

Highways Agency Accounts 2005 - 06



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Management Commentary

Financial Statements

These cover the period 1 April 2005 to 31 March 2006 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. The financial statements of the Agency are audited by the Comptroller and Auditor General (C&AG) of the National Audit Office.

The financial statements have been prepared in accordance with HMT Financial Reporting Manual (FReM). For 2005-06 FReM introduced a number of modifications to the presentation and format of the Agency's financial statements of which the main changes are revised Operating Cost Statement and Cash Flow Statement formats, and additional notes to the accounts.

As an executive agency of the Department for Transport (DfT) the 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.

Significant accounting policies

There are several areas of the 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 above valuations are recorded in the Highways Agency Valuation System (HAVS). The HAVS model is used in the years between full valuations to generate updated values for the trunk road network by 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).

For VAT purposes it is assumed that a total reconstruction of the network will be performed and therefore VAT is not recoverable. (1997 VAT legislation states that VAT on new construction is not recoverable). It is also assumed that P&S (preparation and supervision) costs over the period will be at a flat rate calculated at the revaluation. Costs from recently opened traffic schemes are used to determine percentages for land compensation values to be added to the network.

An adaptation of renewals accounting is used to estimate depreciation of the 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.

Recognition and the valuation of provisions

Due to the long-term nature of the 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 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 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 Agency

Resources to fund the Agency's day-to-day costs and capital investment programme are obtained through the Parliamentary supply process and allocated within the DfT Estimate. The allocation takes account of income generated by the Agency, such as recoveries of costs for work carried out on behalf of third parties and 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 £5.5bn. Of this, £2.6bn represents a notional charge for cost of capital, and the remaining £2.9bn represents the Agency's operating budget. The Agency utilised this budget to within 0.5% (£13m).

Highways Agency 2005/06 Full Year	Budget £M	Actual £M	Variance £M
Net resource outturn	2,121	2,110	11
Capital Expenditure	755	753	2
Operating Result	2,876	2,863	13
Notional Cost Capital Charge	2,588	2,554	34

In addition to effective financial and budgetary control of resources, the utilisation was fully effective with the achievement of all 21 business plan targets.

Financial position

The net asset value of the Agency was £77 billion, of which 98.9% 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 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.

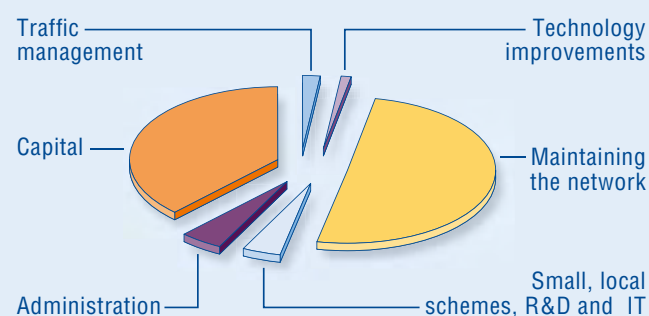
More than 70% of the Agency's liabilities are of a long-term nature. These include provisions for liabilities and charges and creditors including PFI liabilities falling due after more than one year.

How we used our resources in 2005-06

Due to the large asset base of the Agency, significant resource is required to cover the cost of depreciation and impairment of tangible and intangible fixed assets and the cost of capital.

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

Analysis of main sub-programme areas



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 40%) of the Agency's budget.

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 2005-06 £753m (2004-05 £623m) was invested in the road network. This included £83m on phase 1 of the A1(M) Darrington to Dishforth PFI scheme, which completed in year. The total expenditure was across some 800 schemes with the 50 highest value schemes accounting for £528m of the total.

Government and Highways Agency spending plans

Public funding, and the setting of Public Services Agreement (PSA) targets is managed through the Government's spending review process.

The 2004 *Spending Review - New Public Spending Plans 2005 – 2008* set Departmental spending plans and public service agreements for 2006-07 and 2007-08, and confirmed spending plans for 2005-06.

The Agency's net budgets (i.e. including allowable income) set for 2006-07 and 2007-08 are: -

	2005-06 Actual £m	2006-07* Budget £m	2007-08* Budget £m
Resource - programme	2,015	2,490	2,464
Resource - administration	95	95	95
Capital	753	1,124	1,060
Total	2,863	3,709	3,619
Notional Cost of capital charge	2,554	2,736	2,856
* Budgets sourced from Highways Agency 2006-07 Business Plan			

The spending plans incorporate the Agency's share of DfT's annual efficiency gain targets, which followed the Gershon efficiency review in July 2004.

Administrative spending has been held flat for the next two years with any pay or pension cost increases being absorbed within current funding levels. Details of pensions arrangements can be found in notes 1 and 2 to the accounts, and in the Remuneration Report.

A number of the Agency's human resources (HR) and payroll services are planned to move to the DfT Shared Service Centre based in Swansea in 2007, with certain financial services functions expected to follow by 2009. This is expected to deliver a reduction in posts handling transactional work and cut administration costs.

Programme expenditure plans are for growth across the next two years, 17% in resource and 41% in capital.

The capital plans show a large increase in expenditure. The 2006-07 budget of £1,124m incorporates £239m for the A249 Iwade to Queenborough and the second phase of the A1(M) Darrington to Dishforth scheme.

Excluding these large PFI projects the increases are 18% for 2006-07 and 21% for 2007-08. This is in line with the planned escalation of the Agency's capital expenditure programme to support the delivery of associated congestion and safety improvement targets.

Market stability

The civil engineering and construction sectors are facing inflationary pressures due to oil and land inflation. The Agency has managed these pressures in delivering the current year programme, and has adjusted its estimates in its future years programme.

Relationship with suppliers

The 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 2005-06 the Agency paid 98.3% (2004-05 98.7%) of undisputed invoices within terms. No interest was incurred under the Late Payment of Commercial debt (Interest) Act 1998.

Dartford-Thurrock Crossing concession agreement

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.

The contract with Le Crossing Company Limited to manage the crossing and collect the charges has been in place since 1 April 2003. All receipts are passed on to the Agency for onward transmission to the Department for Transport.

The 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.

Board member interests

A sister of the Agency's procurement director, Steve Rowsell, is a partner of the professional valuers Donaldsons LLP. The Agency paid this company £24,000 for services performed in 2005-06 (£58,000 in 2004-05). Mr Rowsell played no role in the awarding of these commissions.

Auditors

The statutory audit of the Agency's financial statements is undertaken by the National Audit Office (NAO) and cost £350,000 (2004-05 £375,000).

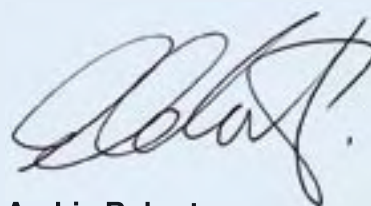
In addition £27,814 (2004-05 £24,675) was paid to the NAO in respect of the audit of the Dartford-Thurrock Road User Charging Scheme account.

Significant events since the end of the financial year

On 24 May 2006, the Secretary of State for Transport announced that motorists were set to benefit from £112 million of roads improvements in the West Midlands which will be funded by Macquarie Infrastructure Group (MIG) – the M6 Toll Operator *.

