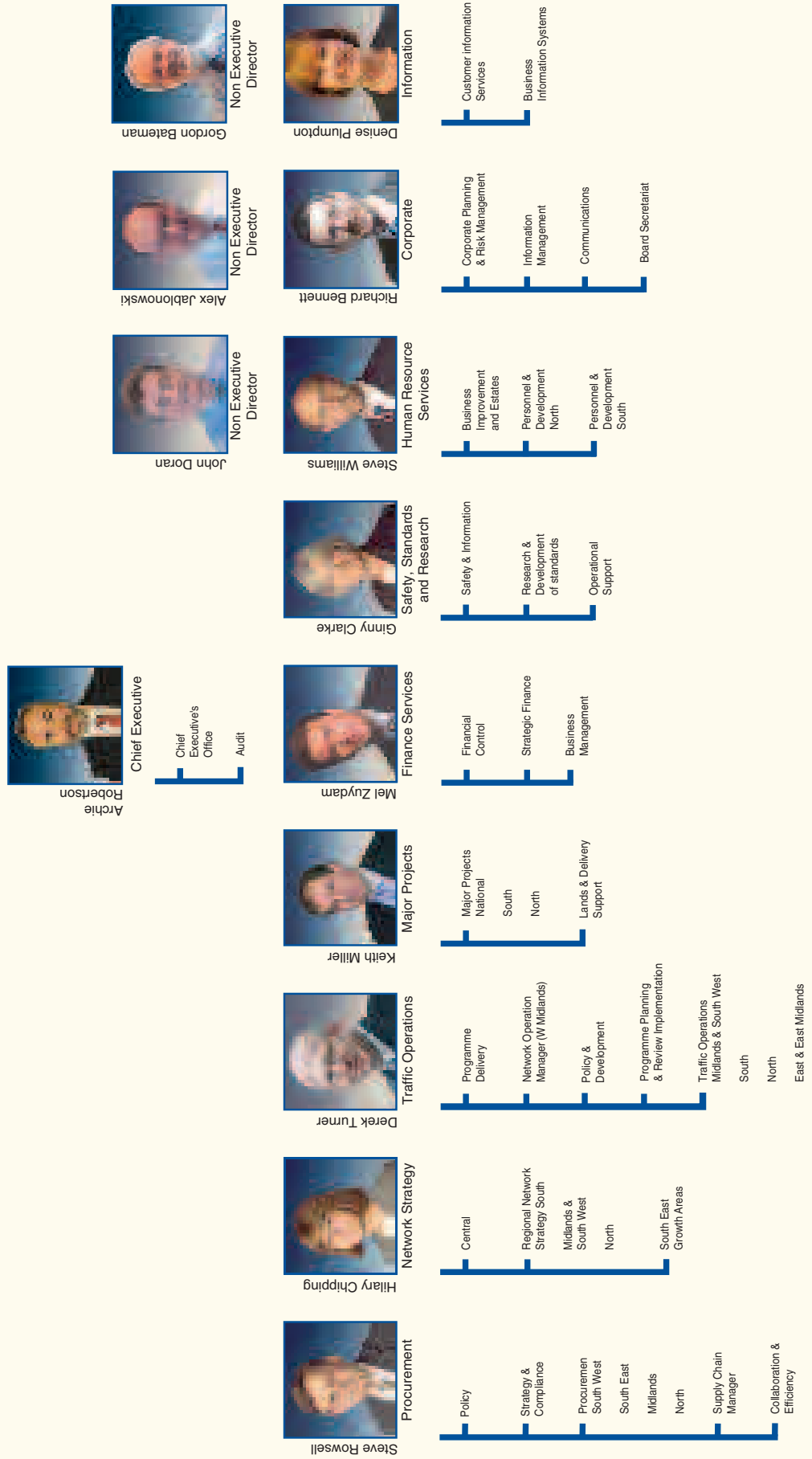


Appendix 1: Our Organisation Structure



Appendix 2: Comparative performance against Ministerial targets

Performance Measure	2004-05	2003-04	2002-03
At least 440 progress points for the M1, M6 and M25 schemes, compared to the end of 2003-04 forecast score of 250	Met: 455 points delivered against an amended list of schemes as approved by Ministers	Targets based on Scheme Milestone	
At least 95% of the major schemes progress points required to reach the score of 5572 compared to the end of 2003-04 forecast score of 4590. (NB Target amended by Ministers following Spending Review 2004)	Revised Target Met: 5643 points delivered		
Complete 20 of 26 priority action sites at junctions	Met: 22 sites surveyed, no further action taken at four of these sites as improvements would be of limited benefit	No target	
In establishing the Regional Control Centres (RCCs), achieve: <ul style="list-style-type: none"> West Midlands RCC and traffic officers commence service. Achieve 92 of 100 points 	Met: 92 points delivered.	No target	
<ul style="list-style-type: none"> 140 of 155 progress points for all other RCCs and traffic officers 	Met: 147 points delivered.	No target	
Establish and Implement a management system to monitor and report on incident-related congestion in the West Midlands	Achieved Aug 04	No target	
Make publicly available by March 2005 – and maintain thereafter - traffic information for the Agency's network via a website and a dedicated voice recognition interactive telephone service	Achieved Feb 05	No target	
Provide by March 2005 - and maintain thereafter – on the Agency's motorway network, strategic route advice using the variable message signs (VMS) available, for all incidents causing more than 15 minutes predicted delay, and monitor its accuracy	Achieved Feb 05	No target	

Performance Measure		2004-05	2003-04	2002-03
Deliver the Agency's agreed proportion of the national target. By 2010 reduce by a third (i.e. to 3327) the number of people killed/seriously injured on trunk roads compared with the 1994-98 average of 4991	Target	4159	4297	4436
	Outturn	3907	4223	4420
Achieve a road surface condition index score of 100 ±1		Met	Targets based on % to be maintained in the following year	
Achieve at least 95% across the 5 sub targets	Target	2	4	Audit unable to validate results
	Outturn	2	4	
• Air Quality: Improve quality of at least 2 Air Quality Management Areas (AQMA) sites	Target	2	4	
• Biodiversity: Achieve at least 5% of HA Biodiversity Action Plan extending across 15 priority targets	Target	5%	12%	
• Landscape: Introduce no less than 4 planting schemes	Target	4	8	
• Noise: Treat at least 50 lane km of concrete road surface with lower noise surfacing	Target	50 lane kms	300 lane kms	
• Water: Treat at least 5 outfalls identified as posing a pollution risk to watercourses	Target	5	2	
Achieve from the road user satisfaction survey an average annual score	Target	85% motorways 80% trunk roads	84% (all roads)	
	Outturn	87.6% motorways 83.8% trunk roads	83.4% (all roads)	

Appendix 3: Internal Audit Certificate

Agency performance against Key Performance Measures and Targets shown in the 2004 - 05 Business Plan has been subject to independent audit by the Agency's Audit, Inspection and Consultancy Division (AICD).

From our testing I am satisfied that reported achievement against these targets is a true and fair view of the Agency performance in these areas.



