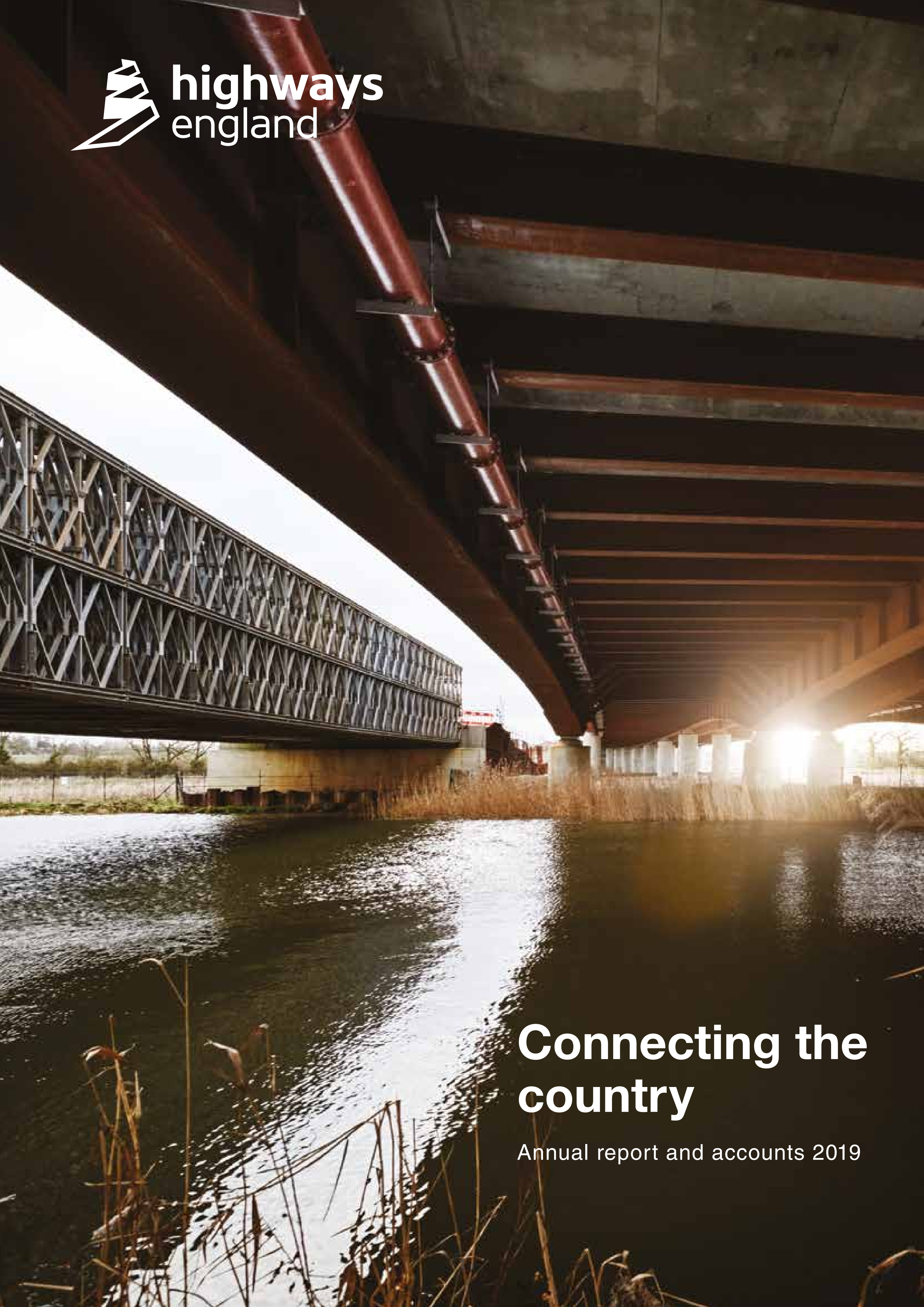
highways england



# Connecting the country

Annual report and accounts 2019

# Highways England

# Annual report and accounts 2018-19

(For the financial year ended 31 March 2019)

Presented to the House of Commons, pursuant to Section 7 of the Government Resources and Accounts Act 2000

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HC 2319

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# At a glance

We believe that connecting people builds communities, creates opportunities and helps the nation thrive. We aim to provide all our customers with safe and reliable journeys through the way we operate, maintain and enhance one of the most advanced road networks in the world.

**4,300**
MILES
of **motorways** and **major A-roads**

carrying
**4m**
VEHICLES **every day**

Our roads **carry over**
**2/3**
OF ALL FREIGHT

Our **major schemes** deliver over
**£2** BENEFIT
to the UK economy **for every**
**£1** INVESTED

Sectors heavily reliant on our roads **employ**
**7.4m**
PEOPLE
and **contribute**
**£314bn**
TO THE UK ECONOMY

## OUR RIS1 DELIVERY SO FAR IN NUMBERS

**£6.3bn**
VALUE of **road improvements**

**£848m**
EFFICIENCY **savings**

**44**
ROAD SCHEMES
**completed** or under **construction**

**100**
SAFETY SCHEMES
**completed**

## OUR RIS1 SOCIAL IMPACT SO FAR IN NUMBERS

**109**
BIODIVERSITY SCHEMES
**completed**

**951**
NOISE SCHEMES **completed**

**101**
CYCLING/WALKING
SCHEMES **completed**

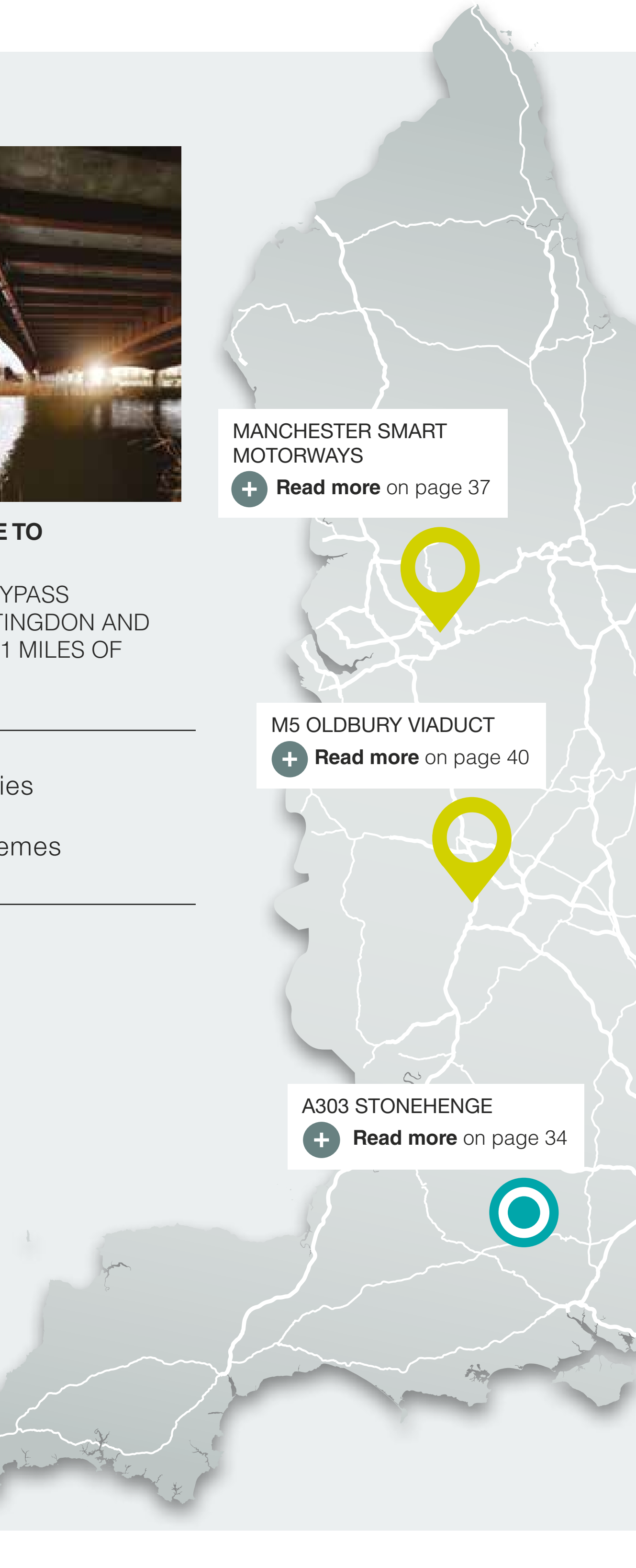
**Infrastructure** for
**38,000**
NEW HOMES

# Highways' highlights

**Front cover:**

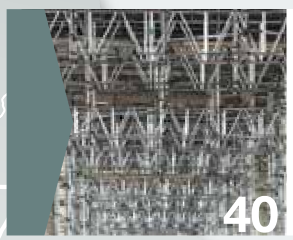
**A14 CAMBRIDGE TO HUNTINGDON:**
A MAJOR NEW BYPASS SOUTH OF HUNTINGDON AND UPGRADES TO 21 MILES OF THE A14

Case studies
Major schemes





**Strategic report**
**A14:**
DELIVERY




**Strategic report**
**M5 OLDBURY VIADUCT:**
DELIVERY


**Our responsibility**
**INCURSIONS WORKING GROUP:**
SAFETY


**Our responsibility**
**SPACE INVADERS:**
SAFETY


**Our responsibility**
**FOOTBALL ASSOCIATION (FA):**
CUSTOMERS


**Our responsibility**
**MDP:CONNECT:**
PEOPLE


**Our responsibility**
**NOISE POLLUTION:**
SOCIAL IMPACT

# Contents



DIGITAL

**Please visit** our online annual report at www.highwaysengland.co.uk/annualreport for PDF downloads and further information.

# Strategic report

The Strategic report was approved by the Board on 9 July 2019 and signed on its behalf by:

**JIM O'SULLIVAN** CHIEF EXECUTIVE

# Chairman's statement



Highways England made good progress in the year to 31 March 2019, delivering to plan and with strong financial results. We are not complacent and recognise that much remains to be done in the final year of this five-year road period.

Highways England operates, maintains and enhances the strategic road network (SRN) – some 4,300 miles of motorways and major A-roads, carrying 4 million vehicles every day. The SRN plays a critical role in the country's society and economy, connecting families and friends and enabling businesses to trade nationally and across the globe.

Our three imperatives – safety, customer service and delivery – have remained constant since we were established in 2015. These shape our foundation and our focus, keeping people moving today, and moving better tomorrow.

Much remains to be done as we work to complete Government's first five-year Road Investment Strategy (RIS1) and prepare for the opportunities and challenges of the next road period.

## Safety

We are focused, company-wide, on the safety of all those who drive or work on our roads. I am pleased to report improvements this year, including the launch of our Home Safe and Well initiative. This internal scheme focuses on the wellbeing of our people, those who work for our contractors, and others impacted by our activities.

