset relating to future values. In 2007-08 amounts totalling £671,000 (2006-07 £176,000) were received under these arrangements.

## 22. Related Party Transactions

As stated on page 64 the Highways Agency is an Executive Agency of the Department for Transport. The Department is regarded as a controlling related party. During the year the Agency had a significant number of transactions with the Department. In addition the Agency had transactions with other government departments and agencies, principally Treasury Solicitors, The Department for Communities and Local Government, the Central Office of Information, the Valuation Office Agency, the National Assembly for Wales and a number of local authorities.

In addition the Highways Agency had transactions with QinetiQ, a public limited company in which the Ministry of Defence holds shares and Yorkshire Forward, an organisation sponsored by Department for Business, Enterprise & Regulatory Reform.

Any interest in third party transactions of Board members is disclosed on page 68.

All other interests declared by members of the Highways Agency Board and other Agency senior management are of a minor and insignificant nature and would have no influence in the awarding of contracts or commissions.

## 23. 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 £250,000 in total and those that, individually, exceed £250,000. In 2007-08 there are no cases in excess of £250,000.

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.

The amounts involved are as follows:

	<b>31st March 2008 £000</b>	<b>31st March 2007 £000</b>
Losses:		
Bookkeeping/cash losses: 16 cases (2006-07 158 cases)	74	2,765
Fruitless payments: 5 cases (2006-07 6 cases)	9	7
Claims abandoned/store losses: 3,586 cases (2006-07 3,375 cases)*	11,155	8,530
Special Payments:		
Ex-gratia compensation: 5 cases (2006-07 1 case)	43	40

\* Includes 3,551 cases valued at £10,767,000 (2006-07 3,172 cases valued at £6,879,000) for damages to the road network where the culprit could not be identified, or otherwise pursued for costs.

## 24. Third Party Assets

The Highways Agency, under Section 278 of the Highways Act 1980, receives payment in advance of works. These are paid into interest bearing Escrow Accounts at Lloyds TSB Bank. Monies are drawn down from the Escrow accounts by the Highways Agency as work progresses.

The Highways Agency is acting as a co-ordinator for a new Coordination Action under the EU Sixth Framework Programme. It holds a Euro Lloyds TSB bank account where funding from the EU is deposited and subsequently distributed to eleven partners across Europe. Over the three year duration of the project total funding provided by Brussels will be up to 2.5 million euros. A small portion of the funding will be to reimburse costs incurred by the Agency in this collaboration action.

These are not Highways Agency assets and therefore are not included in the accounts.

The amounts held are set out in the table below:

	<b>31st March 2008</b>	<b>31st March 2007</b>
	<b>£000</b>	<b>£000</b>
Lloyds TSB Escrow Bank Accounts	14,446	19,057
Lloyds TSB Euro Bank Account	275	586
	<b>14,721</b>	<b>19,643</b>