Bob Parsons
Head of Audit, Inspection and Consultancy Division
Highways Agency

June 2005

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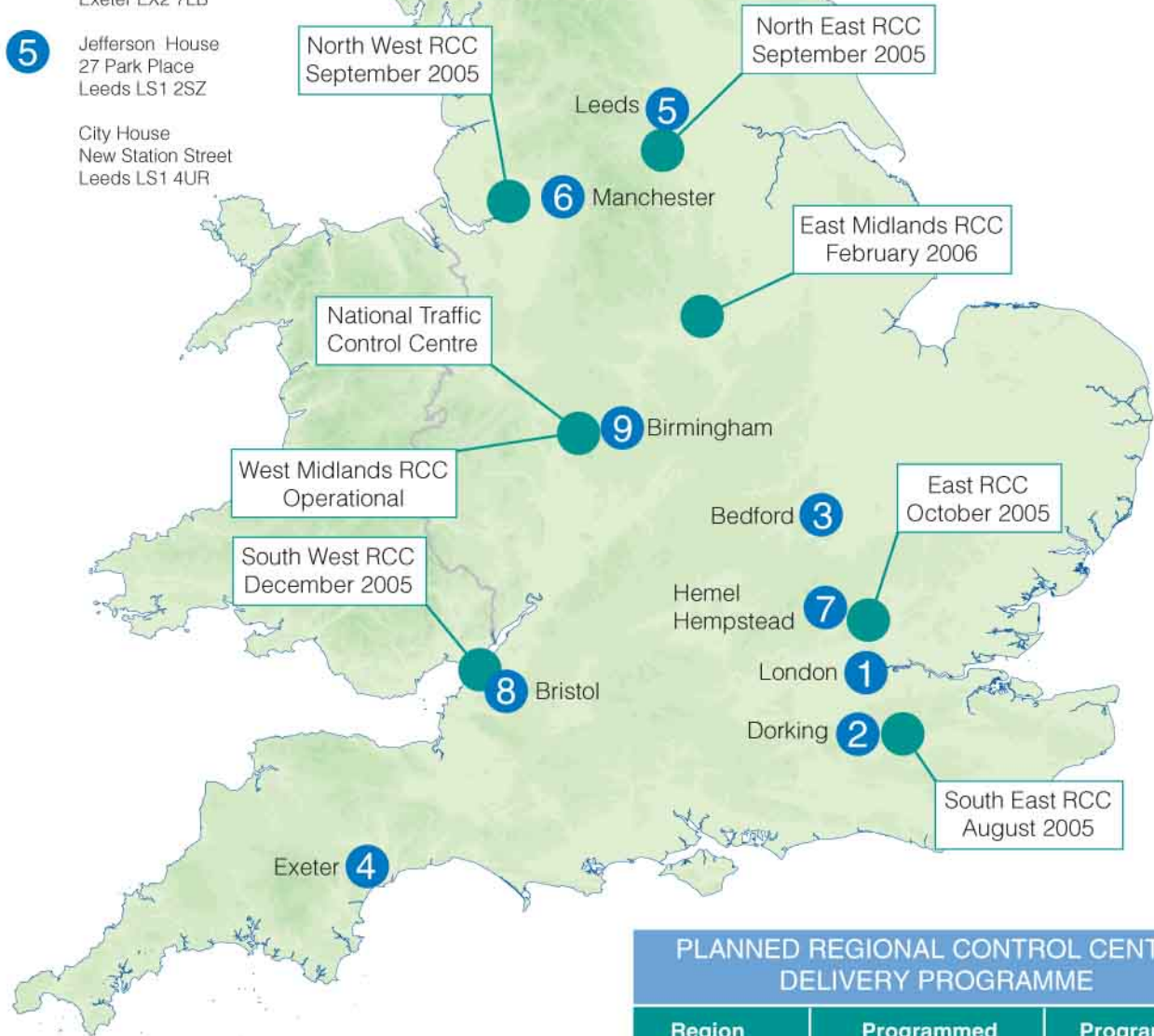
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Contact information

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www.highways.gov.uk

Our email address is hainfo@highways.gsi.gov.uk

The Highways Agency Information line can be contacted
on 08457 50 40 30 and is open 8am–8pm Mon–Fri and
9am–5pm weekends and Bank Holidays

Real Time Traffic Information

24 Hours a day
08700 660 115

PLANNED REGIONAL CONTROL CENTRE DELIVERY PROGRAMME

Region	Programmed first service	Programmed full capability
West Midlands		July 2005
South East	August 2005	September 2006
North West	September 2005	June 2006
North East	September 2005	July 2006
East	October 2005	July 2006
South West	December 2005	May 2006
East Midlands	February 2006	August 2006

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Appendix 4:
Highways Agency Accounts
2004 - 05



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Foreword to the Accounts for the Year Ended 31 March 2005

History and Background

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

Accounts Direction

The Accounts which follow cover the period 1 April 2004 to 31 March 2005 and have been prepared in accordance with a direction issued by the Treasury under Section 7 of the Government Resources and Accounts Act 2000. A copy of the direction may be accessed online on the HM Treasury website at www.hm-treasury.gov.uk.

As an Executive Agency of the DfT the Agency's accounts are consolidated within the Resource Accounts produced and published by the DfT. These are available online on the DfT website at www.dft.gov.uk.

Principal Activities

As described more fully on page 9 of the accompanying Annual Report the Agency is responsible for operating, managing, maintaining and improving the strategic road network in England on behalf of the Secretary of State for Transport.

The aim of the Agency is to deliver safe roads, reliable journeys and informed travellers. As network operator it manages some 4,603 miles (7,407 km) of trunk roads and motorways as at 31 March 2005 and delivers the Secretary of State's programme of motorway and trunk road improvement schemes.

During 2004-05 the Agency has continued to develop its role from that of network operator to a traffic and network manager, with the operation of a 24-hour, seven days a week traffic management service in the West Midlands area. This service will be rolled out across the rest of the network over the next two years.

Funding

For the 2004-05 financial year the Agency was funded on a gross running cost basis from within the Request for Resource 1, sections E and AF of the Department for Transport Resource Account. The Agency was allocated a resource based operating budget of £4,173,564,000 (2003-04 £4,002,777,000) against which it utilised £4,171,494,000 (2003-04 £3,868,233,000). The Agency was also allocated a resource based capital budget of £622,793,000 (2003-04 £650,881,000) of which it incurred £608,769,000 (2003-04 £437,758,000).

Review of the Year

The review of the year is included in the Annual Report accompanying this account.

Future Developments

Planned future developments of the Agency's activities are dealt with in the accompanying Annual Report.

Significant Events since the end of the Financial Year

Changes to the composition of the Agency's Management Board since the end of the financial year are detailed in the Board section below.

Board

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

Archie Robertson	Chief Executive
Ginny Clarke	Safety, Standards and Research Director
Hilary Chipping	Network Strategy Director
Mel Quinn	Finance Director to 27 June 2004, retired 30 June 2004
Mel Zuydam	Finance Director, from 28 June 2004
Steve Rowsell	Procurement Director
Steve Williams	Human Resources Service Director to 23 November 2004 Acting Traffic Operations Director from 1 September 2004 to 3 April 2005
Keith Miller	Acting Director of Major Projects to 21 April 2004 Director of Major Projects from 22 April 2004
Kathryn Riley	Acting Human Resources Service Director from 24 November 2004 to 31 March 2005
Richard Bennett	Corporate Director
David York	National Traffic Director to 31 August 2004, when he retired
Denise Plumpton	Information Director, from 24 January 2005
Gordon Bateman	Non-executive Director
Philippa Foster Back	Non-executive Director to 30 September 2004, when she resigned by rotation
John Doran	Non-executive Director, from 4 October 2004
Alex Jablonowski	Non-executive Director, from 4 October 2004

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 and remuneration details are set out in Note 2 to the Accounts.

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

Steve Williams	Human Resources Service Director, resumed from 1 April 2005
Derek Turner	Director of Traffic Operations from 4 April 2005

Equal Opportunities and Diversity

The Highways Agency values equality and diversity and is committed to developing an organisation in which fairness and equality of opportunity are central to our business and our working relationships. We aim to ensure that all staff and job applicants are treated fairly and equally regardless of their gender, marital status, race, colour, ethnic origin, religion or belief, sexual orientation, disability, age, employment status, working pattern or Trade Union membership / duties.

The Agency aims to employ people with a wide range of skills, and from a diversity of backgrounds, as we recognise that our staff need to be representative of the diverse communities we serve.

Diversity is fundamental not only to our employment practices but also to the way in which we deliver services and develop policy. In 2004-05 we carried out impact assessments in all areas of the business to identify the impact of our policies and procedures on black and minority ethnic groups and developed a comprehensive Race Equality Action Plan (available on our website). As part of this activity we have reviewed the way we communicate with black and minority ethnic communities and revised many of our leaflets and publications. We have a programme of Equality Proofing in place and plan to consider our recruitment and selection procedures in 2005-06. We continue to run Diversity Awareness workshops in order to embed Diversity in the business.

