

## Appendix 1: Our Board and Structure as at 31 March 2004



### Corporate Directorate (CD)

Responsible for supporting the Board's corporate governance activities in strategic planning, performance management strategy, managing organisational change and risk management. Provision of information, internal and external communications and acting as a customer champion. Also responsible for the day to day running of the Chief Executive's office.

### Finance Services (FS)

Responsible for ensuring propriety, value and future viability by providing long-term strategic financial planning, in-year business planning and management services, resource accounting and budgeting, financial administration and external reporting. It also plans, produces, develops and maintains our business information services.

**Human Resource Services (HRS)**

Responsible for recruitment and retention of a motivated, skilled, workforce, providing an efficient, effective service to its customers. It is also responsible for managing our estate and office services to meet our business needs.

**Major Projects Directorate (MPD)**

Responsible for the delivery of major schemes more than £5 million and large maintenance projects. It also manages the Agency's land holdings, including acquisition of land and property, management of acquired property and where necessary, disposal of property and land.

**Network Strategy (NS)**

The focal point in the Agency for developing a forward-looking strategy for the network and defining the required outcomes for it. It is responsible for liaising with DfT and ministers on network strategy issues and liaising with key regional stakeholders.

**Procurement Directorate (PD)**

Responsible for developing our procurement strategies to deliver best value. It identifies the best suppliers to meet our needs and maintains supplier performance records. Regional procurement teams provide a procurement service in support of project sponsors and their teams.

**Safety Standards and Research (SSR)**

Responsible for maintaining a best practice approach to strategic road management, operation and design. Manages our research and development strategy, commissions research into innovative techniques and works with partners to pool knowledge and best practice and develop internationally recognised standards.

**Traffic Operations Directorate (TOD)**

Responsible for providing information to travellers and incident management including the introduction of traffic officers and the regional control centres. Responsible for the day-to-day maintenance and management of the strategic road network.

**Audit Inspection and Consultancy Division (AICD)**

Reporting directly to the Chief Executive, this division is responsible for evaluating the effectiveness of our management arrangements, including our internal control system, and provides an internal consultancy service.

**Appendix 2: Comparative performance against Ministerial targets**

Performance Measure		2003-04	2002-03	2001-02	
1. Average annual score on road user satisfaction survey of at least 84%.	Target:	84%	No less than 7.5	No target	
	Outturn:	83.4%	7.2		
2. Meet all 13 annual road users' charter targets with a minimum of 9 being validated by auditors.		Not met - See Appendix 3	No ministerial target	No ministerial target	
3. Meet all six of the service standards for central government.		Not met - See Appendix 4	No ministerial target	No ministerial target	
4. Estimated proportion of the network likely to require maintenance in the next year to be held between 7 and 8%.		7.9%	7.8%	7.5%	
5. Reduction in the number of people killed/seriously injured on trunk roads by at least 694 compared with the 1994-98 average of 4991 (see Note 1).	Target:	4297	4436	4575	
	Outturn:	4223	4420	4495	
6. Reduction in the slight casualty rate per 100 million vehicle km by at least 0.92 compared with the 1994-98 average of 22.14 (see Note 1).	Target:	21.22	21.41	21.59	
	Outturn:	20.08	20.84	19.44	
7. Reduction in road workers killed per 100,000 by at least 5 (see Note 2).		Met: One fatality	No target	No target	
8. At least 98.5% of lanes available in peak hours.		99.42%	No target	No target	
9. Achieve at least 47 of 49 major scheme milestones.	Target:	47 of 49	48 of 51	13 of 15	
	Outturn:	44 of 48 One milestone achieved in late 02-03 following publication of the Business Plan	45 achieved	13 achieved	
10. Operational HA Traffic Control Centre by 31 March 2004.	Target:	Centre operational	Introduce centre	No target	
	Outturn:	Achieved	Achieved		
11. Average achievement of at least 95% across the following five sub-indicators:	Target:	At least 95% across 4 targets	95%	90%	
	• Improve air quality in at least 4 sites in air quality management areas.	Outturn:	Met		
	• Achieve at least 12% of Biodiversity Action Plan, extending across 15 targets.	Outturn:	Met	Unable to validate - new procedures introduced to address the issue have taken time to bed in	Unable to validate
	• Introduce no less than 8 planting schemes to enhance the landscape.	Outturn:	Met		
	• Treat at least 300 lane kms of concrete road surface with lower noise surfacing.	Outturn:	Met		
	• Treat at least 2 pollution risk water outfall sites.	Outturn:	Met		

Note 1 - In both measures, to allow for expected year-to-year fluctuations in casualty levels, the Agency will have been deemed to have met the target if the reduction achieved is no more than 5% above the milestone figure.

Note 2 - The Agency's measure is to ensure that the annual fatality rate for road workers is no more than 5 per 100,000 road workers. This target was clarified by means of a written Ministerial Statement on 29 April 2003, Hansard reference Column 6WS.

A complete list of targets approved by Ministers for 2004-05 have been published in our Business Plan.

## Appendix 3: Performance against Road Users' Charter targets

Performance Requirement	Target / Outturn		2003-04	2002-03	2001-02
Reduce the number of people killed or seriously injured (KSI) on the strategic road network by one third, and the rate of slight casualties by 10%, by 31 <sup>st</sup> March 2011 against a baseline of the 1994-98 average. This being monitored and reported annually.	KSI: Target Outturn:  Slight: Target Outturn:	MET	4297 4223  21.22 20.08	4436 4420  21.41 20.84	4575 4495  21.59 19.44
Plan and co-ordinate major roadworks so that a minimum of 90% during the year are no more than 2.5 miles long and are at least 6 miles apart.	Target: Outturn:	NOT MET	90% 85.3%	90% 90%	90% 96%
Roadworks will be managed so that an average of 97% of traffic lanes on the network will be kept free of them during the year.	Target: Outturn:	MET	97% 99.1%	97% 98.7%	97% 98.6%
Ensure that 60% of the core trunk network, including all concrete sections, has a quieter noise surface by 31 March 2011. This is being monitored annually.	Target: Outturn:	No in-year target set	No in-year target 324.61 km of quiet surfacing laid over concrete roads	No in-year target 1685 km of quiet surfacing laid, including 254km over concrete roads	No in-year target 1611 km of quiet surfacing laid including 287km over concrete roads
Survey all non-motorised crossing points on the core network and trunk road network for access, safety and convenience. All the surveys will be completed by 31 March. A five-year programme of improvements based on the survey will be developed by 31 March 03. The improvement programme will be completed by 31 Mar 09. To be monitored through the Highways Agency work programme.	Target: Outturn:	No in-year target set	Implement improvement programme No in-year target set	Develop 5 year improvement programme 85% toward programme	Complete survey of crossing points Survey 99% complete
Routine maintenance works carried out during the year will be undertaken off-peak in conformity with working time restrictions defined in contracts.	Target: Outturn:	MET	95% 99.7%	Off peak working 99% compliance	99.5% 99.6%
Salt the road network ahead of the forecast formation of ice and snow. To be completed within three hours of the instruction to salt, in accordance with the Highways Agency trunk road maintenance manual volume 2 Part 3.3.3.	Target: Outturn:	NOT MET	100% Pre-salting within 3 hours 99.75%	100% Pre-salting within 3 hours 9.8%	99% Unable to validate
Reply to all letters, e-mails, faxes and telephone calls to the Highways Agency Information Line which need a written response, within 15 days of being received.	Target: Outturn:	MET	85% 90.4%	85% 90.4%	85% 93.4%
Re-open traffic lanes where completion dates have been advertised by the expected completion date in at least 90% of cases.	Target: Outturn:	NOT MET	90% 84%	90% 90%	90% 86%
Re-open traffic lanes on motorways and trunk roads closed by the police due to accidents as soon as possible, and in any case not more than one hour after the agent has received notification of release from the police, in 90% of incidents, during the year.	Target: Outturn:	MET	90% 99%	90% 95%	90% 99%
Where it is likely that works may lead to delays of more than 10 minutes, road users will be informed of this two weeks in advance of the planned start date. Information via the Highways Agency's web site and Information Line and to the local press and radio will include the advertised completion date and brief objectives of the scheme.	Target: Outturn:	MET	95% of occasions 97%	95% of occasions 95%	95% of occasions 98%
Increase the number of variable message signs brought into operation on the network to improve safety and congestion from 500 to 1400 by 31 March 2005. This will be monitored and reported annually.	Target: Outturn:	No in-year target set	No target set 1935 operational	No target set 1473 operational	No target set 280
At any major roadworks sites where lanes are coned off and there is a suspension of work for more than one day, a sign bearing a short explanation for this will be displayed.	Target: Outturn:	MET	95% of occasions 99.6%	95% of occasions 97%	95% of occasions 93.8%

Note: Within the Road Users' Charter there were three performance requirements which under the old methodology Highways Agency auditors were unable to validate. These were: maintenance of emergency roadside telephones, regular inspections of motorways to search for and remove debris and litter, and maintenance of road signs. These have been replaced by more meaningful targets which can be seen in the Agency's Business Plan for 2004-05.

## Appendix 4: Performance against ServiceFirst targets

ServiceFirst Targets (Whitehall Standards)	
1. Answer your correspondence (including letters, faxes and e-mails) quickly and clearly. We aim to reply to all letters within 15 working days of receiving them, meeting this standard in at least 85% of cases.	Achieved: 90.4%.
2. See people within 10 minutes of pre-arranged time for an appointment. We aim to meet this standard in 99% of cases.	Agency staff were reminded of this standard through business and management plans but it is not possible to validate actual performance in this respect.
3. Answer telephone calls quickly and helpfully. Our switchboard aims to respond to calls within 8 rings.	A new monitoring system was installed part way through the year and the following results have been achieved:  Calls to HAIL are answered within 8 rings.  98% of calls to the HA switchboard are answered within 8 rings.  84% of calls to other HA numbers are answered within 8 ring
4. Provide clear and straightforward information about services and those of related provider and a public enquiry point for telephone callers.  We aim to provide the Highways Agency information line (HAIL) service with a satisfaction rating of 75% as measured by the 1998 road users' satisfaction survey. This figure will combine the % of callers completely satisfied and the % of callers partially satisfied with the service they receive.  We aim to regularly publish a 'road users charter' outlining the Agency's work, its service standards and contact points.	During the year the Agency continued to operate the dedicated Highways Agency Information Line, which provides information about our services and roads by both telephone and e-mail. We are developing a system for monitoring customer satisfaction with the Information Line in readiness for 2005-06. We aim to regularly publish a 'road users charter' outlining the Agency's work, its service standards and contact points.  During the year the road users' charter remained extant. However, it became clear that road users and Ministers shared similar priorities. To avoid duplication and confusion between the two sets of targets it was decided that a single set of targets would be published in the 2004-05 Business Plan.
5. Have a complaints procedure available on request. We aim to provide on request a leaflet detailing our complaints procedure.	Leaflets providing details of our complaints procedure were available at all our offices and details are also available on our website.
6. Take all reasonable steps to make services accessible to everyone and consult users regularly. All our offices are accessible to people with disabilities. The Agency undertakes regular surveys of its customers to obtain their opinion of its services.	We continue to monitor accessibility and are taking steps to ensure that new offices in London and Exeter are compliant with legislation coming into force on 1 October 2004.  The Agency undertakes a regular 'Road Users Satisfaction Survey' and consults customers through committees to obtain opinions on its service.