Funded through resources released from the re-financing of the M6 Toll concession, the improvements will include the construction, operation and maintenance of a new road from the M54 and Telford to the M6 and the M6 toll as well as improvements to the slip road access from the M42 to the southern end of the M6 Toll.

The new road should be ready for use after 2012, subject to the usual statutory processes and will not be tolled.



Archie Robertson

Accounting Officer

28 June 2006

** MIG is the 100 per cent owner of Midland Expressway Limited, the concessionaire of the M6 Toll Road.*

Remuneration Report for the year ended 31 March 2006

The remuneration of the 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 Pay Review Body on Senior Salaries.

Remuneration Committee

The Remuneration Committee is comprised of the Department for Transport's Permanent Secretary (as Chairman), all DfT Director Generals and a non-executive board member. For 2005-06 members were: -

David Rowlands	Permanent Secretary, Department for Transport
Stephen Hickey	Director General, Driver, Vehicle and Operator Group
Sue Killen	Director General, Aviation, Logistics and Maritime Group
Simon Webb	Director General, Delivery and Security Group
Robert Devereux	Director General, Roads, Regional and Local Transport Group
Mike Mitchell	Director General, Rail Group
Archie Robertson	Chief Executive, Highways Agency
Ann Hemmingway	Non-executive Director, Department for Transport

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;
- 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 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.

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 Board 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 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 Director Generals, 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 Board and their performance relative to others.

Remuneration Policy for Non-Executive Directors

Rates for two of the non executive directors were set and agreed by the Chief Executive in 2004 following work by the Agency in comparing rates with non civil servants in other similar positions. The newest non executive contract was set late in 2005, and the same rates were used and agreed by the Chief Executive.

The Agency is currently undertaking a review of the rates for non executive directors and is looking to achieve consistency with payment rates for non executives in other DfT agencies.

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.

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 current contract/letter	Unexpired term (months*)
Executive Director		
Archie Robertson	24/11/2003	7
Ginny Clarke	02/07/2001	3
Hilary Chipping	11/09/2001	Open-ended
Mel Zuydam	02/06/2004	14
Steve Rowsell	02/10/2005	Open-ended
Steve Williams	12/03/2001	Open-ended
Derek Turner	07/03/2005	23
Keith Miller	19/04/2004	Open-ended
Denise Plumpton	17/01/2005	21
Non-executive Director		
John Doran	28/09/2004	5
Alex Jablonowski	28/09/2004	5
Andrea Gregory	01/09/2005	16
* months remaining from 31/03/06		

Archie Robertson's contract is due to expire on 24 November 2006. The position regarding an extension to his contract is currently being considered with DfT.

Since the end of the financial year Ginny Clarke's contract has been extended until 1 July 2009.

Salary and Pension Entitlements

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

	2005-06	Benefits in kind	2004-05	Benefits in kind
	Salary, including	(to nearest £100)	Salary, including	(to nearest £100)
	performance pay		performance pay	
	£000		£000	
Archie Robertson	170-175	-	150-155	-
Mel Zuydam	120-125	-	100-105	-
Denise Plumpton	120-125	-	20-25	-
Ginny Clarke	110-115	-	115-120	-
Derek Turner	110-115	-	-	-
Hilary Chipping	100-105	-	95-100	-
Steve Williams	95-100	-	90-95	-
Keith Miller	90-95	-	85-90	-
Steve Rowsell	85-90	-	80-85	-
Richard Bennett (to 21/11/05)	50-55	-	80-85	-
	(75-80 full year equivalent)			

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

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. The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Pension Benefits

	Accrued pension at age 60 as at 31 March 2006 and related lump sum £000	Real increase in pension and related lump sum at age 60 £000	CETV at 31 March 2006 £000	CETV at 31 March 2005 £000	Employee contributions and transfers in £	Real increase in CETV £000	Employer contribution to partnership pension account £000
Archie Robertson	4	2	69	31	3,696	26	-
Mel Zuydam	3	2	42	14	3,696	19	-
Denise Plumpton	3	3	52	5	20,507	25	-
Ginny Clarke	145	5	691	527	1,479	21	-
Derek Turner	2	2	31	2	3,696	26	-
Hilary Chipping	121	3	642	482	3,303	28	-
Steve Williams	142	7	765	587	1,382	36	-
Keith Miller	123	11	622	451	1,320	56	-
Steve Rowsell	127	10	620	454	1,244	46	-
Richard Bennett (to 21/11/05)	98	6	379	306	753	12	-

The Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (CETV) 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.

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 2006:

	£000's
Alex Jablonowski	15-20
Gordon Bateman (to 31/10/05)	10-15
John Doran	10-15
Andrea Gregory	0-5



Archie Robertson
Accounting Officer

28 June 2006

Statement of Highways Agency and Accounting Officer's Responsibilities

Under Section 7(2) of the Government Resources and Accounts Act 2000 the Treasury has directed the Highways Agency to prepare for each financial year 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 (FReM) 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 Government Accounting. The Government Accounting Manual may be accessed online at www.government-accounting.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, aim 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 Government Accounting.

The Highways Agency's system of internal control was in place for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts. It accords with Treasury guidance.

The system of internal controlⁱ 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.ⁱⁱ

The risk and control framework

I have established a framework of responsibility for risk management, with appropriate support, guidance and proceduresⁱⁱⁱ in all parts of the Agency's business.^{iv}

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^v in line with that of the DfT board.

The board identifies strategic risks^{vi} 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, the outcome of key Gateway Reviews and other key risk areas. 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, we involve 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. We manage road safety risks 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, informed by the work of my internal auditors, that of the executive managers within the 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.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board ^{vii} and the Audit Committee ^{viii}. 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 I have commissioned a program of work to improve management assurance by:

- Documenting and publishing an agreed new Corporate Governance framework for the Agency (incorporating risk, stewardship and balanced scorecard reporting);
- Making further improvements in the electronic guidance on processes and controls; and
- Providing support and guidance to managers to help them to improve record-keeping, control and accountability in their commands.

This will allow us to address the causes rather than the symptoms of weaknesses in our systems of control.

The Agency's corporate governance arrangements are designed to comply with the Code of Good Practice on Corporate Governance in Central Government Departments. ^{ix}

My Head of Internal Audit provides regular reports on key risk and control issues, to standards defined in the Government Internal Audit Manual, 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 2005-06 is that:

Corporate Governance is working effectively with some minor weaknesses.

The arrangements are substantially compliant with the code of practice;

Risk Management is working effectively with some minor weaknesses; and

Risk Handling/Internal Control is operating effectively except for some areas where significant weaknesses have been identified. None of those weaknesses fall within the scope of those required to be disclosed in this statement.

Actions to rectify specific weaknesses identified by my internal auditors are under way. I have also set an objective for the top managers in the Agency to improve control and assurance (as measured by internal audit opinions relating to their commands) during the year and commissioned the program of work to improve assurance outlined above.