We are committed to equality of opportunity for everyone in all areas of employment including recruitment, development and promotion. To support this approach, appointments are made on the basis of competency-based selection. The Agency has adopted the Department for Work and Pensions (DWP) 'two ticks' symbol that means that applicants with disabilities who meet the minimum requirements of the post will be interviewed and a number of our staff have gained places on the DfT 'Green Light' development programme for individuals from a black and minority ethnic background.

Disabled Persons Policy

As a 'two ticks' user, the Agency is committed to the employment and retention of individuals who have a disability. In addition to operating the 'Guaranteed Interview Scheme' for applicants with a disability we provide reasonable adjustments to enable individuals who have a disability to compete for posts on a level playing field and to support disabled staff in the workplace. This allows all staff to achieve their maximum potential and perform to the best of their ability.

We have established links with Remploy, a company which expands the opportunities for disabled people, to ensure vacancies are brought to the attention of individuals with a disability and to offer work placements to individuals with a disability.

We have conducted disability access audits at all Agency locations and are taking steps to ensure compliance with all aspects of the Disability Discrimination Act.

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.

We aim to engage and involve all our employees through the use of regular team briefings, which are cascaded throughout the organisation and through regular meetings with recognised Trade Unions as part of the Whitley process, which promotes better industrial relations.

Auditors

The accounts of the Agency are audited by the Comptroller and Auditor General (C&AG) under the Government Resources and Accounts Act 2000. The notional cost of the statutory audit is £375,000 (2003-04 £387,500).

Policy on Payment of Suppliers

The Agency is committed to the prompt payment of bills for goods and services received and aims to settle 98% of undisputed invoices within contract terms.

During 2004-05 the Agency paid 98.7% (2003-04 87.2%) of undisputed invoices within terms. Interest of £7,700 was incurred under the Late Payment of Commercial Debt (Interest) Act 1998.

Pension Arrangements

These are covered in Notes 1 and 2 to the Accounts.

Research and Development

The Agency undertakes significant research into improving road safety, protecting the environment and delivering effectiveness. Details of specific research projects undertaken during 2004-05 may be found in the accompanying Annual Report.

Fixed Assets

A full revaluation of the motorway and trunk road network was carried out by E C Harris, Professional Surveyors during the year, which resulted in an increase of £1,091,000,000 in the depreciated replacement cost of the asset. This is covered further in Note 5.

The Agency has also revalued the remaining freehold interests in its motorway service area estate. The valuation was carried out by the Valuation Office Agency and resulted in an increase in valuation of £16,538,850.



Archie Robertson

Accounting Officer

14 July 2005

Statement of Highways Agency and Accounting Officer'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, detailing the resources acquired, held, or disposed of during the year and the use of resources by the Agency during the year.

The Accounts are prepared on an accruals basis and must give a true and fair view of the 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.

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

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 the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Resource Accounting Manual, have been followed, and disclose and explain any material departures in the Accounts; and
- prepare the Accounts on a going-concern basis.

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, and for safeguarding the Agency's assets are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in Government Accounting. The Government Accounting Manual may be accessed online at www.government-accounting.gov.uk.



Archie Robertson

Accounting Officer

14 July 2005

Statement on the System of Internal Control within the Highways Agency

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 I hold regular meetings with Ministers when operational risks are discussed. Ministers receive direct reports about risks to key initiatives, the outcome of key Gateway Reviews and other key risk areas as necessary. They receive reports on risks to delivery of Public Service Agreement Targets through the DfT reporting system.
- 1.3 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 2005 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.
- 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 The senior management teams in each directorate have received training in risk management tailored to their particular responsibilities and concerns.

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 a high impact on:

- the Agency's performance or
- stewardship of public funds or
- the Agency's stewardship of the environment or
- on the Agency's or the wider Government's reputation

receive focussed 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.

We give priority to risks to achieving the DfT's targets of reducing congestion and improving safety, and to 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.

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

Project leaders ensure that risks are identified when preparing project plans.

4.3 The key strategic risks managed by the Board are:

- The Agency fails to justify and secure sufficient funds to meet our objectives and customer / stakeholder expectations;
- The Agency fails to recruit, retain, motivate and develop staff with the skills and qualities needed to deliver our objectives and outcomes;
- The Agency's financial management systems and controls fail to deliver and demonstrate value for money, propriety, accountability and management information;
- Operational Failure (including structure / network, standards, major projects and mitigation of environmental impact);
- The Agency fails to manage or meet customer / stakeholder service expectations;
- The Agency does not provide complete, accurate and timely management and other information to our people, stakeholders and customers; and
- The Agency fails to meet the health and safety needs of its employees, and fails to achieve all legal obligations in respect of those working for it and others affected by it.

4.4 Staff and managers are required to identify new or increased risks and opportunities as part of the routine risk reporting process, 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.

- 4.5 Risks are reviewed, the effectiveness of risk treatments and their impact on residual risk is monitored, and changes identified and evaluated throughout the year, as part of routine management activity. Risk owners include reports on their handling of operational risk as part of their wider stewardship reports. The Board allocate the management of strategic risks to nominated directors who report back as appropriate through the year.
- 4.6 I am keenly aware that risks to public stakeholders arise from many aspects of the development and operation of the strategic highways network.

While developing new works, we involve the public in risk management through the normal consultation process.

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

We use the DfT safety strategy as a proxy for public involvement in managing road safety risks.

- 4.7 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 to time/ cost / quality;
 - To ensure that the quality of Agency projects and advice are effective, accurate and timely;
 - 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 three independent non-executive directors) meets frequently to consider the plans, performance and strategic direction of the Agency, the most important risks to successful delivery of those plans and the Agency's stewardship of public assets.
- 5.3 The Audit Committee is made up of two of the non-executive directors, one of whom chairs it, and three Highways Agency Board members. I, together with my Head of Internal Audit, Finance Director and representatives from the DfT and National Audit Office attend but have no vote. The independent chairman of the Audit Committee advises as appropriate on key risks 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 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 2004–05 is that:

- **Risk Management** is working effectively with some minor weaknesses
- **Risk Handling / Internal Control** is operating effectively except for some areas where significant weaknesses have been identified.
- **Corporate Governance** is working effectively with some minor weaknesses.

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 In the Statement on Internal Control for 2003-04 I reported on some actions designed to improve control in areas where the control environment gave Medium to Low assurance. As a follow-up I can report:

- Monthly Management Accounts, Quarterly interim financial statements, monthly business reviews and a monthly financial risk monitoring tool were developed and have improved financial accountability, budgetary control and resource allocation in the business. These measures have also allowed us to significantly improve the speed of production and the audit of our draft statutory accounts for 2004/05.
- The structure of the finance function was reviewed, with the aim of embedding financial control into the business. Implementation started late in the financial year and is continuing in 2005-06.
- A System of Stewardship reporting, by senior managers principally on financial controls was introduced and worked well. This has given improved assurance and some learning points for improvements in processes, controls and communication.
- Improvements in the definition of our processes and internal controls and the guidance on how they are to be operated are being introduced. We started to publish these electronically during the year, with complete coverage scheduled by 2006.

5.7 I have commissioned action to:

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

and thus give me improved assurance on the system of internal control.



Archie Robertson
Accounting Officer
14 July 2005

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 58 to 95 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 61 to 69.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 51, 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 52 to 55 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

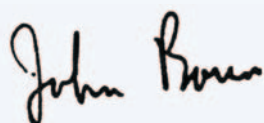
that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities 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 2005 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
National Audit Office
Comptroller and Auditor General
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

15 July 2005

Operating Cost Statement for the year ended 31 March 2005

	Note	2004-05 £000	Restated 2003-04 £000
Administration Costs			
Staff Costs	2	60,364	59,752
Other administration costs	3a	34,459	36,015
Gross Administration costs		94,823	95,767
Operating income	4	(5,879)	(8,278)
Net Administration Costs		88,944	87,489
Programme Costs			
Staff costs	2	4,390	123
Other programme expenditure	3b	4,107,225	3,808,733
Gross Programme Costs		4,111,615	3,808,856
Operating income	4	(43,131)	(61,881)
Net Programme Costs		4,068,484	3,746,975
Net Operating Cost		4,157,428	3,834,464
Net Resource Outturn		4,171,494	3,868,233

Net resource outturn represents the net operating cost less operating income not appropriated in aid (see Note 4). All income and expenditure is derived from continuing activities.