Progress in these areas has allowed us to devote more time to aspects of road safety over which we have less direct control. I believe that through collaboration with road users and, in the case of business drivers, the organisations who employ them, we can play an important role in reducing the number of people hurt on the country's roads. I am particularly proud of our Driving for Better Business campaign, which has already signed up over 320,000 drivers and 225,000 company vehicles. As examples of what can be achieved amongst our own contractors through this scheme, Amey has reported a 38% reduction in at-fault accidents, and WJ Group has reported a 20% reduction in incident rates, and a 59% reduction in traffic offences. Our campaign works to spread these advances as widely as possible.

## Customer service

Our business has strong public service roots in doing the best for society. We are adding to our DNA a culture of customer service – a dedication to meeting the needs of individual road users. We know that the provision of timely information has transformed the customer experience of other modes of transport and we are doing the same for our roads. We have more to do in 2019-20 and into the future.

## Delivery

We spent £3.8 billion on the SRN in 2018-19, over £10 million per day. Of this, £2.6 billion relates to capital investment in our road network, and £1 billion on its maintenance and operation. We have developed our financial and operational control systems such that we have been able to manage opportunities and risks across our investment portfolio, and to deliver within the funding provided.

We have been working closely with Government to meet legal requirements and improve air quality for the communities who live beside our roads. We have an ongoing programme of research, are supporting local authorities in the introduction of clean air zones and are developing plans to improve air quality in the quickest ways available to us. These measures include installing new barriers, encouraging cleaner fuels and improving traffic management.

Highways England has been set challenging targets. Having reviewed progress over the year to date (our results are reported on pages 24-28), the Board believes that the company's performance was positive. To achieve all the targets all the time would indicate that they are too easy; we accept that there is still more for us to achieve.

## Governance

Our Board has evolved over the course of the year. David Hughes, who chaired the Audit and Risk Committee, left in August 2018, and Simon Murray, who chaired the Investment Committee, left in March 2019. I thank David and Simon warmly for their contributions and am pleased to welcome three new directors: Kathryn Cearns joined us in April 2018 and now chairs the Audit and Risk Committee; Janette Beinart joined in January 2019 and now chairs the Investment Committee; and Carolyn Battersby joined in February 2019 as the new Shareholder-appointed Director.

We are committed to achieving a culture of equality, diversity and inclusion. These changes to the Board show our progress regarding gender, and our Responsibility section of this report shows our wider, employee-led progress across Highways England.

After last year's externally-facilitated evaluation of Board performance, our review in 2018-19 was internally led.

We noted progress on the items highlighted last year and identified two areas for focus in the coming year: customer service and broader stakeholder engagement, particularly through better collaboration with our commercial customers.

## Looking ahead

### Planning for RIS2

In January 2018, in response to Government's *Draft Road Investment Strategy* (RIS2), we submitted our *Draft Strategic Business Plan* for the second road period (2020-2025) for review by the Office of Rail and Road (ORR; our Monitor) and the Department for Transport (DfT; our Shareholder).

Following the 2018 *Autumn Statement*, we expect an allocation of £25.3 billion of funding for the next road period and have proposed a programme of investments that we believe is deliverable, good value for our customers and good for tax payers. Our *Draft Strategic Business Plan* also outlines how we will drive efficiencies over and above those achieved in the current road period.

The DfT is due to publish the final RIS2 in the autumn, after which we will finalise and publish our *Strategic Business Plan.*

### Planning for Brexit

Over the past year, we have talked to the DfT about the risks associated with leaving the European Union (EU). We have reviewed Government's Brexit notices, considered the potential impact of EU Exit on our business, and continued our work in Kent on solutions at the ports.

In other parts of the country, we have reviewed our plans with ports and highway authorities. We have tested our contingency plans for bad weather and major incidents against likely Brexit-related scenarios of disruption, considering the needs of people using our roads to get to the ports as well as those going elsewhere. While we cannot avoid all disruption, we are working to minimise the impact on our customers.

Finally, I thank every colleague in Highways England, and everyone in our partner organisations, for each and every contribution to the progress made this year.

**COLIN MATTHEWS** CHAIRMAN

# Chief Executive's strategic review



We are now four years into delivering Government's £15 billion RIS1 for 2015-2021. This is the largest investment in our SRN in a generation, through which we are delivering benefits to our customers and the economy, while minimising our impact on the environment and local communities. As more of our schemes move into construction, we remain wholly focused on our three imperatives – safety, customer service, and delivery – which underpin everything we do.

## Safety

Safety remains our foremost concern. Since 2012, the number of people killed and seriously injured (KSI) on the SRN has varied. Headline figures for 2018 show an overall reduction in the number of reported collisions and casualties, with KSI cases slightly increasing compared to the same period in 2017, although the number of fatal casualties has reduced by around 10%.

Our Chairman talks about one road user safety campaign that we are particularly proud of: Driving for Better Business. Another successful safety campaign – our most impactful to date – was Don't be a Space Invader; you can read more about this on page 74.

We launched our *Guide to Road Safety Route Treatments* in May 2018, providing the latest guidance on following the safe systems approach and highlighting the role of education and compliance measures alongside traditional engineering interventions. We have also updated a number of our *Design Manual for Roads and Bridges* (DMRB) standards, to make it easier for designers to understand road safety considerations, and to ensure they are embedded within design decisions.

## Customer service

Our satisfaction score of 88.4% this year is slightly below our target. It is improving though we are disappointed and will redouble our focus on improving the overall experience for our customers and communities in 2019-20.

Our *Customer Service Strategic Plan* details our commitment to improving the experience of all our customers, taking us into 2020 and beyond. We want our customers to know that we care about their journeys, and for our people on and off road to understand their contribution to customer service.

Following on from trials in 2017-18, where we safely increased the speed limit for some roadworks to 60mph, this year a 60mph limit has been used during the commissioning stages of our smart motorways schemes. This is to address one highly sensitive issue for our customers: how much time vehicles spend in roadworks (usually 50mph on motorways) and the associated delays.

In 2018, we also started to use Twitter to provide customers with real-time information across three regions. Customer feedback was positive, and the remaining three regions went live in March 2019.

## Delivery

We opened seven schemes in 2018-19 and this has added around 60 extra lane miles of capacity to the SRN. These include:

- M5 junctions 5 to 7 upgrades
- A50 Uttoxeter (Project A)
- M6 junctions 16 to 19 smart motorway
- A19/A1058 Coast Road junction improvement
- M1 junctions 23a to 24 smart motorway
- M1 junctions 24 to 25 smart motorway

and our missed commitment from last year, the:

- M60 junction 8 to M62 junction 20 smart motorway

**Read more** about the Manchester smart motorways scheme in our North West roads programme section on page 37

We also began work on one scheme ahead of schedule and this is now due to open for traffic late 2019, the:

- A1 North of Ellingham



ensuring that we hit our in-year targets and keeping us on track to meet our overall RIS1 commitments, as we missed our 2018-19 delivery plan commitment of the:

- M20 junction 10a upgrade in 2018-19

Some of our other schemes in work this year, and forming case studies within this report, are: the A14 Cambridge to Huntingdon (our front cover and flagship project for 2018-19); the A303 at Stonehenge; and the M5 Oldbury Viaduct.

**Read more** about these on pages 32, 34 and 40

We achieved £362 million of efficiency this year, against our in-year target of £345 million. Efficiency is the economic measurement of how much we have saved by ensuring optimal use of all our resources, such as time, money, labour, and materials. We are now reporting a cumulative position of £848 million within the current road period, against our target of £722 million by March 2019, and have met our Year 4 efficiency targets across the business.

## People

We are pleased with the year-on-year rise in the satisfaction levels of our people, with our annual survey identifying that we have increased employee engagement to 52% from 46%, and employee enablement to 56% from 52%.

As part of our transformation, we remained focused on our *Highways England 2020 Organisational Plan*, making the changes we need to enable us to deliver current and future investment programmes. The plan contains cross-organisation and directorate-led initiatives in key areas, such as capability development, culture change and estate and capital portfolio management.

We have built a culture of equality, diversity and inclusion, including through a number of staff networks. Important steps forward have been made in two areas: our LGBT+ community, and our Armed Forces and Veterans Group. You can find out more on pages 88-89.

## Social impact

We have introduced a social impact section to our annual report for the first time this year, to introduce some of the work we do across our business to promote positive environmental, social and economic outcomes for everyone, and to ensure that we operate sustainably, improving the quality of life for current and future generations.

We are investing £675 million through our RIS1 ring-fenced funding, with Designated Funds across five areas: environment; cycling, safety and integration; air quality; growth and housing; and innovation.

This year we published our first *Cycling and Accessibility Report*. We have made significant progress in integrating cycling and accessibility needs into scheme design, and are working closely with stakeholders to deliver schemes which suit the needs of communities.

## What next?

I am proud of the achievements and progress that our people and company have made in the last year. I know that there is – and will always be – more work to do. As a business, we are committed to continuous improvement, and I look forward to seeing what the future holds.

We will complete delivery against RIS1 in the coming year. Having submitted our *Draft Strategic Business Plan* in January 2019, we are preparing for the next road period and expect our plans to be signed off later this year.

**JIM O'SULLIVAN** CHIEF EXECUTIVE

# Our business model: driving our value

Highways England operates, maintains and enhances England's motorways and major A-roads. We exist to connect the country. We believe that connecting people builds communities, connecting families with places creates memories, connecting workers with jobs creates opportunities and connecting businesses helps our nation thrive.

## Our imperatives and values: **how we work**

### Safety

1. This is our first imperative. This means safety for all who use or cross our roads (motorists, pedestrians, cyclists and equestrians), for our people, and for the communities alongside them.