In my Statement on Internal Control for 2004-05 I reported that I had commissioned action to:

- Raise the profile of internal control with managers;
- Improve the design and monitoring of controls;
- Complete the electronic publication of guidance on processes and controls; and
- Improve the scope and machinery of Stewardship Reporting by senior staff, and the associated guidance available to them on their internal control and stewardship responsibilities.

As a follow-up I can report that:

- A large part of our systems of working and guidance were reviewed and a formal quality review process applied to support electronic publication. More work is needed to deliver the full improvements in the design and monitoring of controls;
- The first electronic edition of the guidance on processes and controls has been published and is in use; and
- The scope and machinery of Stewardship Reporting by senior staff, and the associated guidance available to them on their internal control and stewardship responsibilities, was improved and will be subject to further improvement in the forthcoming years. This also had the effect of raising the profile of internal control with managers.

The embedding of the finance function into the business is also well advanced, with the appointment of two new Finance Directors for Traffic Operations and Major Projects, reporting to the Agency Finance Director. The implementation of full in-business finance functions will continue during 2006-07, together with further improvements in performance and financial reporting.

Notes

ⁱ **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**

- to ensure that the Agency has established (agreed) clear strategic direction, objectives and key targets in support of government policies;
- to ensure regularity and propriety in the Agency's stewardship of public funds and other assets with due regard to accountability, probity and integrity;
- to ensure that the Agency delivers its services to time/ cost / quality;
- to ensure Information and advice is timely and TRUE (Trusted - Reliable - Useful - Effective); and
- to ensure that HA people and procedures comply with relevant legal, government, departmental and technical standards and requirements.

ⁱⁱⁱ **Capacity To Handle Risk**

The 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.

^{iv} 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.

^v 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.

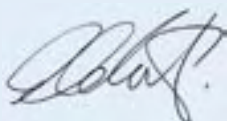
^{vi} The key **strategic risks managed by the board** are shown in the Management Commentary section of this annual report.

^{vii} **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;

^{viii} The Audit Committee is made up of two of the non-executive directors, one of whom chairs it, and three Highways Agency Board members. 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.

^{ix} <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 stated elsewhere in this annual report.



Archie Robertson

Accounting Officer

28 June 2006

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 2006 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Agency, the Chief Executive and auditor

The Agency and Chief Executive are responsible for preparing the Annual 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 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 HM Treasury directions issued under the Government Resources and Accounts Act 2000. 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, 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 relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 63-66 reflects the Agency's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to 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 only the Annual Report, the unaudited part of the Remuneration Report, and the Management Commentary. 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 opinion

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 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.

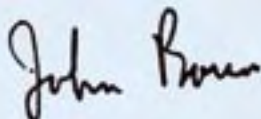
Opinions

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 2006. 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 with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- 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.

I have no observations to make on these financial statements.

John Bourn



Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London, SW1W 9SP

30 June 2006

Operating Cost Statement for the year ended 31 March 2006

		2005-06		Income	restated 2004-05
	Note	Staff Costs £000	Other Costs £000	£000	Total £000
Administration Costs					
Staff costs	2	61,705			60,364
Other administration costs	3		36,615		34,459
Operating income	5			(2,457)	(5,879)
Programme Costs					
Staff costs	2	21,958			4,390
Other programme costs	4		4,584,148		4,105,404
Operating income	5			(49,709)	(43,131)
Totals		83,663	4,620,763	(52,166)	
Net Operating Costs				4,652,260	4,155,607
Net Resource Outturn				4,663,689	4,169,673

Net resource outturn represents the net operating cost less 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 2006

	Note	2005-06 £000	restated 2003-04 £000
Net gain on the revaluation of tangible fixed assets	6	4,569,302	5,633,428
Reversionary interest on M6 toll	13	9,130	(1,628)
Net gain/(loss) on other in year adjustments relating to prior year transactions	13/14	113,317	(90,000)
Recognised gains & losses for the financial year		4,691,749	5,541,800

The comparative figures have been restated following the detrunking of certain non-core roads to local authorities (see Note 4)

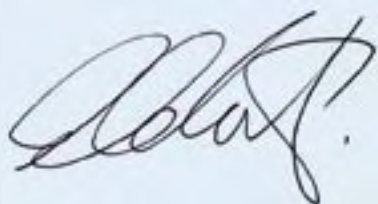
The notes on pages 71 to 103 form part of these accounts

Balance Sheet for the year ended 31 March 2006

	Note	31st March 2006 £000	restated 31st March 2005 £000
Fixed Assets			
Tangible assets	6	77,047,936	72,325,787
Intangible assets	7	3,280	3,728
		77,051,216	72,329,515
Debtors: amount falling due after more than one year			
	9	174,135	156,056
Current Assets			
Stocks	8	23,673	16,181
Debtors: amounts falling due within one year	9	87,555	67,324
Cash at bank and in hand	10	1,551	6,475
		112,779	89,980
Creditors: amounts falling due within one year	11	(571,655)	(471,904)
Net Current Liabilities		(458,876)	(381,924)
Total Assets less Current Liabilities		76,766,475	72,103,647
Creditors: amounts falling due after more than one year			
	11	(1,072,734)	(1,007,749)
Provisions for liabilities and charges			
	12	(457,226)	(436,616)
		75,236,515	70,659,282
Taxpayers' Equity			
General fund	13	39,951,861	39,872,653
Revaluation reserve	14	35,284,654	30,786,629
		75,236,515	70,659,282

The comparative figures have been restated following the detrunking of certain non-core roads to local authorities (see Notes 4).

The notes on pages 71 to 103 form part of these accounts



Archie Robertson
Accounting Officer

28 June 2006

Cash Flow Statement for the year ended 31 March 2006

	Note	2005-06 £000	restated 2004-05 £000
Net Cash Outflow from Operating Activities	16a	(1,274,177)	(1,229,187)
Capital Expenditure and Financial Investment	16b	(683,336)	(576,256)
Payment of Amounts Due to the Consolidated Fund		(3,197)	(2,225)
Financing	16c	1,955,786	1,811,393
(Decrease)/Increase in Cash in the year		(4,924)	3,725

The notes on pages 71 to 103 form part of these accounts

Notes to the 2005-06 Accounts

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2005-06 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 Agency for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted by the 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 non-core roads 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.

1.3 Prior Year Adjustments

Material adjustments applicable to prior periods arising from changes in accounting policy or from the correction of fundamental errors 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 have given rise to the following restatement to balances as at 1 April 2005: -

	Note	As previously		As restated £000
		stated £000	Adjustment £000	
Infrastructure assets - cost	6	82,031,668	(659,501)	81,372,167
Infrastructure assets - depreciation	6	(9,887,294)	73,719	(9,813,575)
		72,144,374	(585,782)	71,558,592
General fund	13	40,245,386	(372,733)	39,872,653
Revaluation reserve	14	30,999,678	(213,049)	30,786,629
Capital maintenance	4	442,243	(1,821)	440,422

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 an integrated network infrastructure servicing a significant geographical area. 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, 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 proceed.

- The cost of schemes within the discretion of the Agency will be capitalised from inception

- The cost of major schemes which are subject to approval by Ministers are only capitalised once their inclusion in the Department's Targeted Programme of Improvements (TPI) 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.