Statement of Recognised Gains and Losses for the year ended 31 March 2005

		2004-05 £000	Restated 2003-04 £000
Gain on the revaluation of tangible fixed assets	17	5,633,428	5,163,286
Recognised gains relating to the year		5,633,428	5,163,286
Reversionary interest on M6 toll road	17	(1,628)	91,785
Other in year adjustments relating to prior year transactions	17	(90,000)	(225,249)
Recognised gains since the last account		5,541,800	5,029,822

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

The notes on pages 61 to 95 form part of these accounts.

Balance Sheet as at 31 March 2005

	Note	31st March 2005 £000	Restated 31st March 2004 £000
Fixed Assets			
Tangible assets	5	72,911,569	67,371,281
Intangible assets	6	3,728	1,620
		72,915,297	67,372,901
Debtors: amount due after more than one year	7	156,056	141,176
Current Assets			
Stocks	9	16,181	15,373
Debtors: amounts due within one year	10	67,324	55,259
Cash at bank and in hand	11	6,475	2,750
		89,980	73,382
Creditors: amounts falling due within one year	12	(471,904)	(436,673)
Net Current Liabilities		(381,924)	(363,291)
Total Assets less Current Liabilities		72,689,429	67,150,786
Creditors: amounts falling due after more than one year	13	(1,007,749)	(1,006,108)
Provisions for liabilities and charges	14	(436,616)	(423,531)
		71,245,064	65,721,147
Taxpayers' Equity			
General fund	17	40,245,386	40,634,265
Revaluation reserve	17	30,999,678	25,086,882
		71,245,064	65,721,147

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

The notes on pages 61 to 95 form part of these accounts.



Archie Robertson
Accounting Officer
14 July 2005

Cash Flow Statement for the year ended 31 March 2005

	Note	2004-05 £000	Restated 2003-04 £000
Net cash outflow from operating activities	C1	(1,142,963)	(1,284,352)
Cost of servicing of finance: interest element of PFI payments		(53,191)	(54,466)
Capital expenditure and financial investment	C2	(611,110)	(437,758)
Net cash outflow before financing	C3	(1,807,264)	(1,776,576)
Payment of amounts due to the Consolidated Fund		(2,225)	(31,086)
Financing	C4	1,813,214	1,759,384
Increase / (decrease) in cash in the year	11	3,725	(48,278)

Notes to the Cash Flow

C1. Reconciliation of operating cost to operating cash flows

Net Operating Cost		(4,157,428)	(3,834,282)
Non cash transactions (excluding movement in provisions)	3	2,928,896	2,664,803
Movements in working capital other than cash	8	9,872	(36,261)
(Increase) / decrease in debtors due after one year	7	(14,880)	(19,239)
(Decrease) / increase in creditors due after one year	13	1,641	5,257
(Decrease) / increase in provisions for liabilities	14	13,085	(140,480)
Adjustment for capital and interest element of PFI payments		75,851	75,850
Net cash outflow from operating activities		(1,142,963)	(1,284,352)

C2. Analysis of capital expenditure and financial investment

Investments in the road network	5	(571,019)	(435,168)
Purchase of other fixed assets	5	(46,714)	(6,464)
Purchase of intangible fixed assets	6	(1,680)	(440)
Receipts for the sale of fixed assets		8,303	4,314
Net cash outflow from investing activities		(611,110)	(437,758)

C3. Net cash requirement

Net cash flow other than financing		(1,807,264)	(1,776,576)
Capital element of payments in respect of on balance sheet PFI contracts		(22,660)	(21,384)
Net cash requirement		(1,829,924)	(1,797,960)

C4. Analysis of financing

Current year funding from the Consolidated Fund		1,841,000	1,792,000
Less detrunking spend		(5,126)	(11,232)
Capital element of payments in respect of on balance sheet PFI contracts		(22,660)	(21,384)
Net financing		1,813,214	1,759,384

Amount of grant actually issued to support the net cash requirement was £1,841,000,000.00

The notes on pages 61 to 95 form part of these accounts.

Notes to the 2004-05 Agency Accounts

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2004-2005 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. 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 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 certain fixed assets, and stocks where material, at their value to the business by reference to their current costs.

1.2 Prior Year Adjustments

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

For 2003-2004, expenditure previously recognised as 'Other programme costs' has been re-analysed and re-categorised as 'Current maintenance' to more appropriately reflect the substance of the transactions undertaken. This has given rise to the following re-statement:

	As previously stated £000	Adjustment £000	As Restated £000
Current maintenance	410,508	42,982	453,490
Other programme costs	63,445	(42,982)	20,463

1.3 Trunkings / Detrunkings

The detrunkings of non-core roads to local authorities are treated as a transfer of function. Merger accounting principles are applied with opening balances adjusted for the cumulative effect of the trunking / detrunking and comparative figures for the preceding period restated.

All prior year adjustments have given rise to the following restatement to balances as at 31 March 2004:

	As previously stated £000	Adjustment £000	As Restated £000
Trunk road network - cost	78,822,001	(1,920,286)	76,901,715
Trunk road network - depreciation	(11,006,478)	266,150	(10,740,328)
	67,815,523	(1,654,136)	66,161,387
General Fund	41,686,792	(1,052,527)	40,634,265
Revaluation Reserve	25,688,491	(601,609)	25,086,882
Capital maintenance (Note 3b)	414,624	(5,004)	409,620

1.4 Tangible Fixed Assets

Capitalisation Policy

Tangible fixed assets are categorised into network assets and non-network assets. Network Assets relate to the motorways and trunk roads in England, which form an integrated network infrastructure servicing a significant geographical area. The network consists of carriageways, including earthworks, tunnelling and road pavements, roadside communications, bridges and other structures, and land and buildings within the highway's perimeter. Non-network assets include buildings, plant and equipment and database development costs.

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

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

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

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

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

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

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

Valuation

Trunk Road Network

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

A full valuation of the network is undertaken by professional surveyors at intervals not exceeding five years. Network assets are valued by reference to internal costing and physical asset records. The estimated un-expired life of the network is reassessed annually and the valuation adjusted if required.

Assets Under Construction

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

Land and Buildings, excluding Dwellings

Freehold land and buildings have been valued on the basis of open market value for existing use. Assets held for resale (excluding dwellings), being land and property released from road schemes, are valued at open market value, less provision for selling costs. A full valuation of these assets is undertaken by professional surveyors at intervals not exceeding five years.

Dwellings

Residential properties released from road schemes and held for resale, are valued at open market value, less provision for selling costs. A full valuation of these assets is undertaken by professional surveyors at intervals not exceeding five years.

Plant and Equipment

These assets are stated at current cost.

Database Development

These assets are stated at cost.

1.5 Depreciation

Network Assets

The Agency applies a modified version of renewals accounting, as described in RAM, to calculate depreciation for network assets that meet the renewals criteria. Assets that qualify for renewals accounting are not depreciated, instead expenditure incurred in maintaining the asset's operating capacity is expensed as a proxy for depreciation. In addition an annual condition survey of the assets is undertaken, and the value of any material variation in operating condition revealed by the survey is taken to the Operating Cost Statement as an impairment charge or conversely an improvement credit.

The following network assets and components are subject to renewals accounting: -

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

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

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

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

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

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

Non-Network Assets

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

Property	Life in years
• Freehold buildings	up to 60 years
• Leasehold buildings	length of the lease
• Historic leasehold building	length of the lease
• Surplus properties awaiting sale	no depreciation
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 and become a network asset once issued from stores. These are kept in controlled conditions and do not deteriorate. They have a design life in excess of 60 years. Whilst not depreciated, they are subject to an annual impairment review.