### Customer service

2. We are committed to making our customers' journeys as safe, reliable and smooth as possible.

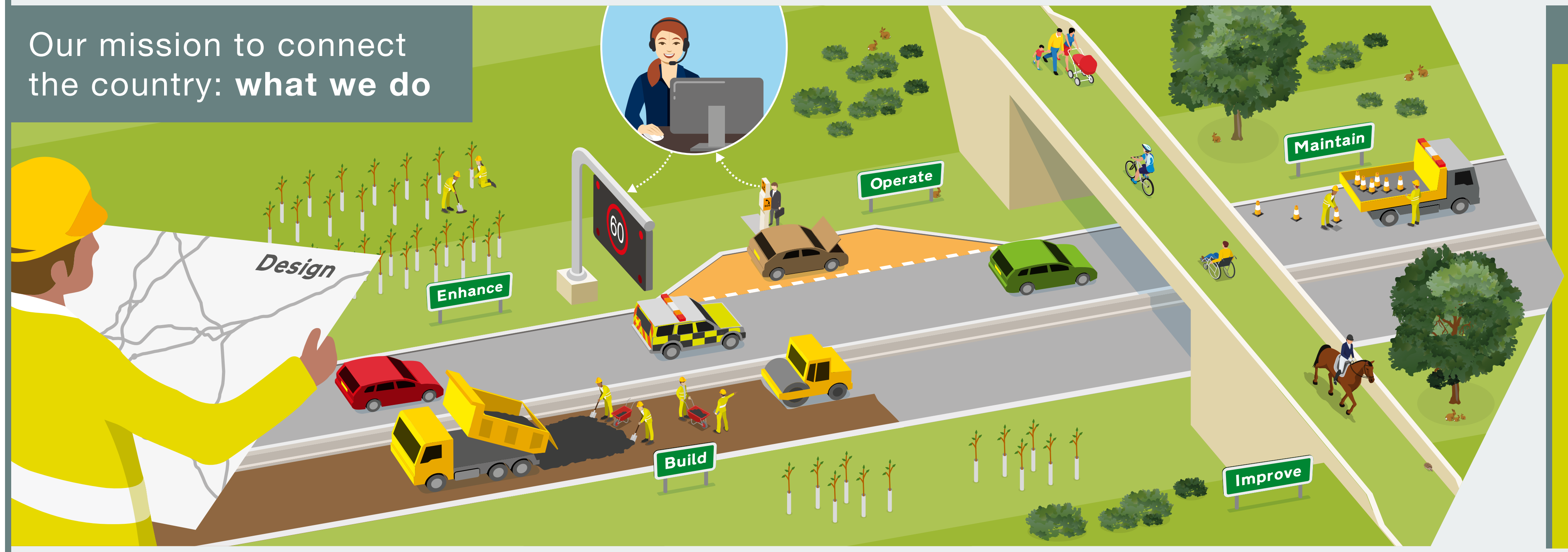
### Delivery

3. We are delivering the biggest upgrade to the SRN in a generation. Our approach will always be to work in an efficient and effective way that provides value for money and minimises disruption. We aim to positively impact the economy and leave a positive lasting legacy on communities and the environment.

Our three imperatives set out what we do as an organisation

Our values describe how we do it, how we treat people, and how we do business

## Our mission to connect the country: **what we do**




## Our value: **creating public benefit**

### Our major schemes

£1 INVESTED = Over £2 BENEFIT

**Our KPIs set targets for – and then measure – how well we perform our eight core business objectives for public benefit:**

1. Make the network safer, reducing numbers of killed or seriously injured
2. Improve road user satisfaction
3. Ensure network availability
4. Clear motorway incidents
5. Reduce noise
6. Enhance the environment
7. Achieve efficiency, saving on capital expenditure
8. Keep the network in good condition

**Read more** about our KPIs on pages 24-28

## Our resources and relationships: **what we rely upon**

### Financial resources

Funding from Government to run our business

### Collaborative relationships

Key industry partnerships, stakeholders and our supply chain to support our delivery

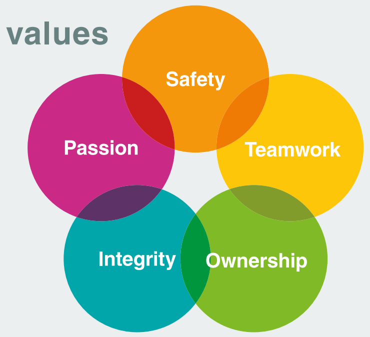
### Our people

Our diverse workforce to manage our risk and deliver our strategy, performing in accordance with our values

### Technological, physical and natural resources

Material, non-financial resources to deliver construction work and customer service improvements

### Our values



# Our marketplace



We work within a changing environment, and there are many external factors that may impact how we operate, maintain and enhance the SRN, as well as how we run our business. We identify these factors as: the national economic and political climates; issues of social concern; the market conditions within our industry; and global technological developments.

## Our eco-political landscape

### Budget

In the Chancellor's *Autumn Statement 2018*, Government announced that funding for the SRN from 2020 to 2025 would be through the National Roads Fund, which is due to reserve £25.3 billion of its expected £28.8 billion revenue for investment in the SRN from Vehicle Excise Duty within England.

Such funding will create a materially stronger link between our customers and our income, potentially marking a shift in public expectation. Road users who feel that they are directly paying for a service will have increased expectations around performance, day-to-day visibility on the roads and levels of customer service.

### Brexit

Early in 2018, as part of Brexit contingency planning, the DfT and ministers asked us to consider a number of possible options to assist with planning for potential traffic congestion, focused on Dover port and Eurotunnel. This brought forward the need for Operation Brock to go ahead as a priority.

+ **Read more** about Operation Brock on page 55

Brexit could impact many industries and, at this stage, it is difficult to conclude the exact impact it will have on Highways England. We have analysed potential impacts on our supply chain resources, labour market and IT systems. We believe we are reasonably positioned to deal with any short-term impacts. Over the longer term, material costs and lack of skilled labour may increase with a knock-on effect on contract value.

## Issues of social concern

Companies are now expected to behave with greater integrity, fairness and transparency, and to actively engage with, and contribute to, society. Highways England is no exception. Our strategic progress must be sustainable for our Shareholder, employees and customers, as well as the communities we serve, the country more broadly, and the natural environment.

We welcome this challenge and, this year, we have introduced a dedicated Responsibility section to our annual report to show how we are consistently improving how we do business.

### Going greener for our environment

Government has committed to achieving reductions in the UK's greenhouse gas emissions and improvements in air quality. We are required to contribute towards the Greening Government Commitments set for the DfT, currently targeted with a 43% reduction in emissions by 2019-20. We have committed to ongoing improvement in environmental outcomes. We work with the DfT, the Department for Environment, Food and Rural Affairs, the Office for Low Emission Vehicles, and others to help improve air quality, lower carbon emissions and reduce our impact on the natural environment.

+ **Read more** about our people on page 84, our customers on page 76, and our social impact on page 90

## Market conditions within the construction and infrastructure industries

### Policy

We look to align with, and support, relevant Government policy – including Government's Industrial Strategy, which aims to increase productivity and drive growth across the country. Within transport, we work closely with the DfT and other partners on emerging issues, such as the resilience of the transport network against the backdrop of increasing volumes of traffic, a growing population and an increased risk of extreme weather events. In a new study announced by the Chancellor in the *Autumn Statement 2018*, the National Infrastructure Commission is set to examine the resilience of the UK's infrastructure. It will publish its final report and recommendations in 2020, and we will respond accordingly to ensure that our roads, operations and risk management processes can adapt to meet with national demand.

### Supply chain

Our supply chain needs are influenced not only by planning for the second road period and beyond, but also by wider considerations around the current state of, and future trends in, the construction and infrastructure industries.

We will need, for example, to further develop the supply chain so that systems and communications become more integrated. This will involve a mix of established technology firms, start-ups and small and medium-sized enterprises (SMEs).

Commercial models are also becoming more collaborative and integrated, with emerging models being promoted through Government and cross-industry initiatives. Several examples of where these models have been used are listed below.

We need to remain aware of the possibilities of supply chain shortages, which could arise from a number of issues affecting our market, such as capacity constraints within the construction industry, in terms of access to local labour, and the risk of contractors and supply chain organisations collapsing due to the industry's low margins.

We carefully managed the aftermath of the failure of Carillion in early 2018, and we must ensure our supply chain approach enables us to securely meet our future needs. Specific improvements are wide-ranging, with examples including increasing awareness of the proportion of business awarded to individual suppliers, expanding the existing supply chain, strengthening supplier financial viability testing and due diligence, and introducing our Routes to Market and Asset Delivery approaches.

| | | | |
|---|---|---|---|
| Infrastructure and Projects Authority | **IPA** – Programme to transform infrastructure performance, including coordination of collaborative relationship initiatives | ICG | **Project 13** – An industry-led movement to improve the way high performance infrastructure is delivered based on an enterprise approach |
| Department for Transport | **Transport Infrastructure Efficiency Strategy** – The DfT-led transport sector initiative, including promotion of collaborative relationships | love every drop anglianwater @one | **Anglian Water @OneAlliance** – Integrated alliance involving a shared programme pool and gain share mechanisms |

+ **Read more** about Routes to Market on page 49, and our new approach to Asset Delivery on page 50

## Accelerating technology

In 2018-19, there were significant breakthroughs in construction innovation across the sector, particularly around digital design, off-site and modular construction and smarter materials. We have summarised the top construction technology trends on the following page.

Clearly there is a significant opportunity across the transportation industry as a whole to enable innovation. Smart construction is rapidly emerging, bringing clear potential benefits to designers, contractors and asset owners.

### Trends in the automotive sector

To support the increasing number of electric vehicles and connected and autonomous vehicles (CAVs) on our roads, we will need to manage a change in road infrastructure over the coming years. Electric vehicles, for example, will require a network of charging points. We are both planning for, and already responding to, these automotive developments.

+ **Read** about our Digital Roads vision on page 46 and our Innovation schemes on pages 72-74

### Trends in the infrastructure sector

Technology is changing the way infrastructure is designed, delivered and operated. Schemes will increasingly be designed digitally using 3D Building Information Modelling (BIM). We expect to become progressively less reliant on traditional design services through the second road period and beyond, with corresponding improvements in safety and productivity.