Expenditure relating to the costs of staff working on assets under construction and major database developments has been capitalised in accordance with HM Treasury guidance.

Valuation

Infrastructure Assets

The network infrastructure, which is intended to be maintained at a specific level of service potential by continuing replacement and refurbishment, is valued at depreciated replacement cost.

External professional surveyors undertake a full valuation of the network at intervals not exceeding five years, with reference to data provided by the Agency. 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 carried out by EC Harris LLP, professional surveyors, during the year ended 31 March 2005 mainly using internal costing and physical assets records provided by the Agency.

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 of Trade and Industry (DTI)

Land Land indices published twice yearly by the Valuation Office Agency (VOA)

The estimated un-expired life of the network is reassessed annually and the valuation adjusted where necessary.

Assets Under Construction

Network assets in the course of design or construction are capitalised at the lower of actual and expected standard cost.

Land and Buildings, excluding 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.

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 main categories of assets within land and buildings 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	31 December 2002	VOA
Motorway Service Areas	31 March 2005	VOA

The VOA fully and independently valued the Agency's surplus property estate, including land and buildings, as at 31 December 2003.

Dwellings

Residential properties released from road schemes and held for resale are valued at open market value.

External professional surveyors undertake a full valuation of these assets at intervals not exceeding five years and values are adjusted in the intervening years using regional land and building indices published twice yearly by the VOA. The VOA fully and independently valued the Agency's dwellings, as at 31 December 2003.

Plant and Machinery

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 machinery indices supplied by the Office of National Statistics (ONS).

Information Technology

Database Development is stated at cost. Other information technology assets are stated at current cost using monthly plant and equipment indices supplied by the Office of National Statistics (ONS).

1.5 Depreciation

Infrastructure Assets

The 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 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:

Property	Life in years
• Freehold buildings	up to 60 years
• Leasehold buildings	length of the lease
• Historic leasehold building	length of the lease
• Surplus properties awaiting sale	no depreciation
• Dwellings	no depreciation

Plant and Machinery	Life in years
• Winter maintenance equipment	25 years
• Office equipment	5 to 10 years
• Communications equipment	15 to 25 years
• Vehicles	5 to 10 years
• Test equipment	5 to 10 years
• IT equipment	5 years
• Database development costs	5 years
• Structural steelwork	10 years
• Assets in storage	no depreciation

Assets in storage include overhead gantries and become network assets 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 life, which is 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. However, 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 relates directly to the operating activities of the 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 Consolidation 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 Agency and include expenditure on administrative staff (for example 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 certain staff costs where they directly relate to service delivery.

1.11 Capital Charge

A charge, reflecting the cost of capital utilised by the 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

For tangible and intangible assets the cost of capital charge is based on opening values, adjusted for the effects of any in year revaluations and adjusted pro rata 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

On cash balances with the Office of the Paymaster General and the balances due to the Consolidated Fund there is no capital charge. 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 benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The 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 Operating Leases

All 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 FReM. This is available online at www.hm-treasury.gov.uk.

Where the balance of risks and rewards of ownership of the PFI property is borne by the 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 first recognised once the property comes into use, for example when a road is ready to open for traffic. Where construction of the PFI property is completed in individual stages, which are capable of being used while construction continues on other parts, recognition of the asset is made as each stage 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 the Agency has contributed assets that result in lower service charge payments, a prepayment for the fair value is recognised and subsequently charged as an operating cost over the life of the PFI contract.

Where at the end of the PFI contract all or part of the property reverts to the 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 capital value of the earlier PFI schemes was estimated using the public sector comparator (the net present value of cash flows that the public sector would pay to construct, operate and maintain the scheme by traditional means). 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.

1.15 Provisions

1.15.1 The 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 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.

The Agency has settled some of its liabilities in advance by making payment to Paymaster's account at the Bank of England for the credit of the Civil Service Superannuation Vote. This is shown as a prepayment in Note 9. The amount provided, shown in Note 12 is gross of any prepayment.

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. This includes possible obligations for land and property acquisition that may crystallise as a result of the Secretary of State's decision to include them in his Targeted Programme of Improvement.

1.17 VAT

Most of the activities of the 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 asset 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 Agency include the valuation of the trunk road network, the recognition and valuation of provisions and the method of apportionment of lease rentals between capital, interest and service elements of PFI contracts.

2. Staff Numbers and Costs

Staff costs comprise:

	2005-06			2004-05
	Permanent Staff £000	Others £000	Total £000	£000
Wages and salaries	71,934	5,466	77,400	64,255
Social Security costs	5,776	-	5,776	4,760
Other pension costs	13,627	-	13,627	8,229
Total cost	91,337	5,466	96,803	77,244
Capitalised staff costs	(12,157)	(983)	(13,140)	(12,490)
Total Net Staff Costs	79,180	4,483	83,663	64,754

Permanent staff are those staff who have an employment contract with the Agency.

Wages and salaries includes gross salaries, performance pay or bonuses received in year, 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

Pension benefits are provided through the Civil Service pension arrangements. The Principal Civil Services Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme with the cost of benefits met by monies voted by Parliament each year. The Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06 employers' contributions of £13,627,000 were payable to the PCSPS (2004-05 £8,229,000) at one of four rates in the range 16.2 to 24.6 per cent (2004-05: 12.0 to 18.5 per cent) of pensionable pay, based on salary bands. The Scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2006-07 the salary bands will be revised and the rates will be in the range 17.1 to 25.5 per cent. The contribution rates are set to meet the cost of the benefits accruing during 2005-06 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a stakeholder pension with employer contribution (partnership pension account).

(a) Classic Scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings.

(b) Premium Scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike the classic scheme, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum. Members pay contributions of 3.5 per cent of pensionable earnings.

(c) Classic Plus Scheme

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

(d) Partnership Pension Account

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a selection of approved products. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

Employers' contributions of £28,306 (2004-05 £13,947) were paid to one or more of a panel of three appointed stakeholder pension providers during 2005-06. In addition, employer contributions of £6,989 (2004-05 £2,104) 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.

Five persons (2004-05: one person) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £8,032 (2004-05 £NIL). No costs were incurred in 2004-05 as the person concerned had already reached age 60.