## Appendix 5: Internal Audit Certificate

Agency performance against the Key Ministerial Targets, Road User Charter Targets and ServiceFirst Targets shown in the Business Plan for 2003-04 has been subject to independent audit by the Agency's Audit, Inspection and Consultancy Division (AICD).

I am satisfied that reported achievement against these targets, where it has been possible to fully validate data, is a true and fair view of the Agency performance in those areas.



### **Bob Parsons**

Head of Audit, Inspection and Consultancy Division  
Highways Agency  
October 2004

## Appendix 6: Highways Agency Accounts 2003 - 04



# Foreword to the accounts for the year ended 31 March 2004

## **Accounts direction**

These accounts are prepared according to an Accounts Direction issued under Section 7 of the Government Resources and Accounts Act 2000. The Direction is reproduced at the back of these accounts. These accounts are consolidated within the Resource Account produced and published by the Department for Transport.

## **History and background**

The Highways Agency was established on 1 April 1994 as an Executive Agency of the then Department of Transport and later became the Department for Transport, Local Government and the Regions (DTLR). Since the machinery of government changes announced on 29 May 2002, it has been part of the Department for Transport (DfT).

## **Principal activities**

The Agency is responsible for operating, maintaining and improving the strategic road network in England on behalf of the Secretary of State for Transport.

The Agency's purpose is to provide safe and reliable long distance journeys on strategic national routes by managing the traffic using our roads, and administering the network as a public asset. The Agency's network operator role has developed rapidly over the past two years and continues to be a high priority as we increase focus on providing a high level of service to road users. We also fulfil an international role by building good working relationships and sharing experience and expertise with overseas road administrations. This helps to promote the value of UK knowledge, expertise and best practice across the world to support UK industry.

As network operator, the Agency manages some 4,818 miles (7,754 km) of trunk roads and motorways as at 31 March 2004 and delivers the Secretary of State's programme of motorway and trunk road improvement schemes.

## **Funding**

For the 2003-2004 financial year, the Agency was funded on a gross running cost basis from within Request for Resource 1, sections E & AF of the Department for Transport Resource Account. The Agency was allocated a resource based operating budget of £4,002,777,000 against which it utilised £3,873,237,000. The Agency was also allocated a resource based capital budget of £650,881,000 of which it incurred £437,758,000.

All these figures are net of income Appropriated-in-Aid.

## Review of the year and future developments

A review of the year and a briefing on future developments is given in the body of the Annual Report accompanying this set of accounts.

## Significant events since the end of the financial year

On 26 April 2004 the Secretary of State, Alistair Darling, launched the Agency's new Traffic Management Service. This will eventually lead to some 1,200 new Agency Traffic Officers patrolling the network twenty-four hour / seven days a week helping to further reduce congestion and improve the reliability of the network. On 22 July 2004 the Traffic Management Act 2004 received Royal Assent. This will allow Traffic Officers to take on additional powers to direct traffic and place temporary signs. These powers are expected to be extended by secondary legislation in the next year to cover the removal of abandoned or broken down vehicles and the authorisation of exceptions and relaxations for other road users from the motorway regulations.

## Board

The composition of the Management Board of the Agency during the year was:

Tim Matthews	Chief Executive to 30 June 2003
Stephen Hickey	Acting Chief Executive from 1 July to 23 November 2003
Archie Robertson	Chief Executive from 24 November 2003
Ginny Clarke	Safety, Standards and Research Director
Hilary Chipping	Network Strategy Director. Acting Corporate Director to 6 April 2003
Mel Quinn	Finance Services Director
Steve Rowsell	Procurement Director
Steve Williams	Human Resource Services Director
David York	National Traffic Director from 1 April 2003
Keith Miller	Acting Director of Major Projects from 1 April 2003
Richard Bennett	Corporate Director from 7 April 2003
Gordon Bateman	Non-executive Director
Philippa Foster Back	Non-executive Director

Following a decision by Tim Matthews to take up an appointment in the private sector, Stephen Hickey assumed the Chief Executive responsibility for the Agency. During this period of appointment, Stephen was also Director General for the Driver Vehicle and Operator Group, part of the Department for Transport.

Archie Robertson joined the Agency as Chief Executive on 24 November 2003 having been appointed through open competition. Appointment of members to the Board is undertaken in accordance with the Civil Service Management Code and their remuneration is determined in accordance with Cabinet Office Guidelines, which take into account the recommendations of the Senior Salaries Review Body.

The remuneration of the members of the Management Board is based on senior civil service salary reviews. The remuneration details of the Board are set out in Note 2 to the Accounts.

Since the end of the financial year the following changes have been made:

Keith Miller	Acting Director of Major Projects from 1 April 2003 Appointed Director of Major Projects 22 April 2004
Mel Quinn	Finance Services Director to 27 June 2004 Retired on 30 June 2004
Mel Zuydam	Finance Services Director appointed from 28 June 2004
David York	National Traffic Director to 31 August 2004, when he retired.

### Advisory Board

Responsibility for advising the Secretary of State on the performance of the Agency lies with the Department's Permanent Secretary assisted by an Advisory Board. Members during 2003-2004 were:

Rachel Lomax	Chair, Permanent Secretary, DfT to 30 May 2003
David Rowlands CB	Chair, Permanent Secretary, DfT from 2 June 2003
Tim Matthews	Chief Executive, HA to 30 June 2003
Stephen Hickey	Acting Chief Executive, HA from 1 July 2003 to 23 November 2003
Archie Robertson	Chief Executive, HA from 24 November 2003
David York	National Traffic Director, HA from 1 April 2003
Robert Devereux	Director General, Roads, Regional and Local Transport, DfT
Dennis Roberts	Director, Road Transport, DfT to 11 July 2003 Director, Roads and Vehicles, DfT from 12 July 2003 to 24 December 2003
Steve Gooding	Director, Roads and Vehicles, DfT from 5 January 2004
David Lamberti	Divisional Manager, Roads Policy Division, DfT from 7 April to 15 August 2003
Sarah Thomson	Divisional Manager, Roads Policy Division, DfT from 16 August 2003
Linda Phipps	External Member
Richard Hunt	External Member
Dennis Morrison	External Member, term of office ended on 30 September 2003
Ann Hemingway	External Member

**Equal opportunities**

The Highways Agency is committed to ensuring the equal and fair treatment of all its staff and of all applicants for employment. The Agency has an equal opportunities team which maintains liaison with the Department's equal opportunities team. In addition, the Chief Executive is responsible for ensuring that the Agency's equal opportunities policies are actively promoted and meet statutory and departmental requirements.

**Disabled persons policy**

The Agency is committed to complying with The Disability Discrimination Act 1995 and to helping disabled staff make the most of their opportunities for selection, promotion and development. The Agency is proud of being awarded the two tick Disability Symbol by the Employment Service, which enables staff with disabilities to be guaranteed an interview for a post provided they meet the essential criteria specified.

**Employee involvement**

The Agency attaches great importance to consultation with staff and their recognised Trade Union representatives; to the need to make full use of the skills and talents of staff; and to provide staff with opportunities to contribute to decisions affecting their jobs and careers. Consultative arrangements with recognised trade unions are maintained through the Whitley system.

**Policy on payment of suppliers and payment performance**

The Agency aims to settle 98% of undisputed invoices within contract terms. During 2003-04 the Agency paid on average 87.2% (2002-03 79.4%) of undisputed invoices within terms achieving 95.9% in March 2004. The monthly results showed a steady improvement on the performance in the previous year as corrective measures took effect and staff became more familiar with the new accounting system, which was introduced on 7 May 2002. We expect to see further improvements in performance in the current financial year.

**Auditors**

The accounts have been audited by the Comptroller and Auditor General (C&AG) under the Government Resources and Accounts Act 2000. His opinion is expressed on pages 45 to 46.



**Archie Robertson**  
Accounting Officer

23 September 2004

## Statement of Highways Agency and Chief Executive's responsibilities

Under Section 7(2) of the Government Resources and Accounts Act 2000, the Agency is required to prepare Accounts for each financial year, in conformity with a Treasury direction. The Accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year-end and of its income and expenditure, recognised gains and losses, and cash flows for the financial year.

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

In preparing the Accounts the Accounting Officer is required to comply with the Resource Accounting Manual prepared by HM Treasury and in particular to:

- observe 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 have been followed and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Agency will continue in operation.

The responsibilities of the Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable, for keeping proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting.



**Archie Robertson**  
Accounting Officer

23 September 2004

# Statement on internal control

## **1. Scope of responsibility**

- 1.1 As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Agency's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.
- 1.2 Ministers receive direct reports on risks to key initiatives (e.g. development of Traffic Operations), the outcome of key Gateway Reviews (e.g. that of the Targeted Programme of Improvements) and other key risk areas as necessary. They receive reports on risks to delivery of Public Service Agreement Targets through the DfT reporting system.
- 1.3 During the year 2003-04 the Government gave the Agency the new role of traffic management. This meant that we experienced sudden, large scale, rapid changes in our structure, role and culture. Change of this size and speed gives significant challenges to any system of internal control, but I am pleased to report that the Agency's control systems met this challenge, were maintained at a level at least as good as that in 2002-03 and were improved in some areas.
- 1.4 My staff work closely with their counterparts in the Department for Transport to ensure that risk management, planning and performance measurement systems are compatible, clear accountability for risk management is agreed, joint action is taken where appropriate to manage, transfer or tolerate risks, and the Department is kept informed of risks as appropriate.