1.6 Intangible Fixed Assets

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

1.7 Annual Revaluation of Tangible Fixed Assets

Tangible Fixed Assets are revalued to current costs on an annual basis as follows:

- Trunk road network – revalued using the following indices:

Roads and structures	ROCOS (resource cost index of road construction)
Lands	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 every six months by the Valuation Office Agency (VOA).

- Land & Buildings – revalued using regional land and building indices supplied by the Valuation Office Agency;
- Structural Steelworks – revalued using the current market value of steel;
- Other Plant & Equipment – revalued using monthly plant & equipment indices supplied by the Department of Trade and Industry; and
- Database Development – not revalued

1.8 Stocks

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

1.9 Research and Development

Expenditure on research is not capitalised. Expenditure on development expenditure is capitalised if it meets the criteria specified in the Resource Accounting Manual.

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.

1.10 Operating Income

Operating income is income that relates directly to the operating activities of the Agency. It principally comprises: -

- fees and charges for work carried out on a full-cost basis to external customers in both the public and private sectors. This generally arises where access to a new development is required from an existing trunk road or motorway within the Agency's responsibility;
- rental income from properties acquired for road schemes which have yet to be disposed of;
- cost recoveries / rental from offices where the Agency is the main occupier and surplus accommodation is let to other organisations. This includes recoveries from other government departments and agencies;
- receipts from third parties for claims for damage to the motorways and trunk roads;
- interest on the Severn Bridge subordinated loan (see Note 13);
- cost recoveries from Midland Expressway Limited relating to the M6 toll road (see Note 13); and
- grants and contributions from the European Union.

In accordance with RAM operating income includes both income appropriated-in-aid of the Estimate and income due to the Consolidated Fund Extra Receipts (CFER). Operating income is stated net of VAT.

1.11 Administration and Programme Expenditure

The Operating Cost Statement is analysed between administration and programme costs net of income.

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

Programme costs reflect the costs of operating, managing, maintaining and improving the motorway and trunk road network. It includes certain staff costs where they directly relate to service delivery. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury.

1.12 Capital Charge

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

Tangible and Intangible Fixed Assets

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

All Other Assets Less Liabilities

On cash balances with the Office of the Paymaster General and the balances due to the Consolidated Fund there is no capital charge.

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

1.13 Pensions

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

1.14 Early Departure Costs

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

The Agency has settled some of its liabilities in advance by making payment to Paymaster's account at the Bank of England for the credit of the Civil Service Superannuation Vote. This is shown as a prepayment in Note 10. The amount provided, shown in Note 14 is gross of any prepayment.

1.15 Operating Leases

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

1.16 Private Finance Initiative (PFI) Transactions

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

- Where the balance of risks and rewards of ownership of the PFI property is borne by the Agency, the property is recognised as a fixed asset and the liability to pay for it accounted for as a finance lease. The asset and liability are both initially recorded at the fair value of the property and the asset is subsequently revalued and depreciated in accordance with accounting policies 1.4 and

1.5. The liability, after inclusion of imputed finance charges, is reduced as payments for the property are made. The remainder of the PFI payment (i.e. the full contract payment, less the capital repayment and the imputed financing charges) are recorded as a service charge in the operating cost statement.

- Where the balance of risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the Agency has contributed assets that result in lower service charge payments, a prepayment for the fair value is recognised and subsequently charged as an operating cost over the life of the PFI contract.

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

The Agency currently has eleven PFI properties in service (Design, Build, Finance and Operate contracts) that are all recognised as being assets of the Agency. The separately disclosed fair value of PFI properties in these accounts is based on a calculation using the original public sector comparator costs indexed up to the current prices.

1.17 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 management's best estimate of the expenditure required to settle the obligation and, where appropriate, this is supported by independent professional advice.

The Agency makes provision for the following types of obligations: -

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

Provisions are charged to the operating cost statement unless they have been capitalised within fixed assets.

1.18 Contingent Liabilities

Where appropriate, liabilities that have only a possible chance of crystallising and do not meet the provisions criteria have been classified as contingent liabilities. This includes possible obligations for land and property acquisition that may crystallise as a result of the Secretary of State's decision to include them in his Targeted Programme of Improvement.

1.19 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

	2004-05 No.	2003-04 No.
The average number of whole time equivalent persons employed (including senior management) during the year was as follows:		
Administration staff	1,590	1,580
Programme staff	142	7
Staff engaged on capital projects	299	202
	2,031	1,789
The average number of agency, temporary and contract staff during the year was as follows:		
Agency staff engaged in administration	148	224
Agency staff engaged in programme	-	-
Agency staff engaged on capital projects	30	-
	178	224
	2004-05 £000	2003-04 £000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	58,088	51,272
Social Security costs	4,760	4,255
Other pension costs	8,229	7,306
Agency staff	6,167	5,135
	77,244	67,968
Less capitalised payroll costs	(12,490)	(8,093)
Total net costs chargeable to the OCS	64,754	59,875
The split of aggregate payroll costs between administration, programme and capital was as follows:		
Administration	60,364	59,752
Programme	4,390	123
Capital projects	12,490	8,093
	77,244	67,968

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.

Pension Costs

Pension benefits are provided through the Civil Service pension arrangements. The Principal Civil Services Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme 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. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2004-05 employers' contributions of £ 8,229,000 were payable to the PCSPS (2003-04 £7,306,000) at one of four rates in the range 12.0 to 18.5 per cent (2003-04: 12.0 to 18.5 per cent) of pensionable pay, based on salary bands. The Scheme's Actuary reviews employer contributions every four years following a full scheme valuation. Rates will remain the same next year, subject to review of salary bands. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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 £13,947 were paid to one or more of a panel of four appointed stakeholder pension providers during 2004-05 (2003-04 £10,942). In addition, employer contributions of £2,104 were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

One person (2003-04: two persons) retired early on ill-health grounds.

The emoluments of Archie Robertson, as Chief Executive from 1 April 2004 up to 31 March 2005 were as follows:

	2004-05 £000
Salary and pension	134
Performance bonus (estimate)	20
Taxable benefits	-
Total	154

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 2005 were as follows:

	Salary, including performance pay £000	Benefits in kind £000	Real increase in pension at age 60 £000	Related lump sum at age 60	Total accrued pension at age 60 at 31 March 2005 £000
A Robertson	150-155	-	0 – 2.5	-	20 - 25
G Clarke	115-120	-	0 – 2.5	2.5 - 5.0	30 – 35
M Zuydam ¹	100-105	-	0 – 2.5	-	0 - 5
H Chipping	95-100	-	0 – 2.5	-2.50 - 0	30 – 35
S Williams	90-95	-	0 – 2.5	6.5 - 7.0	30 - 35
K Miller	85-90	-	0 – 2.5	2.5 - 5.0	25 - 30
S Rowsell	80-85	-	0 – 2.5	0 – 2.5	25 – 30
R Bennett	80-85	-	0 – 2.5	0 – 2.5	20 – 25
D York ²	50-55	0.1 ⁶	7.5 - 8.0	10.0 - 15.0	45 - 50
M Quinn ³	20-25	-	5.0 - 7.5	10.0 - 15.0	40 - 45
D Plumpton ⁴	20-25	-	0 – 2.5	-	0 - 5
K Riley ⁵	95-100	-	-	-	-

Salaries include bonuses received in year relating to performance in 2003-04 as well as estimated bonuses earned in 2004-05, where applicable.

¹ Mel Zuydam joined the Agency on 31 May 2004. His salary includes the period prior to his appointment as Finance Director on 28 June 2004.

² 1 April to 31 August 2004.

³ 1 April to 27 June 2004.

⁴ 24 January to 31 March 2005.

⁵ Katherine Riley was appointed as interim HRS Director on 24 November 2004 through a recruitment consultant. The amount reported above represents the amount paid to the recruitment company in 2004-2005, including VAT.