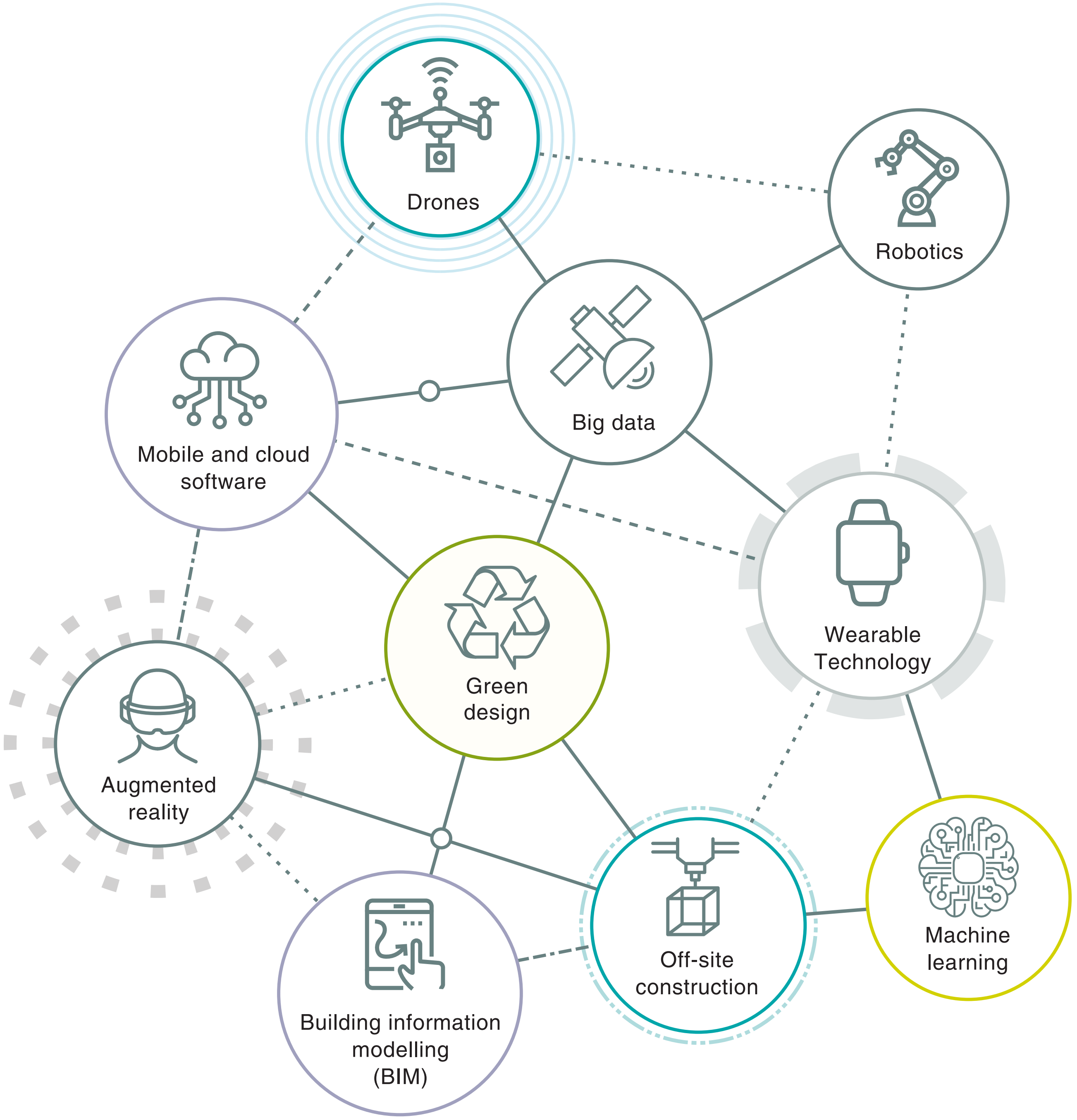
Increased real-time data will provide opportunities to transform the management of the SRN, and to meet the growing demand for data to support improved journey planning, goods distribution and the transition to CAVs, maximising existing capacity and helping us to prioritise future projects.







## Top trends in construction technology across the sector




Read about our risks and risk management on pages 56-63

# Our financial review

We have achieved our financial targets for 2018-19. We met our Delivery Plan commitments and remained within our £3.8 billion funding. As planned, our capital spend has increased as we progress through the current road period, and as more projects enter construction phase. We invested £0.4 billion more this year, and capital spending is 37% greater than three years ago.

We have held underlying expenditure flat, even as our capital portfolio has grown, creating £362 million of efficiency savings over the past year.

We are entering the final year of the road period, clear on our financial risks and opportunities, and with an affordable work programme linked to full delivery of RIS1 commitments.

## Our key financial successes in 2018-19 include:

- Delivering the planned capital investment programme within our funding
- Creating efficiencies to keep within flat operational funding levels
- Achieving year-end results (outturn) within 1% of supplementary estimates
- Achieving cash outturn for the year within 1% of target
- Delivering efficiency savings ahead of RIS1 trajectory
- Protecting and increasing the value of the SRN through our maintenance work and enhancement programme
- Refinancing the M25 PFI contract, leading to undiscounted savings of £149 million across its lifetime

**£3.8bn** to operate, maintain and enhance the SRN in 2018-19

This equates to **£10m** a day

We invested **£674m** on the renewal of the SRN





## Financial performance

In 2018-19, we spent £3.8 billion to operate, maintain and enhance the SRN, which equates to around £10 million every day.

We prioritise our work programme to maximise the benefits within our funding constraints. Our robust financial management framework means we manage opportunities and risks across the capital investment portfolio and remain within the funding provided. During the year, we agreed with the DfT that we would bring forward £60 million of funding from the final year of the current road period to better match the delivery profile of our capital plan. This meant we did not need to scale back our investment, which would have created unnecessary delays.

## Capital funding

Our capital funding from Government was £2.6 billion from the total £3.8 billion in 2018-19, compared to £2.2 billion the year before. Our capital programme is split mainly between work to enhance and renew our network. Enhancement projects took the majority of our capital funding this year, £1.7 billion, and this is set to rise again next year. This is because many of our enhancement schemes in the planning phase at the start of the current road period have now entered the construction phase.

**Capital funding**

| Total capital investment (capital departmental expenditure limit) | Funding £m | Outturn £m | Variance £m |
|---|---|---|---|
| | 2,589 | 2,650 | (61) |

Scheduled renewals work accounted for £0.7 billion of our capital funding, which we invested in maintaining our structures and road resurfacing. This work is essential to ensuring that our network operates safely, as well as reducing the need for more costly interventions later.

The remainder of our capital funding was spent mainly on IT and estates projects.

We rely on effective portfolio management to remain within our overall capital funding for each road period, and to understand and manage the rate of delivery year by year. Part of the way we do this is by knowing the project levers we can pull to deliver against our targets and stay within our funding.

We have long-term funding agreements, and our annual budgets reflect how much investment is expected in each year. We have a flex-funding agreement in place with HM Treasury, which allows us to bring forward up to 10% of our funding between years. This is an important mechanism to keep costs and funding aligned, ensure our schemes start promptly and open for traffic on time. We nevertheless aim to remain within the original profile of spending over the five-year road period.

## Operational expenditure

**Operational expenditure**

| Operational expenditure (resource departmental expenditure limit excluding depreciation) | Funding £m | Outturn £m | Variance £m |
|---|---|---|---|
| | 1,096 | 1,101 | (5) |

Our operational budget for 2018-19 was £1.1 billion. This is similar to the year before, but with small increases to cover new work on managing the Severn and Dartford river crossings.

We focus the majority of our operational spend on the maintenance of our network and on service payments for schemes that were privately financed in the past (PFI schemes). As our underlying funding remains flat, we have to find efficiencies to absorb the impact of inflation and other cost pressures.

New cost pressures in 2018-19 included:

- an £11 million cost reduction challenge set by the DfT
- the extra cost of running smart motorways (£2 million), which need more traffic officers, and use more electricity through gantry signage
- higher pay awards for front-line operations staff (£2 million)

We found matching savings which enabled us to deliver as planned and remain within our funding. Our transformational change programmes generated many of the savings opportunities we needed. We also worked with Connect Plus on refinancing the M25 PFI contract, which reduced costs by £12 million this year, and generated long-term savings for future years.

## How we spent our money in 2018-19 (£3.8 billion)

We spent over 71% (68% 2017-18) of our funding on renewing and enhancing the SRN, with a further 23% (25% 2017-18) spent on operations, including service payments on PFI contracts. The remaining 6% (7% 2017-18) relates to other capital and corporate services expenditure.

**Expenditure**

| | 2018-19 £m | 2017-18 £m |
|---|---|---|
| CAPITAL: | | |
| Asset renewal | 674 | 776 |
| Capital improvement | 1,713 | 1,360 |
| Other capital investment | 263 | 183 |
| Total capital | **2,650** | **2,319** |
| OPERATIONAL EXPENDITURE: | | |
| Roads PFI | 384 | 421 |
| Operational maintenance | 286 | 270 |
| Operation of the network | 192 | 169 |
| Corporate services | 172 | 163 |
| Protocols | 67 | 58 |
| Total resource | **1,101** | **1,081** |

All quoted capital and operational expenditure figures can be reconciled to the financial statements, via Annex 1 (iv) Segmental reporting on page 176

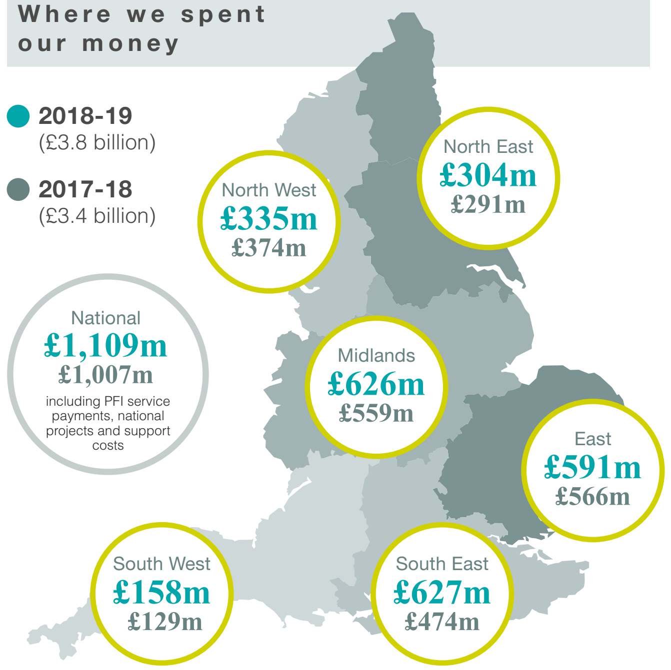
As the number of schemes in construction increases, so does the rate of our capital spending. This year we also spent more on our maturing Designated Funds programme, using ring-fenced funding.


| | (£m) |
|---|---|
| Capital improvement | 1,713 |
| Asset renewal | 674 |
| Roads PFI | 384 |
| Operational maintenance | 286 |
| Other capital investment | 263 |
| Operation of the network | 192 |
| Corporate services | 172 |
| Protocols | 67 |

## Where we spent our money in 2018-19 (£3.8 billion)

Our enhancement expenditure benefits every region and is concentrated in areas where our biggest schemes are under construction. Our expenditure in the Midlands included significant investment on the M6 (junctions 2 to 4 and 13 to 15), together with £190 million of renewals. Expenditure in the East reflects the £447 million spend on the A14 Cambridge to Huntingdon scheme and the investment in the South East is a combination of several large schemes, including M4 junctions 3 to 12 and Lower Thames Crossing, and £135 million of renewals. We spent nearly £640 million in the North of England, almost 25% of our regional expenditure.

**Where we spent our money**










## Efficiency

We have a target of £1.2 billion of efficiency savings over the current five-year road period. The funding for our capital plan is provided on a post-efficient basis, meaning we have to make these efficiency savings to deliver our commitments.

The rate at which we need to find and deliver efficiency savings increases year-on-year as more projects reach design maturity and enter into construction. Our target by the end of 2018-19 was to achieve £722 million of savings, with the final 40% to be achieved in the final year of the road period. We have exceeded this target, achieving £848 million of efficiencies.

We are not funded for inflation on operational expenditure, which means we need to find £20 million of new savings and efficiencies each year to offset inflationary pressures. We have examined all our major areas of spending and found more efficient ways of delivering at a lower cost.

## The value of our network

The SRN consists of land, roads, structures (such as bridges and tunnels) and communication technology. These come together to form an integrated network. Valuation of our network is done using standard costs and then adjusted for wear and tear. As we build new roads or enhance existing assets they are valued using the latest standard cost, which is the same as the cost to build.

**SRN valuation**


Our network was valued at £118.6 billion at the end of the financial year, which is an increase of 4.4%. This net increase is made up of £1.2 billion of capital investment and £5.1 billion of valuation adjustments, then reduced by £1.3 billion for depreciation, impairment and disposals.