## **2. The purpose of the system of internal control**

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. 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. The system of internal control has been in place in the Highways Agency for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### **3. Capacity to handle risk**

- 3.1 The Highways Agency Board, 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. This team develops and maintains procedures for risk management, and identifies and spreads good practice internally. Additionally the risk management adviser participates in benchmarking and information exchange with a wide range of public and private sector bodies.
- 3.2 Risk management guidance is available to all staff. The guidance explains the Agency's underlying approach to risk management, documents the roles and responsibilities of the Highways Agency Board (HAB), managers and staff, outlines key aspects of the risk management process and identifies the main reporting procedures.
- 3.3 Training in governance, internal control and risk management has been delivered to senior managers, and some operational staff have attended risk management awareness seminars.

### **4. The risk and control framework**

- 4.1 The Highways Agency Board sets the Agency's risk appetite in line with that of the DfT Board. The risk appetite is set to ensure that all risks with high residual impact on the Agency's performance or stewardship of public funds or on the Agency's or the wider Government's reputation receive focused management attention, that decisions to tolerate or treat risks are made on cost-justified grounds, and that where appropriate action is escalated through the line management chain to DfT and Ministers. Priority is given to risks to achievement of the DfT's targets of reducing congestion and improving safety, and those to stewardship of public resources and assets.
- 4.2 Risk management is an integral part of the Agency's management and project planning procedures. Risks to successful delivery of the Agency's operational and control objectives are identified and evaluated by managers when formulating directorate and divisional management plans, by project sponsors when formulating project plans, and at strategic level by the Board.
- 4.3 As part of the routine risk reporting process staff and managers are required to identify new or increased risks and opportunities, for discussion and reporting to senior management and the Board. Risk is a standard agenda item in team meetings in many areas of the Agency. Key risks and their handling are included in Directorates' performance reporting arrangements.
- 4.4 Risks are reviewed, the effectiveness of risk treatments and their impact on residual risk are monitored, and changes identified and evaluated throughout the year, as part of routine management activity. Risk owners make quarterly stewardship reports on their handling of operational risk as part of the cycle of performance management and reporting. The Board allocates the management of strategic risks to nominated directors who report back as appropriate through the year.

4.5 Risks to public stakeholders arise from many aspects of the development and operation of the strategic highways network.

In developing new works, the public are involved in risk management through the statutory consultation process.

In operations, I and my senior staff regularly meet with stakeholder groups and consider their views on risks to their interests in these meetings.

4.6 Risk management informs a number of internal control processes designed to fulfil the following 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 safely to time/ cost / quality;
- to ensure that the quality of Agency projects and advice are effective, accurate and timely; and
- to ensure that HA people and procedures comply with relevant legal, government, departmental and technical standards and requirements.

## **5. Review of effectiveness**

5.1 As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and 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 and the Audit Committee. A plan to address weaknesses and ensure continuous improvement of the system is in place.

5.2 The Highways Agency Board (which comprises the senior members of the Agency and two 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.

5.3 The Audit Committee is made up of the two non-executive directors, one of whom chairs it, and three Highways Agency Board members. I, together with my Head of Internal Audit, and representatives from the DfT and National Audit Office attend as observers. The independent chairman of the Audit Committee advises as appropriate on key risk and control issues.

5.4 My Head of Internal Audit provides regular reports on key risk and control issues, to standards defined in the Government Internal Audit Manual, and provides 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 2003-04 is that on the basis of the evidence obtained during 2003-04 he can provide an overall assurance level as follows:

- Risk Management - MEDIUM to HIGH;
- Risk Handling / Internal Control - MEDIUM to LOW; and
- Governance - MEDIUM.

This means that our governance and risk management arrangements, whilst open to some improvement, are broadly satisfactory, but significant work (some of which is outlined below) is necessary to bring risk handling and internal control up to a satisfactory standard.

5.5 Managers make regular reports on the steps they are taking to manage risks in their areas of responsibility including progress reports on key projects.

5.6 The following actions are in hand to accelerate improvements in areas where the control environment gives Medium to Low assurance:

- Monthly Management Accounts have been developed;
- A monthly financial risk monitoring tool has been developed;
- The structure of the finance function is under review, with the aim of embedding financial control into the business;
- A system of top down monthly business reviews is being developed;
- A system of Stewardship reporting by senior managers is being introduced; and
- Improvements in the definition of our processes and internal controls and the guidance on how they are to be operated are being introduced.



**Archie Robertson**  
Accounting Officer

23 September 2004

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

I certify that I have audited the financial statements on pages 47 to 84 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 51 to 57.

## **Respective responsibilities of the Agency, the Chief Executive and Auditor**

As described on page 40 the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and 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 if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 41 to 44 reflects the Agency's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

## **Basis of audit opinion**

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements.

It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

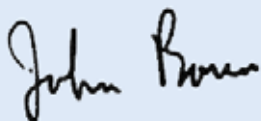
I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In my opinion:

- The financial statements give a true and fair view of the state of affairs of the Highways Agency at 31 March 2004 and of the net operating cost, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; 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

29 September 2004

**Operating Cost Statement for the year ended 31 March 2004**

	Note	2003-04 £000	Restated 2002-03 £000
<b>Administration Costs</b>			
Staff costs	2	59,752	54,530
Cost of capital charge		1,221	1,769
Audit fee		388	379
Other administration costs	3a	34,406	30,070
<b>Gross administration costs</b>		<b>95,767</b>	<b>86,748</b>
Operating income			
appropriated in aid	4	(3,370)	(3,123)
not appropriated in aid	4	(4,908)	(4,206)
<b>Net Administration Costs</b>		<b>87,489</b>	<b>79,419</b>
<b>Programme Costs</b>			
Staff costs	2	123	-
Cost of capital charge		2,117,413	3,515,522
Programme expenditure	3b	1,696,324	1,362,042
<b>Gross programme costs</b>		<b>3,813,860</b>	<b>4,877,564</b>
Operating income			
appropriated in aid	4	(33,020)	(29,081)
not appropriated in aid	4	(28,861)	(17,780)
<b>Net Programme Costs</b>		<b>3,751,979</b>	<b>4,830,703</b>
<b>Net Operating Costs</b>		<b>3,839,468</b>	<b>4,910,122</b>
<b>Net Resource Outturn</b>		<b>3,873,237</b>	<b>4,932,108</b>

Net resource outturn represents the net operating cost less operating income not appropriated in aid. All amounts relate to continuing activities.

**Statement of Recognised Gains and Losses for the year ended 31 March 2004**

	Note	2003-04 £000	Restated 2002-03 £000
Gain on the revaluation of tangible fixed assets	18	5,163,286	5,882,140
<b>Total recognised gains &amp; losses relating to the year</b>		<b>5,163,286</b>	<b>5,882,140</b>
Reversionary interest on M6 toll	18	91,785	-
Other in year adjustments relating to prior year transactions	18	(225,249)	64,189
Prior year adjustments		-	31,558
<b>Total recognised gains &amp; losses since the last account</b>		<b>5,029,822</b>	<b>5,977,887</b>

The notes on pages 51 to 84 form part of these accounts.

*The comparative figures have been restated following the detrunking of certain non-core roads to local authorities (see Note 3b)*

<b>Balance Sheet as at 31 March 2004</b>			
	Note	31st March 2004 £000	Restated 31st March 2003 £000
<b>Fixed Assets</b>			
Tangible assets	5	69,025,417	64,103,143
Intangible assets	6	1,620	2,307
		<b>69,027,037</b>	<b>64,105,450</b>
<b>Debtors: amount due after more than one year</b>	7	141,176	121,937
<b>Current Assets</b>			
Stocks	9	15,373	9,226
Debtors: amounts due within one year	10	55,259	96,415
Cash at bank and in hand	11	2,750	51,028
		<b>73,382</b>	<b>156,669</b>
Creditors: amounts falling due within one year	12	(436,673)	(543,185)
<b>Net Current Liabilities</b>		<b>(363,291)</b>	<b>(386,516)</b>
<b>Total Assets less Current Liabilities</b>		68,804,922	63,840,871
<b>Creditors: amounts falling due after more than one year</b>	13	(1,006,108)	(1,000,851)
<b>Provisions for liabilities and charges</b>	14	(423,531)	(564,011)
		<b>67,375,283</b>	<b>62,276,009</b>
<b>Taxpayers Equity</b>			
General fund	18	41,686,792	41,581,041
Revaluation reserve	18	25,688,491	20,694,968
		<b>67,375,283</b>	<b>62,276,009</b>

The notes on pages 51 to 84 form part of these accounts.