⁶ The estimated monetary benefit in kind covers any benefits provided and treated by 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. The loan was repaid in full in September 2004.

In 2004-05, the non-executive directors of the Board received the following remuneration for their services:

	£000
G Bateman	15 -20
J Doran	5 -10
A Jablonowski	5 -10
P Foster Back	0 - 5

	Related lump sum at age 60 £000	CETV at 31 March 2005 £000	CETV at 31 March 2004 £000	Employee Contributions and transfers in £	Real increase in CETV as funded by employer (nearest £000)
A Robertson	-	29	7	3,570	18
G Clarke	100 - 105	526	483	1,443	12
M Zuydam	-	14	-	2,707	11
H Chipping	80 - 85	486	439	3,191	16
S Williams	95 - 100	563	501	1,318	37
K Miller	80 - 85	449	400	1,211	23
S Rowsell	85 - 90	457	420	1,156	10
R Bennett	65 - 70	322	299	1,133	3
D York	125 - 130	791	654	11,224	109
M Quinn	120 - 125	761	662	11,418	79
D Plumpton	-	4	-	764	3
K Riley	-	-	-	-	-

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

	2004-05 £000	2003-04 £000
Rentals under operating leases:		
Hire of plant and machinery	157	86
Other operating leases	7,195	5,810
Non-cash items:		
Depreciation		
tangible fixed assets	3,373	4,805
intangible fixed assets	691	463
Impairment of non roads fixed assets	455	-
Cost of capital	960	1,221
Auditors' remuneration	375	388
Notional costs	277	-
Provisions:		
Early retirement provision	296	111
Provision for doubtful debts	(39)	26
Property management and accomodation charges	6,302	5,689
Travel and subsistence	5,070	4,330
IT and telecommunications	3,217	4,778
Training and development	3,185	3,141
Other administration costs	1,422	2,010
Printing, stationery and office equipment	1,042	1,577
Recruitment	481	1,580
Total	34,459	36,015

Notional costs represent payroll and superannuation services provided by the Department for Transport. There was no remuneration due to the Auditors for non-audit services provided during the year (2003-04 nil)

3b. Programme Costs

	2004-05 £000	restated 2003-04 £000
Research and development expenditure	13,980	13,393
Capital maintenance (note 1.4)	442,243	409,620
Current maintenance	414,723	453,490
Non-cash items:		
Depreciation:		
tangible owned fixed assets	187,661	311,412
tangible fixed assets held under PFI leases	18,473	17,153
Impairment of non roads fixed assets	4,142	3,630
Write down in value of roads assets	393,377	208,757
Cost of capital	2,316,771	2,117,413
Loss on sale of programme assets	2,341	668
Provision for doubtful debts	5,181	454
Provision for slow moving stock	(43)	912
Provisions:		
provided in year	92,221	55,193
unwinding of discount on provisions	-	7,103
Interest on PFI finance leases	53,191	54,466
PFI contract shadow toll payments	141,184	134,606
Other programme costs	21,780	20,463
Total	4,107,225	3,808,733

For comparative purposes, the 2003-04 capital maintenance figure has been reduced by £5,004,000 being spend relating to roads detrunked in the current year, and treated as a de-merger in accordance with accounting policy 1.3. This adjustment is also reflected in the Cash Flow Statement.

4. Operating income

	2004-05	2003-04		
	£000	£000	£000	£000
Operating income analysed by classification and activity is as follows:-	Appropriated in aid	Not appropriated in aid	Total	Total
Administration income				
Fees and charges	(68)	-	(68)	954
Cost recoveries	2,155	-	2,155	1,896
Other	417	3,375	3,792	5,428
Recoveries in excess of AinA	-	-	-	-
	2,504	3,375	5,879	8,278
Programme income				
Fees and charges	16,251	-	16,251	19,391
Rental income	2,833	-	2,833	3,129
Claims for damage to Network	9,700	-	9,700	6,057
Interest receivable	-	5,718	5,718	7,691
European Union grant	-	2,034	2,034	5,410
Other	5,880	715	6,595	19,096
Profit on sale of fixed assets	-	-	-	1,107
Recoveries in excess of AinA	(2,224)	2,224	-	-
	32,440	10,691	43,131	61,881

Income is analysed 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.

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
At Replacement Cost or Valuation							
At 1 April 2004 restated (1)	76,901,715	938,580	173,633	66,073	97,269	39,438	78,216,708
Adjustment to opening position (2)	120,152	(242,909)	17,435	1,631	101	-	(103,590)
Capital additions	-	571,019	1,936	-	23,206	21,572	617,733
AuC valuation adjustments	-	(393,377)	-	-	-	-	(393,377)
Disposals	-	-	(7,151)	(4,655)	(3,907)	-	(15,713)
Revaluation	4,564,840	-	25,094	3,496	3,672	-	4,597,102
Impairments	-	-	(1,902)	(1,749)	(946)	-	(4,597)
Transfers & reclassifications	444,961	(457,019)	25,778	(18,400)	2,746	789	(1,145)
At 31 March 2005	82,031,668	416,294	234,823	46,396	122,141	61,799	82,913,121
Accumulated Depreciation							
At 1 April 2004 restated (1)	10,740,328	-	12,474	-	76,438	16,187	10,845,427
Adjustment to opening position (2)	(8,310)	-	(1,606)	-	(2,046)	-	(11,962)
Charge for the year	195,636	-	1,689	-	4,394	7,789	209,508
Disposals	-	-	(1,594)	-	(3,501)	-	(5,095)
Revaluation	(1,040,360)	-	995	-	3,039	-	(1,036,326)
At 31 March 2005	9,887,294	-	11,958	-	78,324	23,976	10,001,552
Net Book Value	£000	£000	£000	£000	£000	£000	£000
At 31 March 2005	72,144,374	416,294	222,865	46,396	43,817	37,823	72,911,569
At 31 March 2004 restated	66,161,387	938,580	161,159	66,073	20,831	23,251	67,371,281
Asset financing							
Owned	70,794,959	326,137	220,929	46,396	20,611	16,251	71,425,283
On-balance sheet PFI contracts*	1,349,415	-	1,936	-	23,206	21,572	1,396,129
PFI residual interest	-	90,157	-	-	-	-	90,157
Net book value at 31 March 2005	72,144,374	416,294	222,865	46,396	43,817	37,823	72,911,569

* This has been calculated using the original public sector comparator costs indexed up to December 2004 prices and only includes assets built by the PFI companies.

The trunk road network balance at 1 April 2004 has been restated: -

- (1) to remove the value of trunk road network assets detrunked and transferred to local authorities, in furtherance of Government's policy as set out in the 1998 White Paper: A New Deal for Transport: Better for Everyone (Note 17) and to include the value of trunk roads transferred from local authorities to the Agency.
- (2) an adjustment of £120,152,000 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 £56,730,000;
 - Re-referencing variance – an adjustment arising from the re-measurement of road length £64,021,000; and
 - Route variation – a valuation adjustment following changes in route management responsibilities (£599,000).

A full revaluation of the network was carried out by EC Harris, professional surveyors during the year. The valuation was carried out mainly using internal costing and physical asset records provided by the Agency. Certain large structures are valued at historic prices, appropriately indexed, or insurance valuations have been used as the best approximation of replacement cost. The valuation resulted in a net increase in assets of £1,091,000,000. The assets were subsequently revalued, using the latest available indices, to provide a valuation as at 31 March 2005.

A full valuation of the Agency's remaining freehold interests in its motorway service area estate was carried out by the Valuation Office Agency as at 31 March 2005, resulting in an increase in the valuation of these assets of £16,538,850.

The Assets under Construction balance at 1 April 2004 has been adjusted by (£242,909,000). This comprises:

- The write-down of assets under construction costs for schemes that were under construction in both the current and previous year (£244,357,000). Costs are now written off over the period of construction rather than at the point they are transferred into the completed road network.
- An adjustment of (£1,628,000) to Reversionary Interest, 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 £3,076,000 for a scheme that was transferred into the completed network in a previous year but is actually still under construction.