## Supporting our supply chain

Cashflow is important for businesses of all sizes, and we make a real difference to the financial health of our supply chain by paying quickly for work that has been done. We want contractors to be confident about working with us, and we are signed up to the Prompt Payment Charter. We paid 90% of supplier invoices within five days of receiving a valid invoice and 99% were paid within 30 days or in line with their contract terms.

We support Government's fair payment charter, and our project bank accounts make a big difference to the cashflow of sub-contractors. These accounts mean all parts of the supply chain receive payment for their delivery at the same time, and sub-contractors do not have to wait for main contractors to cascade payment, which can sometimes take weeks. During the year, we paid £1,422 million into project bank accounts, of which nearly a third (£419 million) went to SMEs. Because of the cashflow benefits, 80% of our sub-contractors chose to be paid this way.

Government has issued a new prompt payment policy that requires all Government contracts of more than £5 million to include supplier prompt payment to sub-contractors. We have built requirements into our tendering processes to ensure that this is in place when it comes into force in September 2019.

## Protocols

In addition to our core activities, we manage a number of other functions for the DfT. These activities, known as protocols, cost us £67 million in 2018-19 and are funded separately by the DfT. These range from managing the historical railways estate, to operating the Dartford-Thurrock Crossing charging scheme and managing the Severn River Crossing.

## Forecasting cash requirements

We are measured on our ability to accurately forecast our cash requirements, and Government holds us to account for our performance. The Government target is for cash variances to not exceed 5%. We have outperformed this with a variance of less than 1%.

# Our strategic performance: KPIs

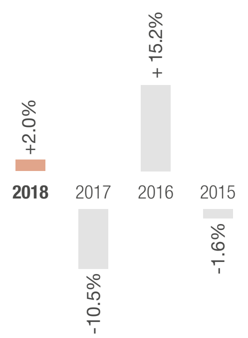


This section provides a snapshot of our performance over the last four years, since the beginning of RIS1. Our eight strategic key performance indicators (KPIs), measured across 10 RIS1 targets set by the DfT in 2015, provide a framework against which we can monitor our progress. Our results for 2018-19 show that our performance has increased and we have met the majority of our commitments, with further work needed in some areas.

## 1. Making the network safer

**Read more** about safety on pages 68-75

**1. Making the network safer**

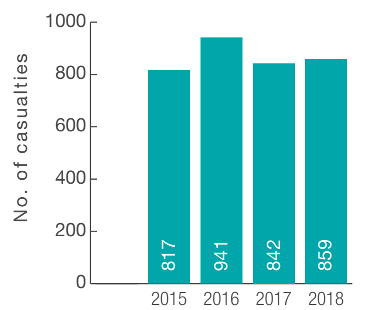



**We must achieve a**

**40%**

reduction in the number of people killed and seriously injured on our network by the end of 2020

**Q1-2 (January-June) KSI casualties by year**




**Safety KPI notes**

1. These charts are indicative only. This year we are only able to report unvalidated Q1-2 data. These charts therefore display comparable Q1-2 data from the last three years for positioning the trends in our performance.
2. The publication of the Stats19 validated annual statistics will be released at the end of July 2019. A provisional understanding of safety performance can be derived from unvalidated Q1-2 data, published in November 2018.
3. The *Road Safety Overview Performance Report* was published in early February 2019. This provides a range of facts and figures, giving more contextual information on performance.

We monitor our road safety performance through the figures provided in the *Reported Road Casualties Great Britain Annual Report*, published by the DfT.

Since 2012, the number of killed and seriously injured (KSI) on the SRN has fluctuated following many years of falling numbers. This trend has also been reflected in the rest of the road network in England. Headline figures for 2018, based on the released unvalidated dataset for the first six months of 2018, indicate an overall reduction in the number of reported collisions and casualties, with KSI cases slightly increasing compared to the same period in 2017.

Further analysis has been undertaken on fatal casualties for 2018, based on our dataset. This indicates that the number of incidents has reduced by around 10% compared to 2017.

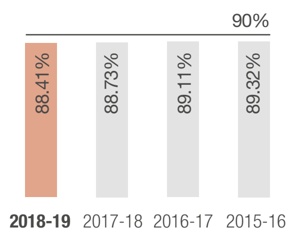
Changes in recording practices over recent years have affected the reporting conduct of KSI. The change has meant that some injuries previously classified as slight are now classified as serious.



## 2. Improving user satisfaction

**Read more** about user satisfaction on page 77

**2. Improving user satisfaction**




**We must achieve a score of**

**90%**

road user satisfaction by March 2017 and then maintain or improve that standard

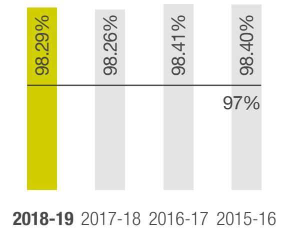
While our satisfaction score of 88.41% is slightly below our target, we have worked across our business and supply chain to improve the overall experience of our customers and communities. Following improvements to our signs, messaging and information, we have, for example, seen a continual rise in satisfaction around on-road and digital information, with our March performance at 92.5%, our highest score since 2013-14.

We are working to improve customer experience by designing roadworks that cause less disruption to road users, for example increasing the speed limit through roadworks when it is safe, and phasing roadworks to manage the number on any single stretch of road at the same time. Consequently, this year has seen our highest roadworks satisfaction score since 2014-15.

Moving into 2019-20, we will work towards our target using evidence and insight to understand our customers' needs and to act upon these.

## 3. Supporting the smooth flow of traffic

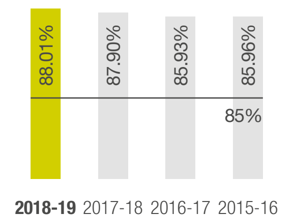
**3. Supporting the smooth flow of traffic**




**We must make sure there is**

**97%**

lane availability in any one rolling year to support the smooth flow of traffic




**We must clear at least**

**85%**

of incidents on the motorways within the hour

## 3a. Network availability

**Read more** about network availability on page 52

Over the course of 2018-19, 98.29% of the network was kept open to traffic. We have increased the volume and proportion of roadworks carried out at night, when there are lower traffic volumes, helping to reduce the impact on our customers.

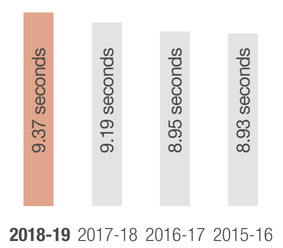
## 3b. Incident clearance

**Read more** about incident clearance on page 52

88.01% of incidents on the motorway were cleared within one hour. Our performance is 0.11% higher than last year, achieved against a backdrop of increasing traffic volumes and incidents. In total, we responded to over 58,680 incidents, a 4.53% increase compared with 2017-18. This demonstrates the positive impact of our initiatives, such as intelligence-led patrolling strategies and targeting of resources on our network.

## 4. Average delay

**4. Average delay**

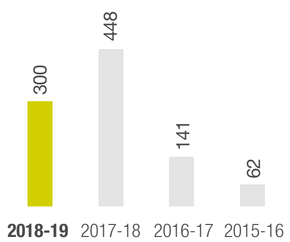



**There is no Government set target for this measure**

Government does not set a target for this measure but we must report the average time delay (time lost per vehicle mile) year-on-year, as part of our commitment to supporting economic growth.

## 5. Delivering better environmental outcomes

**5. Delivering better environmental outcomes**




**We must mitigate at least**

**1,150**

noise important areas by 2020


**We must publish a *Biodiversity Action Plan* by 30 June 2015**

and report annually on how we have delivered against the plan

## 5a. Noise

**Read more** about noise on page 92

| Mitigation method | NIAs mitigated in 2018-19 |
|---|---|
| Noise insulation | 232 |
| Resurfacing | 58 |
| Barriers | 10 |
| Total | 300 |

To improve the quality of life for our neighbours living alongside the SRN, we have mitigated 300 Noise Important Areas (NIAs) during 2018-19 through a variety of mitigation methods. Our cumulative total for the current road period is now 951, leaving 199 to complete our five-year target of 1,150.



STRATEGIC REPORT: KPIs

In April 2017, we started the noise insulation programme to effectively manage environmental and neighbourhood noise. Through this scheme, we install improved glazing and ventilation to homes within NIAs where our other mitigation measures are not practical. In 2018-19, we extended the noise insulation programme to all regions of England, and we have now improved noise insulation for a cumulative total of 762 properties.

## 5b. Biodiversity

We published our *Biodiversity Action Plan* in 2015-16, and we have since published an annual *Biodiversity Report* in 2016-17 and 2017-18. Our next report is due to be published this summer.

Additionally, we have a road period 1 commitment to slow the rate of biodiversity loss. We have worked with Natural England to develop a new metric for biodiversity, for use in road period 2. This metric is currently being run in shadow form, and we will be in a position to provide evidence to support performance commentary against our road period 1 commitment at the end of this year.

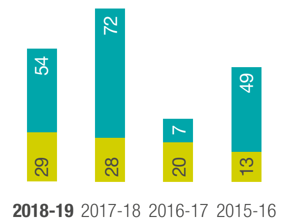
In 2018-19, we developed and validated a further 10 management plans for Sites of Special Scientific Interest across England. This brings our cumulative total to 35.

Our Environment Designated Fund provides the principal source of funding for our projects to improve biodiversity across our network. We now have an extensive programme of biodiversity investment across the country, including widespread creation of species-rich grasslands, in support of the Government's *Insect Pollinator Strategy*. In 2018-19, we have further developed our delivery partnerships with other stakeholder organisations, including the Wildlife Trusts.

## 6. Crossings

**Read more** about crossings on page 71

**6. Crossings**




RIS1 4-year cumulative total

Upgraded: 182

New: 90

**We do not have a target for this measure**

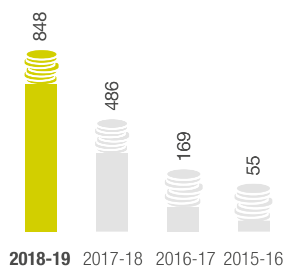
Government has not set a target for this measure, but we must report on the number of new and upgraded crossings year-on-year, as part of our commitment to helping cyclists, walkers and other vulnerable users of the network.

Last year we reported 39 new and 172 upgraded crossings for 2015-16. Due to methodology changes for validation of vulnerable users (now counting physical crossings as single units rather than types of crossing per asset), the data for equestrian, pedestrian and cycle crossings for the period 2015-16 was reviewed this year, with figures quoted here now validated.

## 7. Achieving efficiency

**Read more** about efficiency on page 23

**7. Achieving real efficiency**




**We will make capital expenditure savings**

of at least

**£1.212bn**

by 2019-20

Our approach to efficiency is set out in our *Efficiency and Inflation Monitoring Manual* and our *Capital Efficiency Delivery Plan*. We are driving efficiencies across our business and we have established a robust accountability and governance framework to provide strong leadership and oversight.