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	2005-06			2004-05
		Others	Total	Total	
Administration staff	1,534	140	1,674	1,738	
Programme staff	750	-	750	142	
Staff engaged on capital projects	304	24	328	329	
Average FTE persons employed	2,588	164	2,752	2,209	

3. Other administration costs

	Note	2005-06 £000	restated 2004-05 £000
Communication		1,478	1,460
Consultancy		2,193	2,276
Information technology		402	997
Maintenance		500	351
Professional services		194	164
Recruitment and training		3,000	3,439
Rent, rates and building costs		5,114	4,905
Stationery, postage and printing		735	773
Travel and subsistence		3,775	5,070
Other administration costs			
Provision for doubtful debt		(64)	(39)
Other		1,299	1,284
		18,626	20,680
Rentals under operating leases:			
Hire of plant and machinery		131	157
Other operating leases		6,933	7,195
		7,064	7,352
Non-cash items:			
Depreciation			
tangible fixed assets	6	3,270	3,373
Amortisation			
intangible fixed assets	7	1,026	691
Impairment of non roads fixed assets	6	222	455
Cost of capital charges		1,004	960
Notional Costs			
Auditors' remuneration and expenses		350	375
Payroll and superannuation services		307	277
Provisions:			
Provided in year	12	4,746	296
Total: non-cash items		10,925	6,427
		36,615	34,459

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

4. Other programme costs

	Note	2005-06 £000	restated 2004-05 £000
Research and development expenditure		13,260	13,980
Capital maintenance		523,426	440,422
Current maintenance		457,515	414,723
Interest		42	2
Interest on PFI finance leases	19	60,222	53,191
PFI service charges	19	141,146	141,184
Other programme costs			
Provision for doubtful debt		304	5,181
Provision for slow moving stock		1,214	(43)
Other		29,494	21,778
		1,226,623	1,090,418

Non-cash items:

Depreciation	6		
tangible owned fixed assets		195,138	187,661
tangible fixed assets held under PFI leases		25,090	18,473
Impairment of non network fixed assets	6	1,709	4,142
Write down in value of network assets	6	487,996	393,377
Cost of capital		2,553,180	2,316,771
Notional costs			
Legal services		693	-
Payroll and superannuation services		104	2,341
Loss on sale of programme assets		69	
Provisions:			
provided in year	12	93,546	92,221
Total: non-cash items		3,357,525	3,014,986
		4,584,148	4,105,404

For comparative purposes, the 2004-05 capital maintenance figure has been reduced by £1,821,000 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.

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

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. This is generally where access to a new development is required from an existing trunk road or motorway within the Agency's responsibility;
- cost recoveries / rental income from offices where the Agency is the main occupier and surplus accommodation is let to other organisations. This includes recoveries from other government departments and agencies;
- 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, including reimbursement of certain costs and retail price index increases such as under the concession agreement with Midland Expressway Limited (see Note 9), lane-licensing charges imposed by the Agency for lane closure and contributions from third parties for research projects.

Operating income analysed by classification and activity is as follows	£000	2005-06 £000	£000	2004-05 £000
	Appropriated in aid	Not Appropriated in aid	Total	Total
Administration income				
Fees and charges to external customers	675	-	675	(68)
Cost recoveries/rental income from surplus accommodation	1,516	-	1,516	2,155
Other	266	-	266	3,792
Recoveries in excess of AinA	-	-	-	-
	2,457	-	2,457	5,879
Programme income				
Fees and charges to external customers	12,216	-	12,216	16,251
Rental income from properties	3,179	-	3,179	2,833
Claims for damage to Network	13,086	-	13,086	9,700
Interest receivable	-	9,271	9,271	5,718
European Union income	-	1,942	1,942	2,034
Recoveries in excess of AinA	-	-	-	-
Other	9,799	216	10,015	6,595
	38,280	11,429	49,709	43,131

Under the Departments Request for Resources 1 subhead E certain income is available for offset against costs of the 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.

	2005-06			2004-05		
	Income £000	Full Cost £000	Surplus/ (deficit) £000	Income £000	Full Cost £000	Surplus/ (deficit) £000
Fees and charges to external customers	12,892	12,892	-	16,183	16,183	-
Cost recoveries/rental income from						
Surplus accommodation	1,516	1,516	-	2,155	2,155	-
Rental income from properties	3,179	565	2,614	2,833	503	2,330
Claims for damage to Network	13,086	14,412	(1,326)	9,700	9,980	(280)
Interest receivable, of which:						
Severn River Crossing Plc loan	5,439	-	5,439	5,426	-	5,426
Midland Expressway Ltd debtor	3,809	-	3,809	3,375	-	3,375
European Union income	1,942	-	1,942	2,034	2,034	-
Retail price index increase, of which						
Midland Expressway Ltd debtor	1,514	-	1,514	1,758	-	1,758
Recovery of costs incurred on						
M6 Toll scheme	4,414	4,414	-	2,092	2,092	-
Recovery of Safety Camera scheme costs	1,066	1,066	-	229	229	-
Other income	3,309	2,109	1,200	3,225	1,876	1,349
	52,166	36,974	15,192	49,010	35,052	13,958

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

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

6. Tangible Fixed Assets

	Infrastructure Assets	Assets under construction	Land & Buildings excluding Dwellings	Dwellings	Plant & Machinery	Information Technology	Total
	£000	£000	£000	£000	£000	£000	£000
At Replacement Cost or Valuation							
At 1 April 2005 restated (1)	81,372,167	416,294	234,823	46,396	122,141	61,799	82,253,620
Adjustment to opening position (2)	(42,185)	116,634	(6,676)	(1,009)	173	-	66,937
Capital additions	-	751,485	297	2,510	337	10,270	764,899
AuC valuation adjustments	-	(487,996)	-	-	-	-	(487,996)
Disposals	-	-	(2,695)	(9,131)	(826)	(225)	(12,877)
Revaluation	5,037,950	-	10,811	6,068	4,431	-	5,059,260
Impairments	-	-	(588)	-	(112)	(1,577)	(2,277)
Transfers & reclassifications	283,505	(314,564)	17,578	9,642	(28,806)	32,248	(397)
Balance at 31 March 2006	86,651,437	481,853	253,550	54,476	97,338	102,515	87,641,169
Accumulated Depreciation							
At 1 April 2005 restated (1)	9,813,575	-	11,958	-	78,324	23,976	9,927,833
Adjustment to opening position (2)	(46,199)	-	(27)	-	(478)	-	(46,704)
Charge for the year	200,736	-	2,456	-	3,862	16,444	223,498
Impairment	-	-	(178)	-	(46)	(122)	(346)
Disposals	-	-	-	-	(812)	(194)	(1,006)
Revaluation	485,762	-	489	-	3,707	-	489,958
Transfers & reclassifications	-	-	-	-	(2,767)	2,767	-
Balance at 31 March 2006	10,453,874	-	14,698	-	81,790	42,871	10,593,233
Net Book Value	£000	£000	£000	£000	£000	£000	£000
At 31 March 2006	76,197,563	481,853	238,852	54,476	15,548	59,644	77,047,936
Balance at 31 March 2005 restated	71,558,592	416,294	222,865	46,396	43,817	37,823	72,325,787
Asset financing							
Owned	74,713,626	382,566	236,891	54,476	15,548	14,580	75,417,687
On-balance sheet PFI contracts*	1,483,937	-	1,961	-	-	45,064	1,530,962
PFI reversionary interest**	-	99,287	-	-	-	-	99,287
Net book value at 31 March 2006	76,197,563	481,853	238,852	54,476	15,548	59,644	77,047,936

* In most instances this has been calculated using the original public sector comparator costs indexed up to March 2006 prices and only includes assets built by the PFI companies.

** 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.

Infrastructure Assets

These have been restated as at 1 April 2005 as follows: -

- (1) to remove the value of trunk road network assets detrunked and transferred to local authorities, in furtherance of Government's policy as set out in the 1998 White Paper: A New Deal for Transport: Better for Everyone (Notes 13 and 14) and to include the value of trunk roads transferred from local authorities to the Agency.
- (2) an adjustment of £4,014,000 has been made to reflect amendments to records held on the Agency's road asset databases as follows:
 - Dimensional variance – an adjustment reflecting better information on the dimensions of individual bridges and other structures (£67,891,000);
 - Re-referencing variance – an adjustment arising from the re-measurement of road length £71,898,000; and
 - Route variation – a valuation adjustment following changes in route management responsibilities £7,000.