The Assets under construction capital addition figures includes £12,490,000 of capitalised salary costs.

The Assets under construction valuation adjustment totalling (£393,377,000) comprises:

- The write down of assets under construction costs for non TPI schemes of (£246,210,000), this being the excess of capital costs over the standard costs for these schemes; and
- The write down of assets under construction costs for TPI schemes of (£147,167,000), being the excess of capital costs over standard costs.

6. Intangible fixed assets

	Total £000
At Replacement Cost or Valuation	
At 1 April 2004	3,196
Capital additions	1,680
Disposals (licence expiries)	(608)
Transfers & reclassifications	1,145
At 31 March 2005	5,413
Accumulated Amortisation	
At 1 April 2004	1,576
Charge for the year	691
Disposals (licence expiries)	(582)
At 31 March 2005	1,685
Net Book Value	£000
At 31 March 2005	3,728
At 31 March 2004	1,620

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

	31 March 2005 £000	31 March 2004 £000
Severn River Crossing Plc:-		
subordinated loan	83,579	81,119
deferred interest	11,595	6,169
Midland Expressway Limited (MEL) M6 concession	60,751	53,253
Due under managing agent contract agreements	-	455
Staff relocation housing loans	131	180
	156,056	141,176

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

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

Under a re-financing agreement in 2002-2003 interest on the subordinated loan is deferred and is repayable at the end of the concession period.

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 six years following the road open to traffic, which was achieved in December 2003.

31 members of staff have relocation housing loans (2003-04: 36).

8. Movements in working capital other than cash

	2004-05 £000	2003-04 £000
(Increase) / Decrease in stocks	(808)	(6,147)
(Increase) / Decrease in debtors: amounts due within one year	(12,065)	41,156
Increase / (Decrease) in creditors: amounts due within one year	35,231	(106,512)
	22,358	(71,503)
Adjustment: movement in working capital relating to CFERs	(12,486)	35,242
Net decrease in working capital other than cash	9,872	(36,261)

9. Stocks

	31 March 2005 £000	31 March 2004 £000
Communications / electrical equipment	13,796	12,291
Salt	144	801
Other stock	2,241	2,281
Total	16,181	15,373

Other stock comprises highways damage repair items (for example, barriers) and parts for the repair of bridges, tunnels and special structures. It also includes uniforms for Traffic Officers working on the trunk road network.

10. Debtors: amounts due within one year

	31 March 2005 £000	31 March 2004 £000
Trade debtors	9,247	5,570
VAT	47,857	30,081
Other debtors and advances	5,179	10,863
Prepayments and accrued income	5,041	8,745
	67,324	55,259
Prepayments and accrued income includes prepayments in respect of:-		
	31 March 2005 £000	31 March 2004 £000
Utility Companies (New Road and Street Works Act 1991)	-	3,900
Commuted lump sums on PFI contracts for maintenance work	2,600	3,000
Early retirement	300	600
Valuation services to be provided by the Valuation Office	-	500
Amounts due from Area 8 Managing Agent Contract agreement	450	500
Rentals and maintenance on buildings	1,600	400
Local Authorities under the Agency Authority agreements	100	100

Other debtors and advances include £3.0m, net of any provision, due from third parties for work carried out on their behalf under Section 278 of the Highways Act 1980 (Section 278 projects)

Escrow Balances

It is the Agency's practice to receive money from certain developers in advance of any 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 2005 the balance on the accounts was £17.1m (2004; £13.6m). This amount is not included in the Agency's cash balance.

11. Cash at bank

	31 March 2005 £000	31 March 2004 £000
Balance at 1 April 2004	2,750	51,028
Net cash inflow / (outflow)	3,725	(48,278)
Balance at 31 March	6,475	2,750
The following balances at 31 March are held at:		
Office of HM Paymaster General	6,432	2,743
Commercial banks and cash in hand	43	7
Balance at 31 March	6,475	2,750
The balance at 31 March comprises:		
Cash due from / payable to the Consolidated Fund:		
Amounts issued from the Consolidated fund for supply but not spent at year end	644	-
Amounts due from the Consolidated Fund for supply	-	(3,171)
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	-	-
Other:		
Road user charges payable to DfT	5,831	5,921
	6,475	2,750

12. Creditors: amounts falling due within one year

	31 March 2005 £000	31 March 2004 £000
Balances payable to Consolidated Fund Extra Receipts	3,042	-
Amounts issued from Consolidated Fund for supply but not spent at year end	644	-
Trade creditors	55,606	58,359
Accruals and deferred income	362,775	332,674
Amounts payable under the National Traffic Control Centre contract	6,741	-
Amounts payable under PFI contracts	23,889	22,537
Payable in respect of Section 278 schemes	12,932	14,599
Due to DfT in respect of Dartford River Crossing tolls	5,831	5,921
Taxation and social security	57	106
Other creditors	387	2,477
	471,904	436,673

Accruals and deferred income include £263.2m payable on major schemes and to Term Maintenance Contractors and Managing Agents, £70.4m payable in respect of land related costs and £4.1m on administration accruals.

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

	31 March 2005 £000	31 March 2004 £000
Amounts payable under PFI contracts	842,732	866,804
Amounts payable under the National Traffic Control Centre	39,973	-
Payable in respect of Severn River Crossing Plc subordinated loan	83,579	81,119
Payable to consolidated fund extra receipts in respect of Severn River Crossing Plc subordinated loan	11,595	6,169
Payable to consolidated fund extra receipts in respect of Midland Expressway Ltd loan	15,688	12,313
Payable as agents in respect of the M6 Toll	4,040	2,293
Accruals and deferred income	10,142	37,410
	1,007,749	1,006,108

Balances due to the Consolidated Fund have been reclassified from short-term to long-term creditors.

The amount payable under PFI contracts represents payments due in respect of the capitalised value of the road improvements for PFI schemes (Note 16).

The subordinated loan relates to the £60 million index-linked loan to Severn River Crossing (SRC) plc (Note 7) advanced on 26 April 1992 that, upon repayment by SRC, is payable to the HM Treasury Consolidated Fund. The loan carries an interest rate of 6% per annum and the increase in the year reflects current year indexation by means of the Retail Price Index, as required in the concession agreement. It is repayable at the end of the concession period, currently estimated to be 2016. Deferred interest of £11,595,000 on the subordinated loan is also payable to the consolidated fund at the end of the concession period.

The Midland Expressway (MEL) Ltd loan relates to the recovery of costs from MEL (Note 7) which, upon repayment is payable to HM Treasury Consolidated Fund. Costs will be reimbursed to the Agency in 2009.

14. Provisions for liabilities and charges

	Land and property acquisition £000	Engineering and construction services £000	Bridge strength- ening £000	Early retirement £000	Migration, pension & other liabs £000	Total £000
Balance at 1 April 2004	266,192	77,222	67,099	1,297	11,721	423,531
Increase in provision and new provisions	104,536	27,942	48,339	296	4,783	185,896
Decrease in provision	(43,276)	(11,544)	(3,579)	-	(126)	(58,525)
Utilised in year	(13,877)	(36,241)	(31,656)	(716)	(4,316)	(86,806)
Reclassifications	(27,402)	-	-	-	(78)	(27,480)
Balance at 31 March 2005	286,173	57,379	80,203	877	11,984	436,616

Any new, increases or decreases in provisions can impact on both the Operating Cost Statement and Capital Expenditure. During 2004-05, the Operating Cost Statement includes a net increase in resource provisions of £92,517,000. There was also an increase in Capital Expenditure provisions of £34,854,000 during the year.

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

	31 March 2005 £000	31 March 2004 £000
Programme:-		
Land and property acquisitions	29,804	10,159
Engineering and construction	13,000	43,795
Bridge Strengthening	44,760	6,169
Pensions and other liabilities	4,657	2,173
	92,221	62,296
Administration:-		
Early retirement provisions	296	111
	92,517	62,407

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 2005 that will actually be settled.