*The comparative figures have been restated following the detrunking of certain non-core roads to local authorities (see Notes 1.2 and 5).*



**Archie Robertson**  
Accounting Officer

23 September 2004

<b>Cash Flow Statement for the year ended 31 March 2004</b>		
	2003-04	Restated 2002-03
	£000	£000
<b>Net cash outflow from operating activities</b>	(1,289,538)	(883,032)
<b>Servicing of Finance: interest element of PFI payments</b>	(54,466)	(55,670)
<b>Capital expenditure and financial investment</b>	(437,758)	(733,737)
<b>Net cash outflow before financing</b>	<b>(1,781,762)</b>	<b>(1,672,439)</b>
<b>Financing</b>	1,733,484	1,681,642
<b>(Decrease)/increase in cash in the period</b>	<b>(48,278)</b>	<b>9,203</b>
<b>Reconciliation of operating cost to operating cash flows</b>		
<b>Net Operating Cost</b>	(3,839,468)	(4,910,122)
Adjustments for non-cash transactions:		
Depreciation / impairment / amortisation	337,463	161,469
Capital expenditure adjustment (deficit on fixed asset revaluation)	208,757	79,551
(Profit) / loss on disposal of fixed assets	(439)	(2,196)
Cost of capital charge	2,118,634	3,517,291
Notional audit fee	388	379
Movements in working capital other than cash	(36,261)	119,656
(Increase) in debtors due after one year	(19,239)	(7,349)
Decrease / (increase) in creditors due after one year	5,257	(16,421)
(Decrease) / increase in provisions for liabilities	(140,480)	98,920
Adjustment for capital and interest element of PFI payments	75,850	75,790
<b>Net cash outflow from operating activities</b>	<b>(1,289,538)</b>	<b>(883,032)</b>
<b>Analysis of capital expenditure and financial investment</b>		
Investments in the road network	(435,168)	(741,695)
Other fixed asset additions	(6,464)	(3,549)
Intangible fixed asset additions	(440)	-
Proceeds from sale of fixed assets	4,314	11,507
<b>Net cash outflow from investing activities</b>	<b>(437,758)</b>	<b>(733,737)</b>



**Cash Flow Statement** for the year ended 31 March 2004 *cont.*

	2003-04 £000	Restated 2002-03 £000
<b>Analysis of financing</b>		
Supply estimate granted RfR1	1,792,000	1,725,000
Less detrunking spend	(6,046)	(10,530)
Consolidated Fund Extra Receipts received in prior year and paid over	(9,622)	(6,522)
Consolidated Fund Extra Receipts in year receipts paid over	(21,464)	(6,186)
Capital element of payments in respect of on-balance sheet PFI contracts	(21,384)	(20,120)
<b>Net financing</b>	<b>1,733,484</b>	<b>1,681,642</b>
Decrease / (increase) in cash	48,278	(9,203)
<b>Net cash flows other than financing</b>	<b>1,781,762</b>	<b>1,672,439</b>
<b>Supply financed repayment of financing</b>		
Capital element of payments in respect of on-balance sheet PFI contracts	21,384	20,120
<b>Net cash requirement</b>	<b>1,803,146</b>	<b>1,692,559</b>
Amount of grant actually issued to support the net cash requirement =	£1,792,000,000.00	
<i>The notes on pages 51 to 84 form part of these accounts.</i>		

# Notes to the 2003-04 Agency Accounts

## 1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2003-2004 Resource Accounting Manual (RAM) issued by HM Treasury and prepared according to an Accounts Direction issued under Section 7 of the Government Resources and Accounts Act 2000. Where the RAM permits the choice of accounting policy, the accounting policy that has been judged to be most appropriate to the particular circumstances of the Highways Agency for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted by the 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.

The detrunkings of non-core roads to local authorities are treated as a transfer of function. Merger accounting principles have been applied and comparatives have been restated in accordance with FRS6: Acquisitions and Mergers.

### 1.2 Prior year adjustments

The detrunking and trunking of roads and their treatment under merger accounting has given rise to the following restatement to balances as at 31 March 2003:

	<b>As previously stated</b>	<b>Adjustment</b>	<b>As restated</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Tangible assets - cost	77,111,818	(2,765,296)	74,346,522
Tangible assets - depreciation	<u>(10,600,616)</u>	<u>357,237</u>	<u>(10,243,379)</u>
	66,511,202	(2,408,059)	64,103,143
General fund	(43,254,883)	1,673,842	(41,581,041)
Revaluation reserve	(21,429,185)	734,217	(20,694,968)
Capital maintenance (Note 3b)	409,860	(5,899)	403,961

### 1.3 Tangible fixed assets

Freehold land and buildings have been valued on the basis of open market value for existing use. Valuations are undertaken by professional surveyors at intervals not exceeding five years and are adjusted using appropriate indices in the intervening years. Assets held for resale, being land and property released from road schemes, are valued at open market value, less a provision for selling costs.

The motorway and trunk road network is valued at depreciated replacement cost. The network assets comprise carriageways, including earthworks, tunnelling and road pavements, roadside communications, bridges and other structures, and land and buildings within the highway's perimeter. Together these assets form a network infrastructure that is intended to be maintained at a specific level of service potential by continuing replacement and refurbishment.

The road network assets are valued by reference to internal costing and physical asset records. A full revaluation is undertaken by professional surveyors at intervals not exceeding five years. In intervening years these valuations are adjusted using appropriate indices and adjusted for any additions or disposals. The estimated un-expired life of the network is reassessed annually and the valuation adjusted as required.

Other tangible assets with the exception of IT hardware and office equipment have been stated at current cost using appropriate indices.

Expenditure on national road building schemes in the course of design or construction is capitalised at cost. Major schemes in the course of design are only capitalised when Ministers have agreed to their inclusion in the Department's Targeted Programme of Improvement (TPI). Up until this point any costs (excluding land and property costs) are written off to the Operating Cost Statement as incurred. All expenditure on schemes that subsequently become part of the TPI programme is capitalised once approved by the Secretary of State.

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 and valued as an asset held for resale.

The M6 Toll Road will revert to the Secretary of State in 2054. The Secretary of State's interest in the road is disclosed within Assets under Construction (Note 5). The road has been entirely financed by Midland Expressway Limited, who are recovering their costs through tolls. The increase in the reversionary interest has been recognised through the Statement of Recognised Gains and Losses.

Expenditure on Assets under Construction and major database developments include capitalisable staff costs allowable under HM Treasury guidelines set out in the Public Expenditure paper PES (98) 25 'Definition of Capital Expenditure'.

The minimum level for capitalisation of tangible assets is:

For infrastructure assets	£100,000
For other assets (excluding land)	£2,000
For land	no minimum

Other than assets included within the road network and ring-fenced relocation projects, there are no grouped assets.

## 1.4 Depreciation

### Network assets

The Agency applies renewals accounting, as described in chapter 3.5 of the RAM, to calculate depreciation for those network assets that meet the renewals criteria. For all other network assets the Agency calculates depreciation in accordance with accounting standard FRS15: Tangible Fixed Assets, as directed in chapter 3.2.30 of the RAM.

The components of the road network are depreciated over their expected lives, as follows:

Surface layer of flexible pavements	renewals accounting
Sub pavement layer of determinate life pavements	renewals accounting
Fencing, drainage, lighting, signage, kerbs, footways	renewals accounting
Road markings and studs	renewals accounting
Rigid concrete pavements	renewals accounting
Road bridges, tunnels and underpasses	20 to 120 years, straight-line
Road culverts	20 to 120 years, straight-line
Retaining walls	20 to 120 years, straight-line
Gantries	20 to 120 years, straight-line
Road communications assets	15 to 50 years, straight-line

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.

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 network components are considered to have an indefinite life and are not depreciated:

Freehold land	no depreciation
Sub pavement layer of long life pavements	no depreciation
Earthworks	no depreciation

**Non-network assets**

No depreciation is provided on freehold land.

Depreciation on assets is provided at rates calculated to write off the valuation of freehold buildings and other tangible fixed assets on a straight-line depreciation method. Lives are normally in the following ranges:

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

**1.5 Intangible fixed assets**

Purchased computer software licences are capitalised where expenditure of £2,000 or more is incurred. These are valued at historical cost and amortised over three to five years on a straight-line basis. The reversionary interest in assets held by Le Crossing Company Limited at 31 March 2004 has been valued at depreciated replacement cost. These assets reverted to the Agency on 1 April 2003.

**1.6 Stocks**

Stocks are valued at cost, or 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.

**1.7 Research and development**

Expenditure on research is not capitalised. Expenditure on development expenditure is capitalised if it meets the criteria specified in the RAM which are adopted from SSAP13: Accounting for Research and Development to take account of the not-for-profit context. Expenditure that does not meet the criteria for capitalisation is treated as an operating cost 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.

**1.8 Operating income**

Operating income is income that relates directly to the operating activities of the Agency. It principally comprises fees and charges for services on a full-cost basis to external customers as well as public repayment work. It includes not only income appropriated in aid of the Estimate but also income due to the Consolidated Fund, which in accordance with the RAM is treated as operating income. Operating income is stated net of VAT.

**1.9 Administration and programme expenditure**

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running the Agency and are stated net of associated operating income. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the Agency as well as certain staff costs where they relate directly to service delivery and are stated net of associated operating income.

Income is analysed in the notes between that which, under the administrative and programme cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the Agency's administrative cost limit and that operating income which is not.

**1.10 Capital charge**

A charge, reflecting the cost of capital utilised by the Agency, is included in operating costs. For the year under review, the rate of charge, set by H M Treasury, is 3.5% (2002-03 6%) of average capital employed during the year, after removing in year movements in the revaluation of assets. The rate of charge/credit is nil on cash balances with the Office of the Paymaster General.

**1.11 Pensions**

Past and present past employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is non-contributory and un-funded. Although the Scheme is a defined benefit scheme, liability for payments of future benefits is a charge to the PCSPS. Departments, agencies and other bodies covered by the PCSPS meet the cost of pension cover provided for the staff they employ by payment of charges calculated on an accruing basis. There is a separate scheme statement for the PCSPS as a whole.

**1.12 Early departure costs**

The Agency is required to meet the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early. The Agency provides in full for this cost when the early retirement programme has been announced and is binding on the Agency. The Agency has settled most of its liability in advance by making a payment to the Superannuation scheme Paymaster account. The amount provided is shown gross of any such prepayments.

**1.13 Operating leases**

All costs of operating leases are charged to the Operating Cost Statement as incurred.

**1.14 Private Finance Initiative (PFI) transactions**

PFI transactions have been accounted for in accordance with Technical Note No.1 (Revised), entitled How to Account for PFI Transactions as required by the RAM. 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, a prepayment for their fair value is recognised and amortised over the life of the PFI contract. Where at the end of the PFI contract a property reverts to the Agency, the difference between the expected fair value of the residual asset on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year.

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. Contract payments are apportioned between an imputed finance lease charge and a service charge.

The Agency currently has nine PFI properties in service (Design, Build, Finance and Operate contracts). All these properties are recognised as being assets of the Agency and are valued at depreciated replacement cost in accordance with the Agency's road valuation model. The separately disclosed value of PFI properties in these accounts is based on a calculation using the original public sector comparator costs indexed up to the current day.

The Secretary of State's reversionary interest in the M6 toll road is disclosed within Assets under Construction (Note 5). The road has been entirely financed by Midland Expressway Limited, who are recovering their costs through tolls.

**1.15 Provisions**

The Agency provides for legal and constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury discount rate of 3.5% in real terms. Where appropriate, liabilities that do not meet the provisions criteria have been classified as contingent liabilities.