Assets under Construction

The Assets under Construction balance as at 1 April 2005 has been adjusted by £116,634,000. This comprises:

- An adjustment of £28,379,000 being a correction of the write down of the regional control centres made in prior years;
- An adjustment of £9,130,000 to the Reversionary interest, based on the current book value of the M6 toll road; and
- An adjustment of £79,125,000 to reflect the Agency's interest in the Heathrow Terminal 5 link road which was constructed by the Agency and funded directly by Heathrow Airport Limited.

The Assets under construction capital addition figures includes £13,980,000 of capitalised salary and travel and subsistence costs.

The Assets under construction valuation adjustment totalling (£487,996,000) comprises the excess of capital costs over standard costs for these road schemes.

7. Intangible Fixed Assets

	Software Computer licences £000
At Replacement Cost or Valuation	
Balance at 1 April 2005	5,413
Capital additions	181
Disposals (licence expiries)	-
Transfers & reclassifications	397
Balance at 31 March 2006	5,991
Accumulated amortisation	
Balance at 1 April 2005	1,685
Charge for the year	1,026
Disposals (licence expiries)	-
Balance at 31 March 2006	2,711
Net Book Value	£000
Balance at 31 March 2006	3,280
Balance at 31 March 2005	3,728

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

8. Stocks

	31 March 2006 £000	31 March 2005 £000
Communications/electrical equipment	18,044	13,796
Salt	591	144
Other stock	5,038	2,241
Total	23,673	16,181
Other stock comprises	£000	£000
Highway damage repair items - barriers and parts for repair of bridges, tunnels and special structures	1,782	1,936
Uniforms for Traffic Officers working on the trunk road network	370	305
DART Tags - a facility for regular users of the Dartford Thurrock Crossing	2,886	-
	5,038	2,241

9. Debtors

9. (a) Analysis by type

	31st March 2006 £000	31st March 2005 £000
Amounts falling due after more than one year:		
Other debtors, of which:-		
Severn River Crossing Plc subordinated loan	85,995	83,579
Severn River Crossing Plc deferred interest	17,034	11,595
Midland Expressway Limited M6 concession	70,994	60,751
Staff relocation housing loans	112	131
	174,135	156,056
	31st March 2006 £000	31st March 2005 £000
Amounts falling due within one year:		
Trade debtors	6,481	9,247
Deposits and advances	4,599	1,833
VAT	65,815	47,857
Other debtors	1,742	2,898
Prepayments and accrued income	4,202	5,489
Amounts due from Consolidated Fund in respect of supply	4,716	-
	87,555	67,324

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 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 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.

22 members of staff have relocation housing loans (2004-05: 31).

Other debtors include £1.7m (2004-05 £2.9m), net of any provision, due from third parties for work carried out on their behalf under Section 278 of the Highways Act 1980.

9. (b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling after more than one year	
	31st March 2006 £000	31st March 2005 £000	31st March 2006 £000	31st March 2005 £000
Balances with:				
Other central government bodies	71,405	51,013	-	-
Local authorities	1,015	3,290	-	-
NHS bodies	223	-	-	-
Public corporations and trading funds	-	6	-	-
Intra - government balances	72,643	54,309	-	-
Balances with bodies external to government	14,912	13,015	174,135	156,056
Total Debtors	87,555	67,324	174,135	156,056

10. Cash at bank

	31st March 2006 £000	31st March 2005 £000
Balance at 1 April 2005	6,475	2,750
Net cash (outflow)/inflow	(4,924)	3,725
Balance at 31 March 2006	1,551	6,475

The following balances at 31 March are held at:

Office of HM Paymaster General	1,532	6,432
Commercial banks and cash in hand	19	43
	1,551	6,475

11. Creditors

11.(a) Analysis by type

	31st March 2006 £000	31st March 2005 £000
Amounts falling due within one year:		
Other taxation and social security	36	57
Trade creditors	80,980	55,606
Accruals and deferred income	443,238	367,898
Current part of imputed finance lease element of on balance sheet PFI contracts, of which:-		
Amounts payable under the National Traffic Control Centre contract	8,659	6,741
Amounts payable under other PFI contracts	26,356	23,889
Consolidated fund extra receipts due to be paid to the Consolidated Fund received receivable	3 2,667	644 3,042
Amounts due to DfT in respect of Dartford River Crossing road user charges	6,795	5,831
Other creditors	2,921	8,196
	571,655	471,904

	31st March 2006 £000	31st March 2005 £000
Amounts falling after more than one year:		
Imputed finance lease element of on balance sheet PFI contracts, of which:-		
Amounts payable under the National Traffic Control Centre contract	40,150	39,973
Amounts payable under other PFI contracts	898,014	842,732
Accruals and deferred income	6,759	10,142
Consolidated fund extra receipts due to be paid to the Consolidated Fund in respect of:		
Severn River Crossing Plc subordinated loan	85,995	83,579
Severn River Crossing Plc subordinated loan interest	17,034	11,595
Midland Expressway Ltd concession	19,497	15,688
Other Creditors		
Payable in respect of the Midland Expressway Ltd concession	5,285	4,040
	1,072,734	1,007,749

Accruals and deferred income comprise:

	31 March 2006 £'000	31 March 2005 £'000
Amounts payable in respect of roads related projects	330,531	260,820
Lands related costs accruals	67,108	70,424
PFI Shadow Tolls	25,498	23,593
Administration accruals	5,484	4,101
Other	14,617	8,960
	443,238	367,898
Major schemes accruals	54,173	47,913
Term Maintenance Contractors cost accruals	9,518	15,938
Managing Agents accruals	266,840	196,969
	330,531	260,820

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 Agency in 2009.

11. (b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	31st March 2006 £000	31st March 2005 £000	31st March 2006 £000	31st March 2005 £000
Balances with:				
Other central government bodies	3,619	5,623	-	-
Local authorities	1,759	1,892	-	-
NHS bodies	-	-	-	-
Public corporations and trading funds	900	843	-	-
Intra - government balances	<u>6,278</u>	<u>8,358</u>	<u>-</u>	<u>-</u>
Balances with bodies external to government	565,377	463,546	1,072,734	1,007,749
Total Creditors	571,655	471,904	1,072,734	1,007,749

12. Provisions for Liabilities and Charges

	Land and property acquisition £000	Engineering and construction services £000	Bridge strengthening £000	Early retirement £000	Migration, pension & other liabilities £000	Total £000
Balance at 1 April 2005	286,173	57,379	80,203	877	11,984	436,616
Provided in the year	121,207	79,035	22,300	2,434	11,065	236,041
Provisions not required written back	(54,173)	(4,627)	(5,850)	-	(3,157)	(67,807)
Provisions utilised in the year	(7,762)	(28,042)	(16,701)	(1,259)	(2,595)	(56,359)
Reclassifications	(91,025)	-	-	-	(240)	(91,265)
Balance at 31 March 2006	254,420	103,745	79,952	2,052	17,057	457,226

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. Further information regarding planning blight, acquisition of property and compensation for property owners may be found in Note 21.