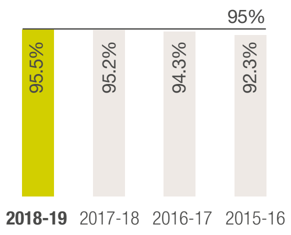
Effective engagement and collaboration with our stakeholders, including our supply chain, is integral to achieving greater efficiencies.

We have identified a total of £848 million of efficiency savings against our cumulative target of £722 million for 2018-19. A key driver has been the implementation of Lean initiatives to increase productivity when carrying out pavement (road) renewals.

## 8. Keeping our network in good condition

**Read more** about maintaining our network on page 51

**8. Keeping the network in good condition**




**We must ensure that**

**95%**

of pavement (the road surface) requires no further investigation for possible maintenance

In 2018-19, we ensured that 95.5% of our network was kept in good condition, meaning that no further investigation is required for possible maintenance. This is 0.5% above target and is an improvement from last year (2017-18), when we achieved 95.2%. In 2018-19, we developed and used specialist data analytical tools to predict the likely KPI outcome at the end of the year, helping us shape our planning and in-year changes. We are building on this approach to help us develop more effective and targeted renewal programmes in the future, particularly in planning for the next road period.



# Our delivery



We are now four years into delivering Government's £15 billion RIS1, the largest investment in our network in a generation. Through our transformational schemes and programme of road improvements, we are delivering real benefits to our customers and the economy, while minimising our impact on the environment and communities.

## 1. Transformational schemes

### Investing in major schemes

We are committed to investing over £7 billion of our capital budget into major schemes, many of which will continue into the next road period starting in 2020. We are also committed to delivering efficiency savings of £1.2 billion during this road period.

| 2018-19 commitment | Planned number of schemes | Actual number of schemes |
|---|---|---|
| Started construction | 6 | 4 |
| Opened for traffic | 7 | 7 |
| Moved from options to development phase | 4 | 4 |

During 2018-19 we opened seven schemes, adding around 60 lane miles of capacity to the SRN. We started work on four schemes; one was the A1 North of Ellingham, ahead of our original commitment date of 2019-20.

As we progress the investment in the SRN we review our major scheme programme to ensure we meet the needs of our customers and local stakeholder development plans. Based on this review, as at 31 March 2019, we had agreed with the DfT to reschedule the start of works on the M6 junctions 21a to 26, and M56 junctions 6 to 8 to reduce congestion around Manchester. The A47 and A12 junction enhancements were also rescheduled, to align with Norfolk County Council's Third River Crossing scheme over the River Yare in Great Yarmouth.

To date, we have opened 29 schemes in this road period and have started 44 schemes against a target of 36. There are currently 15 schemes in construction on our network.

| We have **opened** | In **construction** there are currently |
|---|---|
| **29 schemes** IN RIS1 | **15 schemes** 2018-19 |

Development of the remaining major schemes is well advanced, with less than 5% left to progress to detailed design stage.

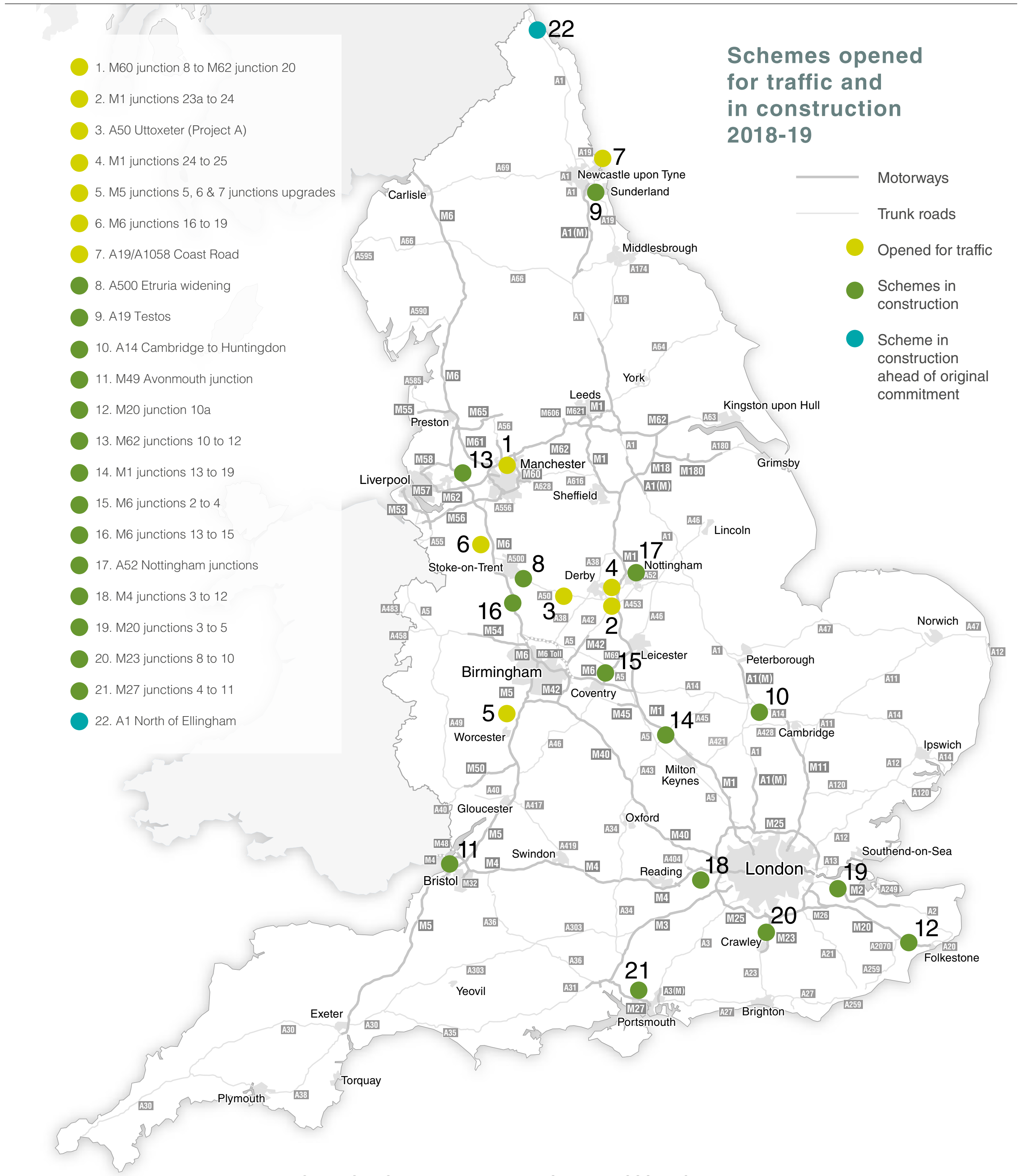
We have invested in our Designated Funds across environment, cycling, safety and integration, air quality, growth and housing, and innovation. These enable us to provide environmental, social and economic benefits to the people, communities and businesses who live and work alongside our SRN.

### National Infrastructure Programme

In 2018, there was an increased level of activity in major national road schemes dependent on extensive third-party involvement. Many of these schemes are transformational in nature – such as the A66 Trans-Pennine, Manchester North West Quadrant, Oxford to Cambridge Expressway, Heathrow Expansion Programme and High-Speed Two (HS2) – and they are dependent on other infrastructure projects across housing, regeneration, commercial aviation and rail.



### Schemes opened for traffic and in construction 2018-19



# Strategic case study

## A14 Cambridge to Huntingdon

The £1.5 billion A14 Cambridge to Huntingdon improvement scheme is our biggest project under construction and it is more than half way through to completion. The scheme covers a critical east-west route, particularly important for businesses and freight, linking the North West and Midlands with the Suffolk ports.

### The challenge

One of the country's fastest growth areas outside of London, the Cambridge sub-region is expected to see a 23% rise in population, along with a 28% increase in housing and a 22% growth in jobs by 2031. Our challenge for the A14 was to improve connectivity, increase safety and generate significant economic benefits through better access to homes and jobs.

### The solution

The A14 project spans 21 miles and will deliver over 100 lane miles of new network, including a 12.5 mile bypass to the south of Huntingdon and a 750 metre viaduct. As part of the scheme, we will also widen and improve existing roads and junctions.

In January 2019, we applied for an amendment to the Development Consent Order to reclassify as motorway the new A14 between Girton and the new Ellington junction, and extend the A1(M)'s motorway status south from Alconbury to Brampton. If approved, this would effectively enable us to provide a motorway from the M25 all the way to Peterborough. Local authorities and enterprise partnerships are providing £100 million towards this scheme.

Early in the project, the decision was made to set up an integrated delivery team, with Highways England jointly agreeing aims and objectives with our supply chain partners. Culturally this was important, because it fostered a collaborative environment that enabled everyone to work together – and with equal opportunity – to achieve great things. Jim O'Sullivan, our Chief Executive, commented on how teamwork and clear leadership have helped bring about huge benefits for our flagship project this year, adding:

> "The A14 is a fantastic example of where a solid project framework has reaped great rewards. I say this to project teams often but it's so true: if you are aligned with our company imperatives, working to our values and if what you are trying to achieve forms part of our business plan, then you have the full support of the Executive team."

The A14 project is the exemplar of making this ambition a reality, and the freedoms the team has been afforded have resulted in local decision-making which makes a real difference, both for local communities and right across the industry.

### The outcome

#### Journeys

We forecast that journey times will be 20 minutes quicker at peak times and will aim to eliminate over 3,000 collisions across 60 years.

#### Efficiencies

Over £8.5 million Lean efficiency savings have been assured so far, with a further £11.57 million in the pipeline for this RIS.

Examples of our increased productivity include Concrete Safety Barrier installation (increased by 5% per day) and slot drainage installation (increased by 14%). We are also considering how the lessons learned from this project can be transferred to the future nearby major scheme at St Neots (the Black Cat junction).







#### People

We have over 140 apprentices and more than 200 trainees, graduates and interns working on the project.

We have developed four Pre-Employment Programmes, in collaboration with West Anglian Training Association, assisting over 45 people who were out of work. To ensure we work closely with local communities, we have over 100 Science, Technology, Engineering and Mathematics ambassadors working with a range of schools across the A14 corridor. As part of the A14 Community Fund, we have allocated over £320,000 to support over 42 local initiatives.

#### Local communities

Project leaders decided, with Executive support, to adopt an open approach to communicating with stakeholders on this project, particularly the communities affected by our work. Our A14 Facebook and Twitter pages have over 15,000 followers, and that has been a great forum for conversations with our communities; an example of how good governance can promote stronger relationships.

**15,000**
FACEBOOK & TWITTER FOLLOWERS

Project Director David Bray said:

> "Social media has proved to be a great listening tool for us. We found out through Facebook that communities were frustrated that lorry drivers weren't reading diversions signs on the A14 properly and were taking shortcuts through their villages. As a result we reviewed our diversion signs and amended them to make diversions clearer to all drivers."