**1.16 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.

**2. Staff numbers and costs**

	<b>2003-04 No.</b>	<b>Restated 2002-03 No.</b>
The average number of whole time equivalent persons employed (including senior management) during the year was as follows:	1,789	1,677
The average number of agency, temporary and contract staff during the year was as follows:	224	257
The aggregate payroll costs of these persons were as follows:	<b>£000</b>	<b>£000</b>
Wages and salaries	51,272	46,568
Social Security costs	4,255	3,472
Other pension costs	7,306	6,678
Agency staff	5,135	5,202
	<b>67,968</b>	<b>61,920</b>
Less capitalised wages and salaries	(8,093)	(7,390)
<b>Net</b>	<b>59,875</b>	<b>54,530</b>
Average number of staff engaged on capital projects	202	256

Wages and salaries have been adjusted by £5,135,000 (2002-03 £5,202,000) being Agency/contract staff costs previously reported as other administration costs in Note 3a. A further adjustment of £8,093,000 (2002-03 £7,390,000) has been made for in-house costs for staff involved in the development of major roads and computer projects. These have been capitalised in accordance with Note 1.3.

Wages and salaries include gross salaries, performance bonuses payable, reserved rights to London weighting or London allowances, recruitment and retention allowances, and long-term detached duty allowances as well as costs relating to agency, temporary and contract staff engaged by the Agency on a contract to undertake a project or task. Previously these costs have been reported as "other administration costs".

For 2003-04, employers' contributions of £7,325,000 were payable to the PCSPS (2002-03 £6,721,000) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same next year, subject to review of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Pension benefits are provided through the Civil Service pension arrangements. The PCSPS is an unfunded multi-employer defined benefit scheme but 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.

From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder based arrangement with a significant 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. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

#### **(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 up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

#### **(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. Pensions payable under classic, premium, and classic plus are increased in line with the Retail Prices Index.

**(d) Partnership pension account**

This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. 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% (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). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum. Employers' contributions of £10,942 were paid to one or more of a panel of four appointed stakeholder pension providers during 2003-04.

<b>The emoluments of Tim Matthews, as Chief Executive from 1 April 2003 up to 30 June 2003 were as follows:</b>	<b>2003-04 £000</b>
Salary and pension	57
Performance bonus	-
Taxable benefits	-
<b>Total</b>	<b>57</b>
<b>The emoluments of Archie Robertson, as Chief Executive from 24 November 2003 up to 31 March 2004 were as follows:</b>	<b>2003-04 £000</b>
Salary and pension	58
Performance bonus	-
Taxable benefits	-
<b>Total</b>	<b>58</b>

The emoluments of Stephen Hickey, Acting Chief Executive between 1 July 2003 and 23 November 2003, were paid directly by the Department for Transport, in his capacity of Director General for the Driver Vehicle and Operator Group.

The salary, pension entitlements and the value of any taxable benefits in kind of members of the Management Board for the year to 31 March 2004 were as follows:

	<b>Age</b>	<b>Salary, including performance pay</b>	<b>Benefits in kind</b>	<b>Real increase in pension at age 60</b>	<b>Real increase in lump sum</b>	<b>Total accrued pension at age 60 at 31 March 2004</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
A Robertson	50	55 - 60	-	0 - 2.5	-	0 - 5
G Clarke	49	95 - 100	-	10.0 - 15.0	30.0 - 35.5	25 - 30
H Chipping	49	95 - 100	-	0.0 - 2.5	0.0 - 2.5	25 - 30
D York	53	90 - 95	0.3*	2.5 - 5.0	7.5 - 10.0	35 - 40
M Quinn	54	85 - 90	-	0 - 2.5	2.5 - 5.0	35 - 40
S Williams	53	80 - 85	-	0 - 2.5	2.5 - 5.0	25 - 30
S Rowsell	50	75 - 80	-	0 - 2.5	0 - 2.5	25 - 30
R Bennett	45	70 - 75	-	0 - 2.5	0 - 2.5	20 - 25
K Miller	51	70 - 75	-	2.5 - 5.0	10.0 - 15.0	20 - 25
T Matthews	52	55 - 60	-	40.0 - 45.0	125 - 130	45 - 50

In 2003-2004, the non-executive directors of the Board received the following remuneration for their services:

G Bateman	15 - 20
P Foster Back	5 - 10

*\* the estimated monetary value of benefits in kind covers any benefits provided and treated by the Inland Revenue as taxable income. David York had an interest free loan for relocation expenses. The benefit represents the interest that would have been charged, based on the current market rate.*

	<b>Related lump sum at age 60 £000</b>	<b>CETV at 31 March 2004 £000</b>	<b>CETV at 31 March 2003 £000</b>	<b>Employee Contributions and transfers in £</b>	<b>Real increase in CETV as funded by employer (nearest £000)</b>
A Robertson	-	7	-	1,245	6
G Clarke	95 - 100	483	296	12,109	158
H Chipping	80 - 85	443	415	3,098	25
D York	115 - 120	654	571	1,364	49
M Quinn	110 - 115	662	611	6,993	19
S Williams	85 - 90	501	448	1,236	26
S Rowsell	80 - 85	420	385	1,133	11
R Bennett	65 - 70	299	281	660	4
K Miller	70 - 75	400	315	1,952	65
T Matthews#	135 - 140	751	64	662,137	43

*# includes supplementary scheme*

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

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It 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 pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total service, not just their current appointment as a Board member. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in the value of the CETV - this takes account of the increase in accrued pension due to inflation and is net of contributions paid by the Board member and is calculated using common market valuation factors for the start and end of the period.

**3a. Other administration costs**

	<b>2003-04</b> <b>£000</b>	<b>Restated</b> <b>2002-03</b> <b>£000</b>
<b>Rentals under operating leases:</b>		
Hire of plant and machinery	86	71
Other operating leases	5,810	6,288
<b>Non-cash items:</b>		
Depreciation		
tangible fixed assets	4,805	2,338
intangible fixed assets	463	1,062
Provisions:		
migration costs	-	(25)
other provisions provided in year	111	85
Provision for doubtful debts	26	268
<b>IT and telecommunications</b>	4,778	3,285
<b>Property management and accommodation charges</b>	5,689	5,700
<b>Travel and subsistence</b>	4,330	3,444
<b>Training and development</b>	3,141	2,500
<b>Printing, stationery and office equipment</b>	1,577	672
<b>Recruitment</b>	1,580	893
<b>Other administration costs</b>	2,010	3,489
<b>Total</b>	<b>34,406</b>	<b>30,070</b>

Other administration costs for 2002-03 have been adjusted by £5,202,000. These costs have been reclassified as Staff Costs from 2003-04 (see Note 2).

**3b. Programme costs**

	<b>2003-04</b>	<b>Restated</b>
	<b>£000</b>	<b>2002-03</b>
		<b>£000</b>
<b>Research and development expenditure</b>	13,393	9,872
<b>Capital maintenance (note 1.3)</b>	414,624	403,961
<b>Current maintenance</b>	410,508	252,191
<b>Non-cash items:</b>		
Depreciation		
tangible fixed assets	328,565	155,170
intangible fixed assets	-	168
Impairment of non roads fixed assets	3,630	2,731
Write down in value of roads assets	208,757	54,245
Provision for doubtful debts	454	6,403
Provision for slow moving stock	912	3,464
Provisions:		
provided in year	55,193	152,754
unwinding of discount on provisions	7,103	37,953
Loss on sale of programme assets	668	2,030
<b>Interest on DBFO finance leases</b>	54,466	55,670
<b>DBFO contract shadow toll payments</b>	134,606	128,197
<b>Other programme expenditure</b>	63,445	97,233
<b>Total</b>	<b>1,696,324</b>	<b>1,362,042</b>

Programme costs reflect the cost of maintaining and operating the network (excluding administration costs).

For comparative purposes, the 2002-03 capital maintenance figure has been reduced by £5,899,000 being spend relating to roads detrunked in the current year, and treated as a de-merger in accordance with FRS6: Acquisitions and Mergers. This adjustment is also reflected in the Cash Flow Statement.

## 4. Operating income

	-----	2003-04	-----	2002-03
	£000	£000	£000	£000
Operating income analysed by classification and activity is as follows:	<b>Appropriated in aid</b>	<b>Not appropriated in aid</b>	<b>Total</b>	<b>Total</b>
Administration income				
Fees	954	-	954	991
Recoveries	1,896	-	1,896	1,686
Other	1,099	4,329	5,428	4,652
Recoveries in excess of AinA	(579)	579	-	-
	<b>3,370</b>	<b>4,908</b>	<b>8,278</b>	<b>7,329</b>
Programme income				
External customers	19,391	-	19,391	18,935
Rent - external tenants	3,129	-	3,129	3,085
Claims against third parties	6,057	-	6,057	5,420
External interest receivable	-	7,691	7,691	6,944
EU grant	-	5,410	5,410	2,185
Other CFER	-	9,946	9,946	3,891
Profit on sale of fixed assets	1,107	-	1,107	4,226
Other	9,150	-	9,150	2,175
Recoveries in excess of AinA	(5,814)	5,814	-	-
	<b>33,020</b>	<b>28,861</b>	<b>61,881</b>	<b>46,861</b>

Operating income principally comprises:

- rent from properties acquired for road schemes which have yet to be disposed of, recoveries from third parties for damage to the network;
- interest for the Severn Bridge subordinated loan (see Note 7);
- other fees and charges provided on a full-cost basis to external customers, as well as public repayment work; and
- monies due from Midland Expressway Limited in respect of Land acquisition costs for the M6 toll road.

It includes both income appropriated-in-aid relating to the Agency's Request for Resources, and income to the Consolidated Fund Extra Receipts (CFER), which HM Treasury had agreed should be treated as operating income.