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 2009.

Migration, Pensions and Other Liabilities

The provision for migration relates to the estimated cost of transferring certain Agency functions from London to the regions. 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 2006 that will actually be settled. It is expected that the majority of these costs may be incurred within the next 10 years.

During 2005-06, the Operating Cost Statement includes a net increase in resource provisions of £98,292,000 (2004-05 £92,517,000).

There was also an increase in Capital Expenditure provisions of £69,942,000 (2004-05 £34,854,000) during the year.

Provisions have been (credited)/charged in the year to the Operating Cost Statement as follows:

	31st March 2006 £000	31st March 2005 £000
Programme:		
Land and property acquisition	17,932	29,804
Engineering and construction services	53,570	13,000
Bridge strengthening	16,450	44,760
Migration, pensions and other liabilities	5,594	4,657
	93,546	92,221
Administration:		
Early retirement	2,434	296
Other	2,312	-
	98,292	92,517

13. General Fund

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

	2005-06 £000	2004-05 £000
Balance at 1 April 2005	40,245,386	41,686,792
Prior period adjustment:		
Detrunkings	(372,733)	(1,125,432)
Trunkings	-	72,905
Adjusted opening balance	39,872,653	40,634,265
Net Parliamentary funding	1,990,000	1,841,000
Net operating cost for the year	(4,652,260)	(4,157,428)
Consolidated fund extra receipts payable to the Consolidated Fund	(11,429)	(14,712)
Amounts due from Consolidated fund in respect of supply	4,716	-
Non cash charges:		
Auditors remuneration	350	375
Legal services	693	-
Payroll and superannuation services	411	277
Cost of capital charge	2,554,184	2,317,731
	2,555,638	2,318,383
In year adjustments relating to prior year transactions:		
DART Tags - costs previously written off	2,814	
RMC stock - costs previously written off	5,992	
Reversionary interest on M6 toll road	9,130	(1,628)
Adjustments to network fixed assets	110,058	(159,541)
Adjustments to non network fixed assets	(6,461)	26,549
In year spend on detrunked and trunked roads	(1,181)	(5,126)
	120,352	(139,746)
Realised element of revaluation reserve (Note 14)	72,191	(236,376)
Balance at 31 March 2006	39,951,861	40,245,386

14. Revaluation Reserve

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

	2005-06 £000	2004-05 £000
Balance at 1 April 2005	30,999,678	25,688,491
Prior period adjustment:		
Detrankings	(213,049)	(643,280)
Trunkings	-	41,671
Adjusted opening balance	30,786,629	25,086,882
Net gain / (loss) on revaluation	4,569,302	5,633,428
In year adjustments relating to prior year transactions		
Adjustments to network fixed assets	1,460	46,722
Adjustments to non-network fixed assets	(546)	(3,730)
Realised element of revaluation reserve (Note 13)	(72,191)	236,376
Balance at 31 March 2006	35,284,654	30,999,678

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 Agency negotiated and transferred the following assets:

Detrunked section of the road:	Local authority	Date of transfer	Asset value £000
A1 Wetherby Walshford	Leeds City and North Yorkshire County Council	01-Dec-05	34,823
A7 Carlisle to Scottish border	Cumbria County Council	01-Apr-05	49,974
A40 M5 J11 to Oxford county boundary	Gloucestershire County Council	01-Jul-05	189,484
A417 M5 J11 to Oxford county boundary	Gloucestershire County Council	30-Sep-05	5,990
A48 A40 Highnam to Welsh border	Gloucestershire County Council	01-Jul-05	174,415
A5 Weeford to Fazely	Staffordshire County Council	31-Dec-05	19,536
A500 Nantwich bypass	Cheshire County Council	03-Oct-05	70,728
A6514 A52 to A60	Nottingham City Council	12-Jul-05	40,832
			585,782

16. Notes to the Cashflow

	Note	2005-06 £000	restated 2004-05 £000
16. (a) Reconciliation of Operating Cost to Operating Cash Flows			
Net operating cost		(4,652,260)	(4,155,607)
Adjustment for non-cash transactions	3/4	3,368,449	3,021,413
(Increase)/decrease in stock	8	(7,492)	(808)
(Increase) / decrease in debtors	9	(38,309)	(26,945)
less movement in debtors relating to items not passing through the OCS		-	-
(Decrease) / increase in creditors	11	164,736	36,872
less movement in creditors relating to items not passing through the OCS		(52,942)	(17,306)
Use of provisions	12	(56,359)	(86,806)
Net Cash Outflow from Operating Activities		(1,274,177)	(1,229,187)
16. (b) Analysis of Capital Expenditure and Financial Investment			
Tangible fixed asset additions - investment in the network	6	(681,543)	(536,165)
Tangible fixed asset additions - investment in non network assets	6	(13,414)	(46,714)
Intangible fixed asset additions	7	(181)	(1,680)
Proceeds of disposal of fixed assets		11,802	8,303
Net Cash Outflow from Investing Activities		(683,336)	(576,256)
16. (c) Analysis of Financing			
From the Consolidated Fund (Supply) - current year		1,990,000	1,841,000
From the Consolidated Fund (Supply) - prior year		-	-
Less detrunking spend		(1,181)	(6,947)
Capital element of payments in respect of on balance sheet PFI contracts		(33,033)	(22,660)
Net Financing		1,955,786	1,811,393
16. (d) Reconciliation of Net Cash Requirement to (Decrease) / Increase in Cash			
Net cash requirement		(1,998,232)	(1,839,673)
From Consolidated Fund (Supply) - current year		1,990,000	1,841,000
From Consolidated Fund (Supply) - prior year		644	-
Amounts due to the Consolidated Fund received and not paid		2,667	3,042
Amounts from the Consolidated Fund unspent		(3)	(644)
(Decrease) / Increase in Cash	10	(4,924)	3,725

17. Capital commitments

These relate to the 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.

	31st March 2006 £000	31st March 2005 £000
Contracted capital commitments for which no provision has been made	522,048	222,081

18. Commitments under operating leases

	31st March 2006		31st March 2005	
	Land & Buildings £000	Other £000	Land & Buildings £000	Other £000
Expiry within one year	1,291	974	293	40
Expiry after one year but not more than five years	1,325	1,157	1,720	79
Expiry thereafter	7,199	-	3,737	-
	9,815	2,131	5,750	119

19. Commitments under Private Finance Initiative

The 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 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-

	31st March 2006 £000	31st March 2005 £000
Rentals due within one year	-	-
Rentals due after one but not more than two years	-	-
Rentals due after two but not more than five years	8,658	-
Rentals due thereafter	31,529	31,586
	40,187	31,586
Interest element	73,586	53,659
	113,773	85,245

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 £141,146,000 (2004-05 £141,184,000).

Service element payments to which the Agency is committed to 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.