15. Commitments under operating leases

At 31 March the Agency was committed to make the following payments during the next year in respect of operating leases which expire:-

	31 March 2005		31 March 2004	
	Land & Buildings	Other	Land & Buildings	Other
	£000	£000	£000	£000
Within one year	293	40	279	111
After one year but not more than five years	1,720	79	1,406	167
After five years	3,737	-	3,658	-
	5,750	119	5,343	278

16. Commitments under PFI Contracts

The Agency has entered into the following on balance sheet PFI contracts: -

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

Amounts payable during the year in respect of PFI transactions were £216,912,000 (2003-04 £210,333,000).

The payments which the Agency is committed to make during the year 2005-06 are analysed below by time-bands specifying the period in which the individual commitment expires:

	31 March 2005 £000	31 March 2004 £000
Between 5 to 10 years	14,400	-
Between 21 to 25 years	223,406	213,680
Between 25 to 30 years	-	-
Between 31 to 35 years	16,304	2,340
	254,110	216,020

17. Analysis of movements in taxpayers' equity

	Note	General Fund £000	Revaluation Reserve £000	Taxpayers' Equity £000
At 1 April 2004		41,686,792	25,688,491	67,375,283
Opening balance restatement:-				
Detrunings		(1,125,432)	(643,280)	(1,768,712)
Trunkings		72,905	41,671	114,576
Restated balance 1 April 2004		40,634,265	25,086,882	65,721,147
Net operating cost	(4,157,428)			
Income not appropriated in aid paid to the Consolidated Fund	(14,067)			
Consolidated fund creditor for cash unspent	(645)			
Notional costs	652			
Cost of capital charge	2,317,731			
Net resource outturn before cost of capital charge		(1,853,757)		(1,853,757)
Gain / (loss) on revaluation of assets	5	-	5,633,428	5,633,428
In year adjustments relating to prior year transactions				
Trunk road network				
Adjustment to write down provision	5	(244,357)	-	(244,357)
Value of network - revaluation	5	81,740	46,722	128,462
Assets under construction				
Reversionary interest on M6 toll road	5	(1,628)	-	(1,628)
Capitalisation/write off of prior year spend	5	3,076	-	3,076
Other Fixed Assets				
Adjustments to non network fixed assets	5	26,549	(3,730)	22,819
In year spend on detrunked and trunked roads		(5,126)	-	(5,126)
Realised element of revaluation reserve		(236,376)	236,376	-
Parliamentary funding net of amount surrendered to Consolidated Fund		1,841,000	-	1,841,000
At 31 March 2005		40,245,386	30,999,678	71,245,064

18. Transfer of Functions to/from Local Authorities

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

Detrunked section of the road		Date of transfer	Asset value £m
A63	Selby Bypass	1-Jun-04	18
A1041	South of Abbots Road to southwest of Carlton New Bridge	18-Jun-04	9
A19	North Yorkshire boundary to A19 / A63 junction	18-Jun-04	22
A59	Liverpool to Preston	1-Apr-04	212
A6	South of Leicester to A14	20-Sep-04	133
A6	Leicester to M1 Motorway	20-Sep-04	164
A47	Leicester to A1	4-Oct-04	150
A696/A68	Preswick Road End to Carter Bar	30-Sep-04	206
A4	Colnbrook Bypass	17-Dec-04	14
A45	M1 junction 16 roundabout	15-Oct-04	1
A63	M1 junction with A63 Selby Road to A1 Milford Lodge	10-Dec-04	40
A10	North of Ware to south of Puckeridge	8-Oct-04	26
A41	London to Birkenhead - Buckinghamshire	1-Apr-04	37
A41	London to Birkenhead - Hertfordshire	1-Apr-04	8
A59	Preston to Skipton	1-Apr-04	147
A565	Bootle to Southport	1-Apr-04	111
A646	Halifax to M65	1-Apr-04	158
A565	Southport to south of Preston	1-Apr-04	37
A570	North of St. Helen's to M58	1-Apr-04	44
A679	Halifax to Burnley	1-Apr-04	6
A580	Liverpool to Salford	1-Apr-04	226
			1,769

Trunked section of road: £m

A120	Stansted to Marks Tey	07-Mar-05	115
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19. Intra-government balances

	Debtors: amounts falling due within one year £000	Debtors: amounts falling after more than one year £000	Creditors: amounts falling due within one year £000	Creditors: amounts falling after more than one year £000
Balances with other central government bodies	51,013	-	5,623	-
Balances with local authorities	3,290	-	1,892	-
Balances with bodies external to government	13,021	156,056	464,389	1,007,749
At 31 March 2005	67,324	156,056	471,904	1,007,749
	Debtors: amounts falling due within one year £000	Debtors: amounts falling after more than one year £000	Creditors: amounts falling due within one year £000	Creditors: amounts falling after more than one year £000
Balances with other central government bodies	31,267	-	2,645	-
Balances with local authorities	1,265	-	3,009	-
Balances with bodies external to government	22,727	141,176	431,019	1,006,108
At 31 March 2004	55,259	141,176	436,673	1,006,108

20. Capital commitments

	31 March 2005 £000	31 March 2004 £000
Total capital commitments	222,081	412,312

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.

21. Contingent liabilities

	31 March 2005 £000	31 March 2004 £000
Land & property acquisition	516,461	356,917
Engineering & construction services	29,333	31,935
Other	10,237	15,146
Gross balance at 31 March	556,031	403,998

Land and Property Acquisition

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

Acquisition and Blight

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

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

22. Financial Instruments

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

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

Liquidity Risk

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

The Agency is not therefore exposed to significant liquidity risks.

Interest-Rate Risk

All of the Agency’s financial assets and its financial liabilities carry nil or fixed rates of interest and the Agency 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.

Basis of Fair Valuation:

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

	31 March 2005		31 March 2004	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Financial liabilities:				
Finance lease obligations including on-balance sheet PFI imputed finance lease obligations	913,395	456,642	889,341	442,129

23. Related Party Transactions

As stated on page 47 the Highways Agency is an Executive Agency of the Department for Transport. The Department is regarded as a controlling related party. During the year, the Agency had a significant number of transactions with the Department. In addition, the Agency had transactions with other Government departments and agencies, principally Treasury Solicitors, Valuation Office Agency, Office of the Deputy Prime Minister and a number of Local Authorities.

Denise Plumpton, Information Director, is a non-executive director of the software company, Sapphire Resource Group. The Agency paid this company £1,200 for services performed in 2004-05 (nil in 2003-04). She has not played any role in the awarding of any contracts or commissions to this company. A sister of the Agency's Procurement Director, Steve Rowsell, is a partner of the professional valuers, Donaldsons. The Agency paid this company £58,000 for services performed in 2004-2005 (£77,000 in 2003-2004). Mr Rowsell played no role in the award of these commissions.

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

24. 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, exceed £100,000. These relate, where appropriate to cash and store losses, fruitless payments and claims abandoned as well as frauds.

The amounts involved are as follows: -

	2004-05 £000	2003-04 £000
Losses: 4,320 cases (2003-04: 1,514 cases)*	14,513	2,533
Special payments: 4 cases (2003-04: 10 cases)	429	489

* Losses include 3,550 cases valued at £6,690,000 (2003-04 1,410 cases valued at £2,400,000) for damages to the road network where the culprit could not be identified, or otherwise pursued for costs. The increase in cases in 2004-05 is a result of improved record keeping and reporting of incidents. It also includes the write-off of incorrect transactions arising from an on-going exercise to review third party debt.

Included in the above losses and special payments are amounts over £100,000 reported as follows:

LOSSES

Write-off of debt from third parties arising from book-keeping errors (nine cases totalling £2,881,000 and ranged in the value from £115,000 to £1,298,000) £2,881,000

Write-off of VAT incorrectly recovered from the tax authorities (six cases totalling £2,565,000 and ranged in the value from £121,000 to £839,000) £2,565,000

SPECIAL PAYMENTS

An ex-gratia payment was made to a local authority for interest on monies owed after a delay in payment caused by legal complexities £400,000