## 5. Tangible fixed assets

	Trunk road network	Assets under construction	Land & Buildings excluding Dwellings	Dwellings	Plant & equipment	Database development	Total
	£000	£000	£000	£000	£000	£000	£000
<b>At Replacement Cost or Valuation</b>							
At 1 April 2003 restated (1)	72,830,956	1,174,636	167,308	55,359	92,666	25,597	74,346,522
Adjustment to opening position (2)	(172,544)	77,550	(587)	562	(763)	-	(95,782)
Capitalisation of salaries	-	8,093	-	-	-	-	8,093
Capital expenditure	-	427,075	2,790	475	3,199	-	433,539
Capital expenditure adjustments	-	(208,757)	-	-	-	-	(208,757)
Disposals	-	-	-	(3,875)	-	-	(3,875)
Revaluation	5,638,102	-	10,348	10,878	1,106	-	5,660,434
Impairments	-	-	-	(3,630)	-	-	(3,630)
Transfers & reclassifications	525,487	(540,017)	(6,226)	6,304	1,061	13,841	450
<b>At 31 March 2004</b>	<b>78,822,001</b>	<b>938,580</b>	<b>173,633</b>	<b>66,073</b>	<b>97,269</b>	<b>39,438</b>	<b>80,136,994</b>
<b>Accumulated Depreciation</b>							
At 1 April 2003 restated (1)	10,151,762	-	9,121	-	71,812	10,684	10,243,379
Adjustment to opening position (2)	36,556	-	1,124	-	-	-	37,680
Charge for the year depreciation	321,012	-	2,229	-	4,626	5,503	333,370
Disposals	-	-	-	-	-	-	-
Revaluation	497,148	-	-	-	-	-	497,148
<b>At 31 March 2004</b>	<b>11,006,478</b>	<b>-</b>	<b>12,474</b>	<b>-</b>	<b>76,438</b>	<b>16,187</b>	<b>11,111,577</b>
<b>Net Book Value</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>At 31 March 2004</b>	<b>67,815,523</b>	<b>938,580</b>	<b>161,159</b>	<b>66,073</b>	<b>20,831</b>	<b>23,251</b>	<b>69,025,417</b>
<b>At 31 March 2003 restated</b>	<b>62,679,194</b>	<b>1,174,636</b>	<b>158,187</b>	<b>55,359</b>	<b>20,854</b>	<b>14,913</b>	<b>64,103,143</b>
<b>Asset financing</b>							
Owned	66,591,793	846,795	161,159	66,073	20,831	23,251	67,709,902
On-balance sheet PFI contracts*	1,223,730	-	-	-	-	-	1,223,730
PFI residual interest	-	91,785	-	-	-	-	91,785
<b>Net book value at 31 March 2004</b>	<b>67,815,523</b>	<b>938,580</b>	<b>161,159</b>	<b>66,073</b>	<b>20,831</b>	<b>23,251</b>	<b>69,025,417</b>

\* This has been calculated using the original public sector comparator costs indexed up to current day and only includes assets built by the Design, Build, Finance and Operating companies.

The trunk road network balance as at 1 April 2003 as follows:

1) In accordance with FRS6: Acquisitions and mergers, the balances at 1 April 2003 are stated after removing 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 (see Note 20). The value of trunk roads transferred from local authorities to the Agency is also included; and

2) A further adjustment of (£209,100,000) 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 (£120,662,000);
- Re-referencing variance - an adjustment arising from the re-measurement of road length (£89,512,000); and
- Route variation - a valuation adjustment following changes in route management responsibilities £1,074,000.

A full revaluation of the motorway and trunk road network was carried out by E C Harris, Professional Surveyors as at 31 March 2000. This valuation was carried out mainly using internal unit costing and physical asset records provided by the Agency. Certain large structures are valued at historic cost, appropriately indexed to the balance sheet date, or insurance valuations have been used as the best approximation replacement cost. The Agency is not aware of any changes in unit costs or asset records that would materially affect the valuation of these assets.

Between valuations, the network is adjusted annually, principally using the following indices:

Road and structures	ROCOS (resource cost index of road construction)
Land	based on VOA property market reports

ROCOS is published on a quarterly basis by the Department of Trade and Industry (DTI) and the land indices are published every six months by the Valuation Office Agency (VOA).

The Assets under construction balance at 1 April 2003 has been adjusted by £77,550,000. This mainly comprises:

- Reversionary interest of £91,785,000, based on the current net book value (which is projected forward then discounted back) of the M6 toll road. This will be built up and indexed over the life of the assets until they revert back to the Highways Agency in 2054; and
- An adjustment of (£14,235,000) for a scheme which transferred into the completed road network in a previous year.

The capital expenditure adjustment totalling £208,757,000 comprises:

- The write down of assets under construction costs for non TPI schemes of £78,696,000, this being the excess of capital costs over the standard costs for these schemes;
- The write down of assets under construction costs for TPI schemes of £189,331,000, this being the excess of capital costs over standard costs; and
- The write back of assets under construction costs for TPI schemes of (£59,270,000), this being the excess of standard costs over capital costs.

The Agency's surplus property estate was fully and independently valued by the Valuation Office Agency during the year.

**6. Intangible fixed assets**

	<b>Software licences £000</b>	<b>Reversionary Interest £000</b>	<b>Total £000</b>
<b>At Replacement Cost or Valuation</b>			
At 1 April 2003	2,756	832	3,588
Capital expenditure	440	-	440
Disposals (licence expiries)	-	-	-
Revaluation	-	-	-
Transfers & reclassifications	-	(832)	(832)
<b>At 31 March 2004</b>	<b>3,196</b>	<b>-</b>	<b>3,196</b>
<b>Accumulated amortisation</b>			
At 1 April 2003	1,113	168	1,281
Charge for the year	463	-	463
Disposals (licence expiries)	-	-	-
Revaluation	-	-	-
Transfers & reclassifications	-	(168)	(168)
<b>At 31 March 2004</b>	<b>1,576</b>	<b>-</b>	<b>1,576</b>
Net Book Value	£000	£000	£000
<b>At 31 March 2004</b>	<b>1,620</b>	<b>-</b>	<b>1,620</b>
At 31 March 2003	1,643	664	2,307

Software licences are valued at historic cost and amortised over 3-5 years on a straight-line basis.

The reversionary interest relates to ancillary assets held in connection with the Dartford crossing by Le Crossing Company Limited. The Dartford crossing concession ended on 31 March 2002. Most of the ancillary assets were reclassified as Tangible Fixed Assets at 1 April 2002 and the remaining assets transferred to the Agency with effect from 1 April 2003. The valuation of the Dartford bridges and tunnels are also included in the tangible fixed assets.

**7. Debtors: amounts falling due after more than one year**

	<b>31 March 2004 £000</b>	<b>31 March 2003 £000</b>
Severn River Crossing plc:		
Subordinated loan	81,119	78,702
Interest on the subordinated loan	6,169	-
Midland Expressway Limited (MEL) M6 toll	53,253	42,073
Other	635	1,162
<b>Total</b>	<b>141,176</b>	<b>121,937</b>

The Subordinated debt loan represents a £60 million index-linked subordinated loan to Severn River Crossing plc (SRC), which was advanced on 26 April 1992. The increase in the year reflects the current year indexation by means of the RPI, as required in the concession agreement. It carries an interest rate of 6% and is repayable by the year 2022 or earlier.

During 2002-03, the concession agreement with SRC was re-financed following the European Court of Justice ruling that VAT should be applied to tolls levied by private operators. The Government gave a commitment that it would protect the motorist from the impact of the ruling and as part of the refinancing deal, the concession period was extended to allow the concessionaire to toll for a longer period in order to recover these costs.

The Midland Expressway Limited 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 6 years following the road open to traffic, which was achieved in December 2003.

Other long-term debtors comprise:

- Amounts due from Area 8 Managing Agent Contract agreement (£0.5m);
- Staff relocation housing loans (£0.1m). The number of staff members who currently have loans total 36.

**8. Movements in working capital other than cash**

	<b>2003-04</b>	<b>2002-03</b>
	<b>£000</b>	<b>£000</b>
(Increase)/decrease in stocks	(6,147)	1,376
Decrease/(Increase) in debtors: amounts due within one year	41,156	(926)
(Decrease)/Increase in creditors: amounts due within one year	(106,512)	128,483
	(71,503)	128,933
Adjustment: movement in working capital relating to CFERs	35,242	(9,277)
<b>Net decrease in working capital other than cash</b>	<b>(36,261)</b>	<b>119,656</b>

**9. Stocks**

	<b>31 March</b>	<b>31 March</b>
	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Salt	801	1,027
Communications/electrical equipment	12,291	6,325
Other	2,281	1,874
<b>Total</b>	<b>15,373</b>	<b>9,226</b>

Other stock comprises highway damage repair items (for example, barriers) and parts for the repair of bridges, tunnels and special structures.

**10. Debtors: amounts due within one year**

	<b>31 March</b>	<b>31 March</b>
	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Trade debtors	5,570	8,817
Other debtors and advances	10,863	12,395
VAT	30,081	66,235
Prepayments and accrued income	8,745	8,968
	<b>55,259</b>	<b>96,415</b>

Other debtors and advances include the amount due from developers under section 278 of the 1980 Highways Act (£9.5m, net of any provision) as at 31 March 2004 and amounts due relating to Area 8 Managing Agent Contract agreement (£0.5m).

### **Escrow balances**

It is the Agency's practice to receive money from certain developers in advance of any s278 scheme proceeding. These advances are held in interest bearing Escrow accounts at Lloyds TSB Bank, and are drawn down by the Highways Agency as the scheme progresses. At 31 March 2004, the balance on the accounts was £13.6m. This amount is not included in the Agency's cash balance.