	31st March 2006 £000	31st March 2005 £000
Obligations under the service element of PFI contracts comprise:		
Expiry within one year	-	-
Expiry within one to two years	-	-
Expiry within two to five years	9,213	7,659
Expiry within six to ten years	11,314	-
Expiry within eleven to fifteen years	-	-
Expiry within sixteen to twenty years	104,418	-
Expiry within twenty one to twenty five years	42,419	147,677
Expiry within twenty six to thirty years	10,165	-
Expiry within thirty one to thirty five years	-	13,529
	177,529	168,865

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 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 insignificantly 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.

As permitted by FRS 13, debtors and creditors that mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity Risk

The 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.

	31st March 2006		31st March 2005	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Financial Liabilities:				
Finance lease obligations including on-balance sheet PFI imputed finance lease obligations	973,179	479,602	913,395	456,642
	973,179	479,602	913,395	456,642

Basis of Fair Valuation

The fair value has been calculated using the net present value (NPV) of future capital payments at a discount rate of 6% per annum (which is the rate implied in the contracts).

21. Contingent Liabilities and Assets disclosed under FRS 12

21 (a) Contingent Liabilities	31st March 2006 £000	31st March 2005 £000
Land & property acquisition	507,724	516,461
Engineering & construction services	55,620	29,333
Other	16,852	10,237
Gross balance	580,196	556,031

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 Targeted Programme of Improvement (TPI) 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 TPI 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 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 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 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.

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 2005-06 amounts totalling £1,128,000 were received under these arrangements.

22. Related Party Transactions

As stated on page 54 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. The Agency also had transactions with other Government departments and agencies, principally Office of the Deputy Prime Minister (The Department for Communities and Local Government from 5 May 2006), Treasury Solicitors, Valuation Office Agency, Cabinet Office, Home Office and a number of Local Authorities.

In addition the Agency had transactions with QinetiQ, a public limited company in which Ministry of Defence holds shares and Yorkshire Forward, an organisation sponsored by Department of Trade and Industry.

Any interest in third party transactions of board members is disclosed on page 57.

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

23. Accountability Disclosure under Government Accounting

Government Accounting 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.

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: -

	31st March 2006 £000	31st March 2005 £000
Losses:-		
Bookkeeping/cash losses: 379 cases (2004-05 233 cases)	4,871	6,546
Fruitless payments: 7 cases (2004-05 3 cases)	122	8
Claims abandoned/store losses: 3,776 cases (2004-05 4,087 cases)*	8,276	7,967
Special Payments:-		
Ex-gratia compensation: 4 cases (2004-05 4 cases)	168	429

* Includes 3,581 cases valued at £7,679,000 (2004-05 3,550 cases valued at £6,690,000) for damages to the road network where the culprit could not be identified, or otherwise pursued for costs.

Included in the above losses and special payments are amounts over £250,000 reported as follows:

LOSSES

Write-off of debt from third parties arising from book-keeping errors (five cases totalling £1,796,000 and ranged in the value from £251,000 to £607,000).

24. Third Party Assets

The 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. They are not Agency assets and are not included in the accounts.

Monies are drawn down from the Escrow accounts by the Highways Agency as work progresses.

The amounts held are set out in the table below:-

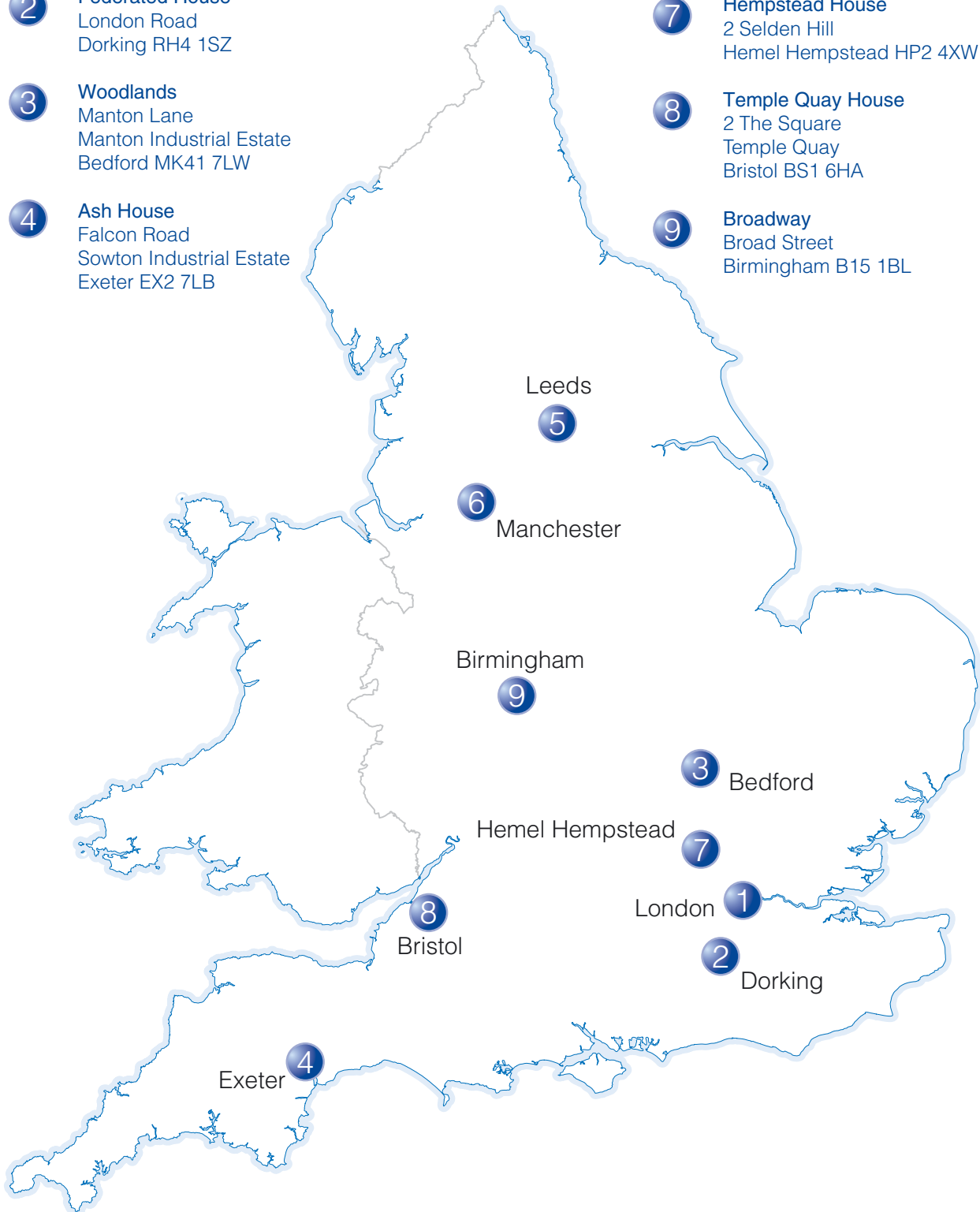
	31st March 2005 £000	Gross Inflows £000	Gross Outflows £000	31st March 2006 £000
Lloyds TSB Escrow Bank Accounts	17,139	3,312	4,291	16,160

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