#### Environment

The A14 passes through arable farmland, and protected and declining fauna have been recorded in the area, including the great crested newt, water vole, otter, and various species of bats. We aim to provide an enhanced habitat for many of these species.

We have completed one of the largest and most expensive programmes of archaeological excavations ever undertaken on a road project in England.

At its peak, 250 archaeologists were excavating a range of sites over the 21 miles of the scheme. More than 40 separate excavations, covering some 350 hectares, have unearthed three Neolithic henges (4,000 and 5,000 years old), seven prehistoric burial grounds (most from the Bronze Age), 15 Iron Age (800 BC – 43 AD) and Roman (43 – 410 AD) settlements, three Anglo-Saxon (410 – 1066 AD) settlements and one deserted medieval (1066 – 1539 AD) village.

Archaeologists have also unearthed around 8,000 objects, such as coins, brooches and ironwork, 575 human burials and cremations, with over six tonnes of pottery and almost five tonnes of animal bone.

**£1.5bn**
PROJECT

Journey times will **decrease** by
**20 mins**
AT PEAK TIMES

**£8.5m**
LEAN EFFICIENCY SAVINGS

**3,000**
COLLISIONS WILL BE PREVENTED

**100 lane miles**
WILL BE CREATED

**£320k**
TO SUPPORT LOCAL INITIATIVES

**250**
ARCHAEOLOGISTS...

...have **found**
**8,000**
OBJECTS

## The Lower Thames Crossing

This project is the single biggest roads investment project since the M25 was completed more than 30 years ago. It will be the longest road tunnel in the country, and one of the largest diameter bored tunnels in the world. The route presents the opportunity to transform journeys across the South East and beyond.

The Lower Thames Crossing will almost double road capacity across the Thames, east of London. The 70mph crossing, and the new connecting road network, will provide quicker, safer and more reliable journeys locally, regionally and nationally.

It will form a vital part of the UK's transport infrastructure, and the areas it will serve are home to economic hubs, key UK ports and thriving communities. It will help businesses, both large and small, to grow and bring people and communities closer to job, education and leisure opportunities.

Following the April 2017 Preferred Route Announcement, we have further developed our proposals, informed by our comprehensive stakeholder and community engagement programme. Our changes have included extending the tunnel by 600 metres and simplifying junctions to help protect the local road network.

In October 2018 we held the most significant pre-application consultation ever undertaken for a UK roads project. Over 10 weeks, we held 60 events with 15,000 visitors. We had more than 230,000 visits to our consultation website and an unprecedented 28,000 people responded to our consultation. We are working through these responses and taking them into consideration as we develop our Development Consent Order application.

We are now carrying out a huge programme of ground investigation and enabling surveys to inform both our Development Consent Order application and our supply chain engagement.

## Upgrading the A303 at Stonehenge

In September 2017, the Secretary of State for Transport announced the preferred route for upgrading the A303 at Stonehenge. This scheme, expected to cost around £1.7 billion, includes the construction of a tunnel past Stonehenge, a free-flowing, dual carriageway and a much-needed bypass north of Winterbourne Stoke.

In February to April 2018, we held the statutory consultation, followed by a supplementary consultation from July to August. These covered the proposed scheme and additional heritage mitigations for inclusion into the Development Consent Order, which was submitted in October 2018.

The scheme will upgrade an important route linking the M3 in the South East and the M5 in the South West, improving journey times for millions of people. This investment will support economic growth and tourism in an area where congestion and slow journeys have previously negatively impacted the region’s economy.

The tunnel near Stonehenge will reconnect the northern and southern halves of the 6,500 acre World Heritage Site, which is split by the current road. It will also remove the congestion and its noise from the Stonehenge landscape and local communities.

## Enabling the expansion of Heathrow Airport

Government formally designated the *Airports National Policy Statement* in June 2018, confirming that Heathrow Airport would be the preferred location for a new runway. The statement detailed the position of the runway to the North West, creating a significant interface with the M25 between junctions 14 to 15.

Our role is primarily that of statutory consultee: discharging our SRN Licence obligations and ensuring that the M25 changes are delivered to standard and that the road remains aligned with our road users' needs. Heathrow Airport has recognised the benefit of our guidance and advice on a range of topics relating to their proposals and the runway/highway interface. These include tunnel design and safety, customer experience, transport modelling, construction phasing and logistics, future proofing and environmental impact.

A close working relationship has been achieved through shared objectives, a Memorandum of Understanding, Commercial Heads of Terms, technical working groups and Executive-level engagement. A series of visits to airports outside the UK is underway to understand the safety, operational and maintenance aspects of runways and taxiways over major highway infrastructure.





## Facilitating the introduction of HS2

The first phase of HS2 from London to Birmingham includes 18 locations where the railway crosses the SRN. The High-Speed Rail Act (London – West Midlands) 2017, granted permission for the first phase of HS2 to be developed and delivered.

The Act sets out a number of duties for Highways England, requiring a close working relationship. These are described further in a Memorandum of Understanding and supporting documents. We have established a dedicated team to lead on the interfaces between HS2 and the SRN. We will also act as a delivery agent to HS2 – in a similar way to our current M25 tunnel enabling works and the M6 junction 4 design commission.

## Oxford to Cambridge Expressway

Oxford, Milton Keynes and Cambridge are growing fast, located in a region renowned for innovation and where there are plans for a substantial increase in jobs and housing. The east-west transport connections between these areas are not good, with issues such as congestion, slow speeds, poor journey time reliability and no single route to travel end-to-end.

We were asked to explore the case for a fast, high-quality road link to better connect Oxford, Milton Keynes and Cambridge. This included filling the 30 mile gap in the network between the M1 at Milton Keynes and the M40 at Oxford, potentially including new capacity at Oxford to relieve pressure on the A34.

We have since been working with stakeholders and partners on the first phase of the project, using analytical and evidence-based reviews to understand which of the proposed corridors should be taken forward for further development. A high-level case for the project was published in November 2016, when Government committed £27 million to its further development. In the Autumn Budget 2017, the Chancellor stated an intention to deliver a new link in the SRN between Oxford and Cambridge. In September 2018, the preferred corridor was announced by the Secretary of State for Transport. This central corridor will stretch between Abingdon and Milton Keynes. The boundaries of the corridor, and the road, will pass either to the south-east or west of Oxford.

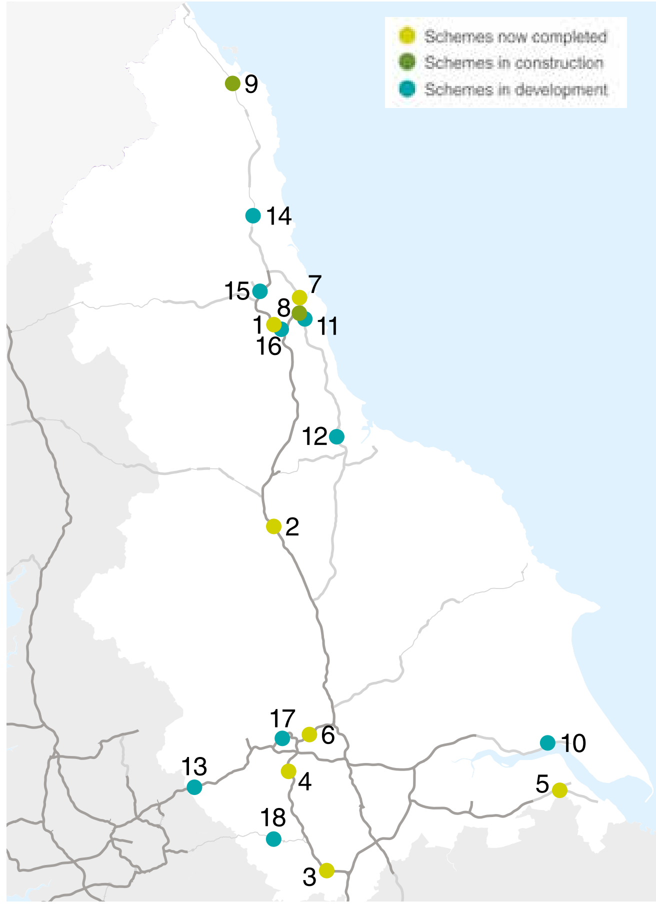
We have proposed that, between the M1 and the M40, a corridor running near to the proposed east-west railway would potentially provide the greatest benefits. According to our analysis, this corridor would be able to support existing transport needs, as well as transformational growth, regeneration and redevelopment across the wider corridor. It would significantly shorten journey times for getting between the M40 and M1, providing the area with better access to jobs, services, leisure and education. This corridor would also provide a southern bypass to Milton Keynes, reducing congestion and helping to support the growth of the town.

Throughout 2019 we will look within this area to find the most likely route that the road could take. We intend for the leading routes to be subject to a full public consultation in autumn 2019.

## 2. Our roads programme

Here we summarise, region by region across our network, the RIS1 major road improvements which are in construction, in development or completed, and outline some of our key schemes in work or delivered this year.

### Yorkshire and North East




| Yorkshire North East | No. | Name |
|---|---|---|
| Schemes now completed | 1 | A1 Coal House to Metro Centre |
| | 2 | A1 Leeming-Barton |
| | 3 | M1 junctions 32 to 35a |
| | 4 | M1 junctions 39 to 42 |
| | 5 | A160/A180 Immingham |
| | 6 | M1 junction 45 improvement |
| | 7 | A19/A1058 Coast Road junction improvement |
| Schemes in construction | 8 | A19 Testos |
| | 9 | A1 North of Ellingham |
| Schemes in development | 10 | A63 Castle Street |
| | 11 | A19 Down Hill Lane junction improvement |
| | 12 | A19 Norton to Wynyard |
| | 13 | M62 junctions 20 to 25 |
| | 14 | A1 Morpeth to Ellingham dualling |
| | 15 | A1 Scotswood to North Brunton |
| | 16 | A1 Birtley to Coal House widening |
| | 17 | M621 junctions 1 to 7 improvements |
| | 18 | A61 Westwood Roundabout |

1. Information correct as at 31 March 2019.
2. There are currently no schemes at options stage in this region.

### A19/A1058 Coast Road junction improvement

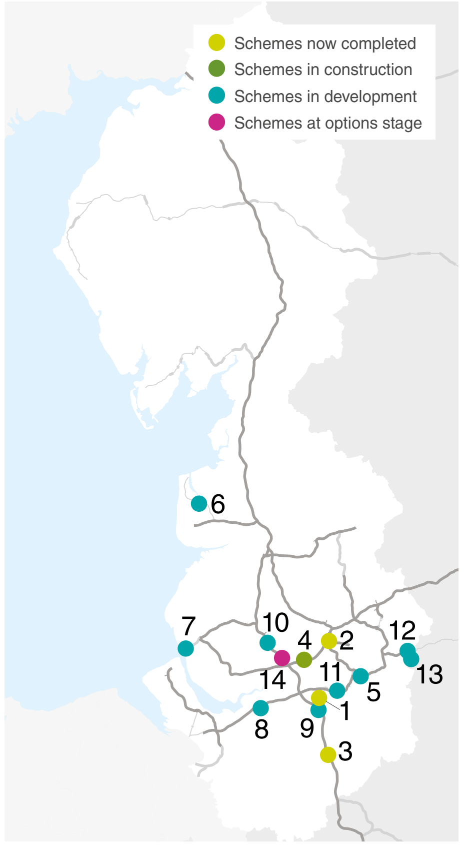
Works on this £110 million investment started in June 2016 and completed on time in March 2019. The focus of our scheme was on reducing congestion at the A19/A1058 Coast Road junction. We built two new single-span structures to carry the existing A19 roundabout over the lowered A19. We also constructed a new three-span replacement structure to support the A1058 Coast Road across the junction. New traffic signal control measures improved capacity and safety for all users, alongside enhanced facilities for vulnerable users.