Prepayments and accrued income include:

- Prepayments made to Utility Companies under the New Road and Street Works Act (NRSWA) 1991 (£3.9m);
- Prepayments relating to maintenance work on commuted lump sums for DBFO contracts (£3.0m);
- Prepayment of early retirement costs (£0.6m);
- Advance paid to the Valuation Office for valuation services to be provided (£0.5m);
- Prepayments relating to maintenance agreements and for rent due on buildings (£0.4m);
- Prepayments to Local Authorities under the Agency Authority agreement (£0.1m)

**11. Cash at bank**

	<b>31 March 2004 £000</b>	<b>Restated 31 March 2003 £000</b>
Balance at 1 April	51,028	41,825
Net cash inflow/(outflow)	(48,278)	9,203
<b>Balance at 31 March</b>	<b>2,750</b>	<b>51,028</b>
The following balances at 31 March are held at:		
Office of HM Paymaster General	2,743	51,028
Commercial banks and cash in hand	7	-
<b>Balance at 31 March</b>	<b>2,750</b>	<b>51,028</b>
The balance at 31 March comprises:		
Cash due to be paid to the Consolidated Fund:		
Amounts issued from the Consolidated fund for supply but not spent at year end	-	37,713
Amounts due from the Consolidated Fund for supply	(3,171)	-
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	-	2,850
Other		
HA normal business activities	-	(1,781)
Advances received from S278 developers	-	10,560
Road user charges received in Mar 04 to be paid over to DfT	5,921	1,686
	<b>2,750</b>	<b>51,028</b>

**12. Creditors: amounts falling due within one year**

	<b>31 March 2004 £000</b>	<b>31 March 2003 £000</b>
Balances payable to consolidated fund extra receipts	-	15,801
Surplus to be surrendered to the Consolidated Fund (net of undrawn grant)	-	37,713
Trade creditors	58,359	51,958
Accruals and deferred income	339,148	403,252
DBFO finance leases	22,537	21,261
Other creditors	16,629	13,200
	<b>436,673</b>	<b>543,185</b>
Accruals and deferred income is in respect of the following:		
Engineering and construction services	167,287	192,717
Other, including lands, maintenance and shadow tolls	171,861	210,535
	<b>339,148</b>	<b>403,252</b>

Balances due to the Consolidated Fund have been reclassified as long-term creditors - refer Note 13.

Accruals and deferred income include:

- amounts payable on major schemes and to Term Maintenance Contractors and Managing Agents (£249.0m);
- reclassification of Land related costs from provisions (£70.9m); and
- administration accruals (£4.2m)

Other creditors include:

- the value of creditors on Section 278 schemes (£8.1m); and
- monies received from Le Crossing for the Dartford River Crossing road user charges payable to the Department for Transport (£5.9m).

**13. Creditors: amounts falling due after more than one year**

	<b>31 March 2004 £000</b>	<b>Restated 31 March 2003 £000</b>
Amount payable in respect of Severn Bridge subordinated loan	81,119	78,702
Balances payable to consolidated fund extra receipts relating to Severn Bridges subordinated loan	6,169	-
Balances payable to consolidated fund extra receipts relating to the Midland Expressway Limited loan	12,313	-
Amounts payable under DBFO contract	866,804	889,464
Accruals and deferred income	37,410	31,596
Midland Expressway Limited M6 toll	2,293	1,089
	<b>1,006,108</b>	<b>1,000,851</b>

The subordinated loan represents a £60 million index-linked loan to the Severn River Crossing plc. It was advanced on 26 April 1992. It carries an interest rate of 6% and is repayable by the year 2022 or earlier. The increase in the year reflects the current year indexation by means of the Retail Price Index, as required in the concession agreement. On repayment of the loan by Severn River Crossing plc, the amount is payable to the HM Treasury Consolidated Fund.

Balances due to the Consolidated Fund have been reclassified from short-term to long-term creditors. The interest of £6,169,000 due on the Severn River Crossing plc subordinated loan is due at the end of the concession period currently estimated to be 2016 - refer Note 7. The recovery of costs relating to the Midland Expressway Limited of £12,313,000 will be reimbursed to the Agency 6 years following the road open for traffic - refer Note 7.

The amount payable under DBFO contracts represents payments due in respect of the capitalised value of the road improvements in each of the following schemes:

M1-A1	Yorkshire link
A1 (M)	Alconbury-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

Accruals and deferred income include:

- monies retained under the Term Maintenance Contractor Agreements (£19.9m);
- monies due to Term Maintenance Contractors (£12.8m);
- differences between payment applications from the Term Maintenance Contractors and the actual amounts paid (£4.4m);

## 14. Provisions for liabilities and charges

	Note	Land and property acquisition	Engineering and construction services	Bridge strengthening	Early retirement	Migration, pension & other liabs	Total
		£000	£000	£000	£000	£000	£000
Balance at 1 April 2003		388,138	68,799	91,894	1,947	13,233	564,011
Increase in provision and new provisions		98,118	54,397	16,011	156	2,555	171,237
Decrease in provision		(149,307)	(10,602)	(9,842)	(45)	(382)	(170,178)
Utilised in year		(6,963)	(35,372)	(30,964)	(761)	(3,471)	(77,531)
Reclassifications	12	(70,897)	-	-	-	(214)	(71,111)
Unwinding of discount	3	7,103	-	-	-	-	7,103
<b>Discounted Balance at 31 March 2004</b>		<b>266,192</b>	<b>77,222</b>	<b>67,099</b>	<b>1,297</b>	<b>11,721</b>	<b>423,531</b>
<b>Reconciliation to gross liabilities</b>							
Gross Balance at 31 March 2004		295,385	77,222	67,099	1,297	11,721	452,724
Discount at 31 March 2004		(29,193)	-	-	-	-	(29,193)
<b>Balance at 31 March 2004</b>		<b>266,192</b>	<b>77,222</b>	<b>67,099</b>	<b>1,297</b>	<b>11,721</b>	<b>423,531</b>

In accordance with the criteria set out in Financial Reporting Standard 12, "Provisions, Contingent Liabilities and Contingent Assets", the Agency has made provision for the following major types of contractual or constructive obligations:

- the effect of planning blight resulting from the announcement of its plan to enhance the road network;

- the discretionary and compulsory acquisition of property required for road schemes;
- compensation for property owners arising from physical construction of a road scheme;
- disputed contractual claims and the cost of work to meet generally accepted highways standards after a road has been opened for traffic;
- 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;
- commitments for early retirement and certain pensions;
- claims from third parties arising from damages or injuries associated with the network; and
- migration costs for transferring certain Agency functions from London to the regions.

All provisions are based on management's assessments of the amount to be paid and, where appropriate, this assessment is supported by independent professional advice. The Secretary of State's Roads Programme is a long-term programme. The overall process from the initial announcement of a major road scheme until it is open for traffic can take several years. The provisions have been discounted to reflect the present value of the expenditure required to settle the obligations, where the effect of the time value of money is material, using the Treasury rate of 3.5%.

Any new, increases or decreases in provisions can impact on both the Operating Cost Statement and Capital Expenditure. During 2003-04, the Operating Cost Statement includes a net increase of £55,304,000 offset by a decrease in Capital Expenditure of £54,245,000.

During 2003-04 a re-assessment of land and property acquisition liabilities was undertaken. Based upon experience, management now consider that a constructive or legal obligation for planning blight or compulsory purchase does not exist until a formal blight or compulsory purchase notice has been issued. This differs from the previous practice for these liabilities whereby a scheme provision was made as soon as the Secretary of State announced the inclusion of a scheme in his Targeted Programme of Improvement.

Where appropriate, liabilities that have only a possible chance of crystallising and do not meet the provisions criteria of FRS12 have been classified as contingent liabilities (Note 17). 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.

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 2004 that will actually be settled.

## 15. Capital commitments

	<b>31 March 2004 £000</b>	<b>31 March 2003 £000</b>
<b>Total capital commitments</b>	<b>412,312</b>	<b>208,069</b>

The amount stated relates 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.

## 16. Commitments under DBFO schemes and operating leases

	<b>31 March 2004 £000</b>	<b>31 March 2003 £000</b>
At 31 March the Agency was committed to make the following payments during the next year in respect of DBFO contracts which expire:		
Between 21 to 25 years	213,680	208,461
Between 31 to 35 years	2,340	-
	<b>216,020</b>	<b>208,461</b>

The commitment represents amounts payable in respect of shadow tolls under Design, Build, Finance and Operate (DBFO) contracts.

<b>Operating leases</b>	<b>31 March 2004</b>		<b>31 March 2003</b>	
	<b>Land &amp; Buildings</b>	<b>Other</b>	<b>Land &amp; Buildings</b>	<b>Other</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 31 March the Agency was committed to making the following payments during the next year in respect of operating leases which expire:				
Within one year	279	111	994	60
Between two and five years	1,406	167	760	70
After five years	3,658	-	2,925	-
	<b>5,343</b>	<b>278</b>	<b>4,679</b>	<b>130</b>

## 17. Contingent liabilities

	<b>31 March 2004 £000</b>	<b>31 March 2003 £000</b>
Land and property acquisition	356,917	41,516
Engineering and construction services	31,935	3,345
Other	15,146	10,969
<b>Gross balance at 31 March</b>	<b>403,998</b>	<b>55,830</b>

### Land and property acquisition

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

#### Acquisition and blight

The construction of any major road construction scheme invariably requires the acquisition of property. The Acquisition and Land Act 1973 gives the Secretary of State the power to make compulsory purchases. Possible purchases for schemes in the Secretary's of State's Targeted Programme of Improvement 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 Secretary's of State's Targeted Programme of Improvement 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**

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.

**18. Analysis of movements in taxpayers' equity**

	<b>Note</b>	<b>General fund £000</b>	<b>Revaluation reserve £000</b>	<b>Taxpayers' equity £000</b>
At 1 April 2003		43,254,883	21,429,185	64,684,068
Opening balance restatement:				
Detrankings		(1,743,049)	(764,574)	(2,507,623)
Trunkings		69,207	30,357	99,564
<b>Restated balance 1 April 2003</b>		<b>41,581,041</b>	<b>20,694,968</b>	<b>62,276,009</b>
Net operating cost	(3,839,468)			
Income not appropriated in aid paid to the Consolidated Fund	(33,769)			
Notional audit fee	388			
Cost of capital charge	2,118,634			
Net resource outturn before cost of capital charge		(1,754,215)		(1,754,215)
Gain/(loss) on revaluation of assets	5	-	5,163,286	5,163,286
<b>In year adjustments relating to prior year transactions</b>				
<i>Trunk road network</i>				
Value of network	5	(145,346)	(63,754)	(209,100)
<i>Assets under construction</i>				
Reversionary interest on M6 toll road	5	91,785	-	91,785
Capitalisation/write off of prior year spend	5	(14,235)	-	(14,235)
<i>Other fixed assets</i>				
Adjustments to non network fixed assets	5	3,836	(4,626)	(790)
Backlog depreciation		-	(1,124)	(1,124)
In year spend of detrunked roads		(6,046)	-	(6,046)
Realised element of revaluation reserve		100,259	(100,259)	-
Parliamentary funding net of amount surrendered to Consolidated Fund		1,829,713	-	1,829,713
<b>At 31 March 2004</b>		<b>41,686,792</b>	<b>25,688,491</b>	<b>67,375,283</b>

## 19. Related party transactions

In 2003-04 the Highways Agency was an Executive Agency of the Department for Transport. The Department is regarded as a related party. During the year, the Agency has had a significant number of transactions with the Department. In addition, the Agency has had transactions with other Government departments and agencies, principally Treasury Solicitors and the Valuation Office Agency; and a number of Local Authorities.