## 25. Post Balance Sheet Events

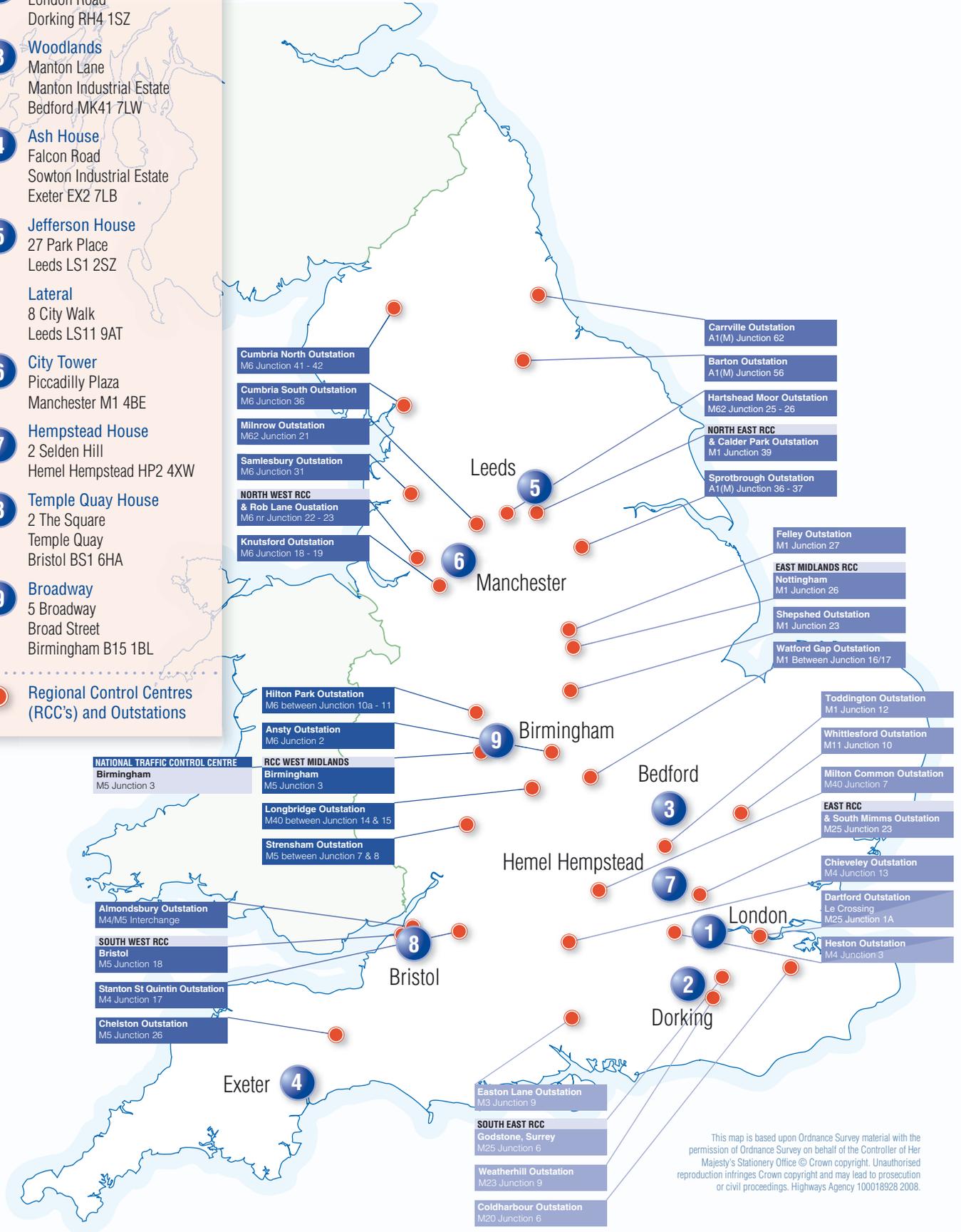
There have been no significant events between the balance sheet date and the date of these Financial Statements. These Financial Statements are laid before the Houses of Parliament by the Secretary of State of the Department for Transport. Financial Reporting Standard (FRS) 21 requires the Highways Agency to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by the Highways Agency's management to the Secretary of State of the Department for Transport. The authorised date for issue is 7 July 2008.

**HIGHWAYS AGENCY OFFICES**

- 1** Corporate Centre  
5<sup>th</sup> Floor  
123 Buckingham Palace Road  
London SW1W 9HA
- 2** Federated House  
London Road  
Dorking RH4 1SZ
- 3** Woodlands  
Manton Lane  
Manton Industrial Estate  
Bedford MK41 7LW
- 4** Ash House  
Falcon Road  
Sowton Industrial Estate  
Exeter EX2 7LB
- 5** Jefferson House  
27 Park Place  
Leeds LS1 2SZ
- Lateral**  
8 City Walk  
Leeds LS11 9AT
- 6** City Tower  
Piccadilly Plaza  
Manchester M1 4BE
- 7** Hempstead House  
2 Selden Hill  
Hemel Hempstead HP2 4XW
- 8** Temple Quay House  
2 The Square  
Temple Quay  
Bristol BS1 6HA
- 9** Broadway  
5 Broadway  
Broad Street  
Birmingham B15 1BL

 **Regional Control Centres (RCC's) and Outstations**

**Highways Agency offices and RCC locations (and Outstations)**



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