The former Chief Executive, Tim Matthews, formally left the Agency on 30 June 2003 to join Parsons Brinckerhoff, one of the Agency's major suppliers, in a senior management position. In 2003-04, the Agency paid Parsons Brinckerhoff approximately £10.8m for services provided by them. On the tendering of his resignation on 1 April 2003, Mr Matthews was seconded to the Department for Transport and ceased to have any role in the awarding of any contracts or commissions on behalf of the Agency.

Andrew Jones, a senior civil servant in the Traffic Operations Directorate of the Agency has a shareholding with WS Atkins, for whom he used to work. Mr. Jones has no role in awarding contracts or commissions.

A number of Agency staff hold shares in utility companies. They are small shareholdings and are not considered to be of significant risk or implication.

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 had no influence in awarding contracts or commissions.

## 20. 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 road:			Date of transfer	£m
A1001	Trunk Road - core	(A1(M) Junction 2 to Junction 4)	1-May-03	16
A1041	Trunk Road - core	(540m south of Abbots Road to 240m southwest of the centre of Carlton New Bridge)	1-Jul-03	38
A1079	Trunk Road - core	(County boundary to Dunswell Drain)	1-Apr-03	148
A1079	Trunk Road - core	(Grimston Bar Interchange to City Boundary)	1-Apr-03	17
A1237	Trunk Road - core	(Rawcliffe Roundabout to Hopgrove Roundabout)	1-Jul-03	27
A167	Trunk Road - core	(Junction 59 of A1(M) to junction 63 of A1(M))	1-Apr-03	136
A19	Trunk Road - core	(North Yorkshire/City of York boundary to A19/A168 Roundabout)	1-Jul-03	90
A19	Trunk Road - core	(A1237 to North Yorkshire)	1-Apr-03	9
A19	Trunk Road - core	(County Boundary to Fulford Interchange)	1-Apr-03	15
A19	Trunk Road - core	(North Yorkshire/City of York boundary to A19/A63 junction)	1-Jul-03	30
A259	Trunk Road - core	(A2070 to M20)	1-Oct-03	125
A339	Trunk Road - core	(A30 to West Berkshire Boundary)	1-May-03	129
A339	Trunk Road - core	(B4640 Swan Roundabout to West Berkshire/Hampshire County Boundary)	1-Jun-03	12
A34	Trunk Road - core	(A34/A500 Talke Roundabout, Staffs to A5011 Linley Road, Staffs)	19-May-03	25
A40	Trunk Road - core	(A34 to Gloucs Boundary)	1-Jun-03	156

Detrunked section of road: <i>cont.</i>			Date of transfer	£m
A405	Trunk Road - core	(A41 North Western Ave to M1 Junction 6)	1-May-03	42
A41	Trunk Road - core	(London to Birkenhead Trunk Road)	1-May-03	233
A41	Trunk Road - core	(M40 to Buckinghamshire Boundary)	1-Apr-03	48
A414	Trunk Road - core	(M10/A414 Park Street Roundabout to A1(M) Junction 3)	1-May-03	52
A420	Trunk Road - core	(Botley Roundabout Oxford to Oxfordshire County/Swindon Boundary)	1-Jun-03	178
A420	Trunk Road - core	(Merlin Way Roundabout Swindon to the Swindon Unitary Authority/Oxford County)	1-Jun-03	18
A423	Trunk Road - core	(A34 Hinksey Hill Interchange to A4142 Heyford Hill Roundabout)	1-Apr-03	25
A45	Trunk Road - core	(A45/A46 Stonebridge Highway Island, Coventry to the A45/A452 Stonebridge Island)	19-May-03	72
A57	Trunk Road - core	(Lincoln to Nottinghamshire Boundary)	15-Sep-03	41
A57	Trunk Road - core	(Lincolnshire Boundary to A1 at Markham Moor)	15-Sep-03	34
A595	Trunk Road - core	(Carlisle City Boundary to Thursby)	1-Apr-03	18
A596	Trunk Road - core	(Lillyhall to Thursby)	1-Apr-03	147
A6	Trunk Road - core	(Manton Roundabout to Northants Boundary)	15-Sep-03	108
A60	Trunk Road - core	(Woodthorpe Drive, Sherwood to Leapool)	2-Jul-03	18
A6120	Trunk Road - core	(Weetwood Roundabout to Junction 46 of M1)	1-Apr-03	70
A614	Trunk Road - core	(Blyth to Bawty)	1-Apr-03	11
A614	Trunk Road - core	(Longs Corner to Junction 37 of M62)	1-Apr-03	5
A614	Trunk Road - core	(Ollerton to Apleyhead)	2-Jul-03	30
A63	Trunk Road - core	(County Boundary to Longs Corner)	1-Apr-03	19
A638	Trunk Road - core	(South of Doncaster)	1-Jun-03	1
A64	Trunk Road - core	(Whinmoor Roundabout to County Boundary )	1-Apr-03	39
A65	Trunk Road - core	(Burley Hall Roundabout to City Boundary)	1-Apr-03	60
A65	Trunk Road - core	(Lancashire Boundary to Bradford Boundary)	1-Jul-03	29
A660	Trunk Road - core	(Boundary of City of Bradford and Leeds City to Weetwood Roundabout)	1-Apr-03	62
A660	Trunk Road - core	(Burley Roundabout to City of Leeds Border)	1-Apr-03	4
A69	Trunk Road - core	(M6 to Carlisle City Boundary)	1-Apr-03	1
A1033	Trunk Road - non core	(Hedon Road Improvement)	21-Dec-03	5
A27	Trunk Road - non core	(Polegate Bypass)	1-Nov-03	11
A41	Trunk Road - non core	(Aston Clinton Bypass and Slip Roads)	31-Mar-04	20
A500	Trunk Road - non core	(Basford, Hough and Shavington Bypass and Slip Roads)	22-May-03	23
A6	Trunk Road - non core	(Great Glen Bypass)	18-Feb-03	14
A6	Trunk Road - non core	(Rushden and Higham Ferrars Bypass)	15-Sep-03	14
A6	Trunk Road - non core	(Rothwell to Desborough)	13-Aug-03	19
A6	Trunk Road - non core	(Rushden and Higham Ferrars Bypass)	15-Sep-03	26
A6	Trunk Road - non core	(Alvaston Bypass)	17-Dec-03	6
A5111	Trunk Road - non core	(Alvaston Bypass)	17-Dec-03	32
				<b>2,508</b>
Trunked section of road:				£m
A2070		Brenzett to M20 Junction 1, Ashford and B2067 Ashford Road, Link Road	30-Sep-03	100

## 21. Accountability disclosure

Government Accounting requires a statement showing losses and special payments by value and by type to be shown where they exceed £100,000 in total and those, which individually exceeds £100,000. These relate to cash losses, stores, fruitless payments and claims abandoned as well as frauds. The amounts involved are as follows:

	<b>2003-04</b>	<b>2002-03</b>
Losses: 1,514 cases (2002-03: 5,002 cases)	£2,533,000	£5,255,000
Special payments: 10 cases (2002-03: 2 cases)	£489,000	£345

The special payments figure includes an ex-gratia figure of £475,000. This was made for the purchase of a property where the owner no longer had legal access following the building of a dual carriageway in Wiltshire. The Agency was initially unable to resolve the dispute with the legal owner of the access, with the result that the property owner had difficulties selling the property.

## 22. Financial instruments

FRS13 "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. Because of 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 FRS13 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 FRS13, debtors and creditors which 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 are 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:

	<b>31 March 2004</b>		<b>31 March 2003</b>	
	Book value £000	Fair value £000	Book value £000	Fair value £000
<b>Financial liabilities:</b>				
Finance lease obligations including on-balance sheet PFI imputed finance lease obligations	889,341	442,129	910,725	463,390
	<b>889,341</b>	<b>442,129</b>	<b>910,725</b>	<b>463,390</b>

**Basis of fair valuation:**

The fair value of Design, Build, Finance and Operate schemes has been calculated using the net present value (NPV) of future capital payments at a discount rate of 6%.

## Accounts direction given by HM Treasury in accordance with Section 7 (2) of the Government Resources and Accounts Act 2000

The Highways Agency shall prepare accounts for the year ended 31 March 2004 in compliance with the accounting principles and disclosure requirements of the edition of the Resource Accounting Manual issued by H M Treasury which is in force for 2003-04.

The accounts shall be prepared so as to:

- give a true and fair view of the income and expenditure (or as appropriate, net resource outturn), total recognised gains and losses, and cash flows of the Agency for the financial year, and of the state of affairs as at 31 March 2004; and
- provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to all authorities which govern them.

Compliance with the requirements of the Resource Accounting Manual will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the Resource Accounting Manual is inconsistent with the requirement to give a true and fair view the requirements of the Resource Accounting Manual should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent both with the economic characteristics of the circumstances concerned and the spirit of the Resource Accounting Manual. Any material departure from the Resource Accounting Manual should be discussed in the first instance with the Treasury.



**DAVID LOWETH**

Head of the Central Accountancy Team, Her Majesty's Treasury

30 January 2004

# Agency offices

**1** Corporate Centre  
5<sup>th</sup> Floor  
123 Buckingham Palace Road  
London SW1W 9HA

**2** Federated House  
London Road  
Dorking RH4 1SZ

**3** Heron House  
49/53 Goldington Road  
Bedford MK40 3LL

Albion House  
Lime Street  
Bedford MK42 0LR

**4** Ash House  
Falcon Road  
Sowton Industrial Estate  
Exeter EX2 7LB

**5** Jefferson House  
27 Park Place  
Leeds LS1 2SZ

City House  
New Station Street  
Leeds LS1 4UR

**6** City Tower  
Piccadilly Plaza  
Manchester M1 4BE

**7** Hempstead House  
2 Selden Hill  
Hemel Hempstead HP2 4XW

**8** Temple Quay House  
2 The Square  
Temple Quay  
Bristol BS1 6HA

**9** Broadway  
Broad Street  
Birmingham B15 1BL