### North West




| North West | No. | Name |
|---|---|---|
| Schemes now completed | 1 | A556 Knutsford to Bowdon |
| | 2 | M60 junction 8 to M62 junction 20: smart motorway |
| | 3 | M6 junctions 16 to 19 |
| Schemes in construction | 4 | M62 junctions 10 to 12 |
| Schemes in development | 5 | M60 junctions 24 to 27 and junctions 1 to 4 |
| | 6 | A585 Windy Harbour – Skippool |
| | 7 | A5036 Princess Way – access to Port of Liverpool |
| | 8 | M56 new junction 11a |
| | 9 | M6 junction 19 improvements |
| | 10 | M6 junctions 21a to 26 |
| | 11 | M56 junctions 6 to 8: smart motorway |
| | 12 | Mottram Moor link road |
| | 13 | A57(T) to A57 link road |
| Schemes at options stage | 14 | M6 junction 22 upgrade |

1. Information correct as at 31 March 2019.

### Manchester smart motorway (M60 junction 8 to M62 junction 20)

This is the first smart motorway scheme in the North West, making journey times more reliable for the 180,000 drivers who use the M60 and M62 every day. We started construction in 2014, with M62 junctions 18 to 20 opening in December 2017, M60 junctions 8 to 10 opening in March 2018 and the final section, M60 junctions 10 to 18, opening in July 2018.

This motorway is an integral part of the main east-west corridor connecting Merseyside and Greater Manchester with Yorkshire and Humberside. We estimate that our project provides an economic benefit of up to £1.5 million per week.

Through this scheme, we have provided:

**11.5 miles**
OF CONTROLLED MOTORWAY

**5.9 miles**
OF ALL LANE RUNNING MOTORWAY

**12.4 miles**
CENTRAL RESERVATION RECONSTRUCTION

**31 miles**
OF NEW COMMUNICATIONS DUCTWORK INFRASTRUCTURE

**800**
NEW LIGHTING COLUMNS

**6**
PONDS enhanced to provide suitable habitats for great crested newts and other flora and fauna

### M6 junctions 16 to 19

This year, we completed a £265 million smart motorways scheme under budget and ahead of schedule. We upgraded a 19-mile stretch of the M6 in Cheshire – the most significant change to the M6 since it opened almost 60 years ago. We introduced a fourth lane in each direction and over 250 electronic signs, 100 traffic sensors and 70 CCTV cameras to tackle congestion and improve journey times.

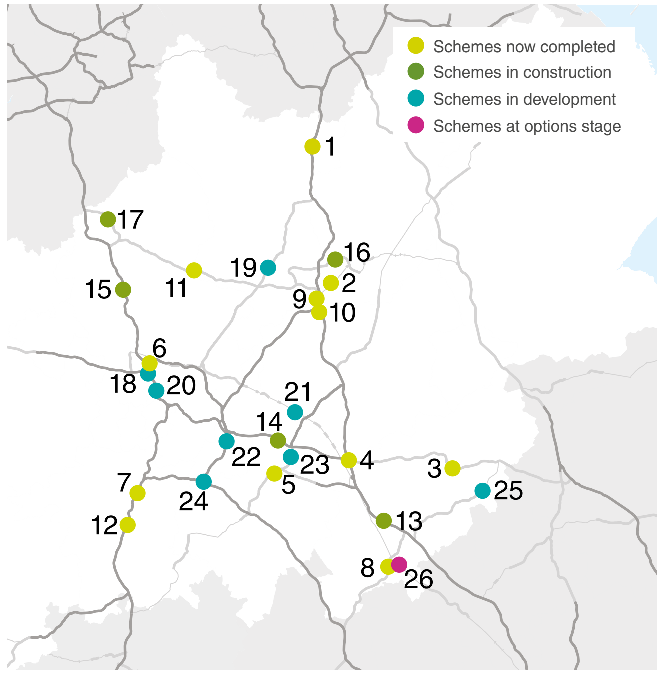
Around 120,000 drivers a day are benefitting. Results from the first week of operation show that traffic flowed at near 70mph for 22 hours each day – a huge improvement for one of the busiest stretches of motorway in the country. New variable speed limits also help to keep the M6 congestion-free during peak times.

The upgrade is the first of four smart motorway schemes to be completed that will increase the M6's capacity by a third on 60 miles of the motorway between Coventry and Wigan.

### Midlands

| Midlands | No. | Name |
|---|---|---|
| Schemes now completed | 1 | M1 junctions 28 to 31 |
| | 2 | A453 widening |
| | 3 | A14 Kettering bypass widening |
| | 4 | M1 junction 19 improvement |
| | 5 | A45/A46 Tollbar End |
| | 6 | M6 junctions 10a to 13 |
| | 7 | M5 junctions 4a to 6 |
| | 8 | A43 Abthorpe junction |
| | 9 | M1 junctions 24 to 25 |
| | 10 | M1 junctions 23a to 24 |
| | 11 | A50 Uttoxeter (Project A) |
| | 12 | M5 junctions 5, 6, and 7 upgrades |
| Schemes in construction | 13 | M1 junctions 13 to 19 |
| | 14 | M6 junctions 2 to 4 |
| | 15 | M6 junctions 13 to 15 |
| | 16 | A52 Nottingham junctions |
| | 17 | A500 Etruria widening |
| Schemes in development | 18 | M54 to M6 |
| | 19 | A38 Derby junctions |
| | 20 | M6 junction 10 improvement |
| | 21 | A5 Dodwells to Longshoot widening |
| | 22 | M42 junction 6 |
| | 23 | A46 Coventry junction upgrades |
| | 24 | M40/M42 interchange smart motorways |
| | 25 | A45/A6 Chowns Mill junction improvement |
| Schemes at options stage | 26 | A5 Towcester relief road |

1. Information correct as at 31 March 2019.




### M1 junctions 23a to 24 and 24 to 25

We introduced a smart motorway between junctions 23a and 24, and between junctions 24 and 25. We started construction in 2017 and opened for traffic in December 2018. This new smart motorway reduces congestion and smooths traffic flow, making journeys more reliable for around 130,000 daily users.

The combined scheme also supports access to East Midlands Airport and the A50 growth corridor, including the East Midlands Gateway Rail Freight Interchange. It has delivered some major environmental benefits, including the installation of nine metre high vertical noise barriers in sensitive areas and new low-noise surfacing across all four lanes.







A key success for the project was the close coordination and collaboration to deliver shared benefits with a major neighbouring scheme (Roxhill). Traffic management was delivered in partnership to enable both schemes to achieve challenging programmes simultaneously. The success of these programmes could only be achieved through true collaboration and trust.

The combined M1 junction 23a to 25 scheme has been awarded a Gold National Site Award by the Considerate Constructors Scheme in addition to being Highly Commended in the 2017 Highways England Supplier Recognition Awards for their outstanding contribution within the Customer category.

### M5 junctions 5, 6 and 7 upgrades

We started construction of the M5 junction 6 in April 2018 and it opened for traffic in March 2019. Through this project we have increased capacity by widening all approach roads and the circulatory carriageway. We have improved journey times to Worcester by enhancing traffic signals, implemented new signage and road markings, and future proofed the drainage to help the floodplain capacity.

The junction 6 scheme has strong local support. It enables future housing developments, supports further development at the Worcester Six Technology and Business Park and increases access to Worcester. Residual work at the junction will continue until autumn 2019.

The junctions 5 and 7 schemes (completed in 2015) also encourage economic development in local communities and have improved the flow of traffic through the area, for example through our new M5 junction 7 signals and vehicle detectors on the four approach roads. We have improved safety, reducing the number of collisions, and we have improved the facilities around junction 5 for pedestrians. As the circulatory carriageway is operated and maintained by Worcestershire County Council, we worked collaboratively with them to deliver this scheme.

### A50 Uttoxeter (Project A)

We manage the A50 trunk road which is a key transport link between the East and West Midlands. As part of the A50 Growth Corridor investment, Government announced proposals to improve the A50 around Uttoxeter to ease congestion, address safety concerns, support local businesses and help create jobs and opportunities for Staffordshire.

An important project in this investment, funded through RIS1, is the construction of a double decker junction on the A50 at its intersection with the A522 to the west of Uttoxeter.

Construction started in June 2016, with the new junction opening to traffic in December 2018.

The project:

- improves traffic flows on the A50(T) and local network, easing congestion
- provides safe access for vehicles and pedestrians to and from the A50(T) to the A522
- enhances cyclist and pedestrian routes
- opens up development land for housing and business, facilitating the creation of jobs and bringing economic benefits to the area
- delivers a junction capable of sustaining future development proposals

Through this project we will support the development of 19 hectares of employment land, the creation of 2,000 jobs and the construction of 700 homes. Staffordshire County Council is delivering the improvements on behalf of Highways England. The opening of this scheme is a great example of effective partnership working between Highways England and Staffordshire County Council together with the supply chain.

**2,000** new jobs

**700** new homes

## Strategic case study

### The M5 Oldbury Viaduct

We are planning and managing the largest concrete repair project in the UK, working on an ageing viaduct which forms part of one of the country's busiest stretches of motorway.

### The challenge

This section of the M5 is one of the busiest sections of motorway in the country, carrying over 120,000 vehicles between the M5, M6, Birmingham and the Black Country each day. We needed to keep the road open and free-flowing as far as possible during our renewal works.

The Oldbury Viaduct opened in 1970, carrying around two miles of the M5 to the west of Birmingham between junctions 1 to 2. The waterproof layer on the viaduct was beyond the end of its lifespan, allowing water ingress to the concrete deck to cause extensive damage.

### Solution and lessons learned

The project has required careful planning to minimise disruption to users, as well as to ensure the safety of workers on the project.

"We planned the project in two main phases. The southbound carriageway works were carried out first, with traffic being moved to a contraflow system on the northbound carriageway. The first phase of work was completed in September 2018, when we switched over to work on the northbound carriageway.

The first phase of work took longer than we had anticipated because it was only following extensive testing that we discovered the extent of the concrete decay.

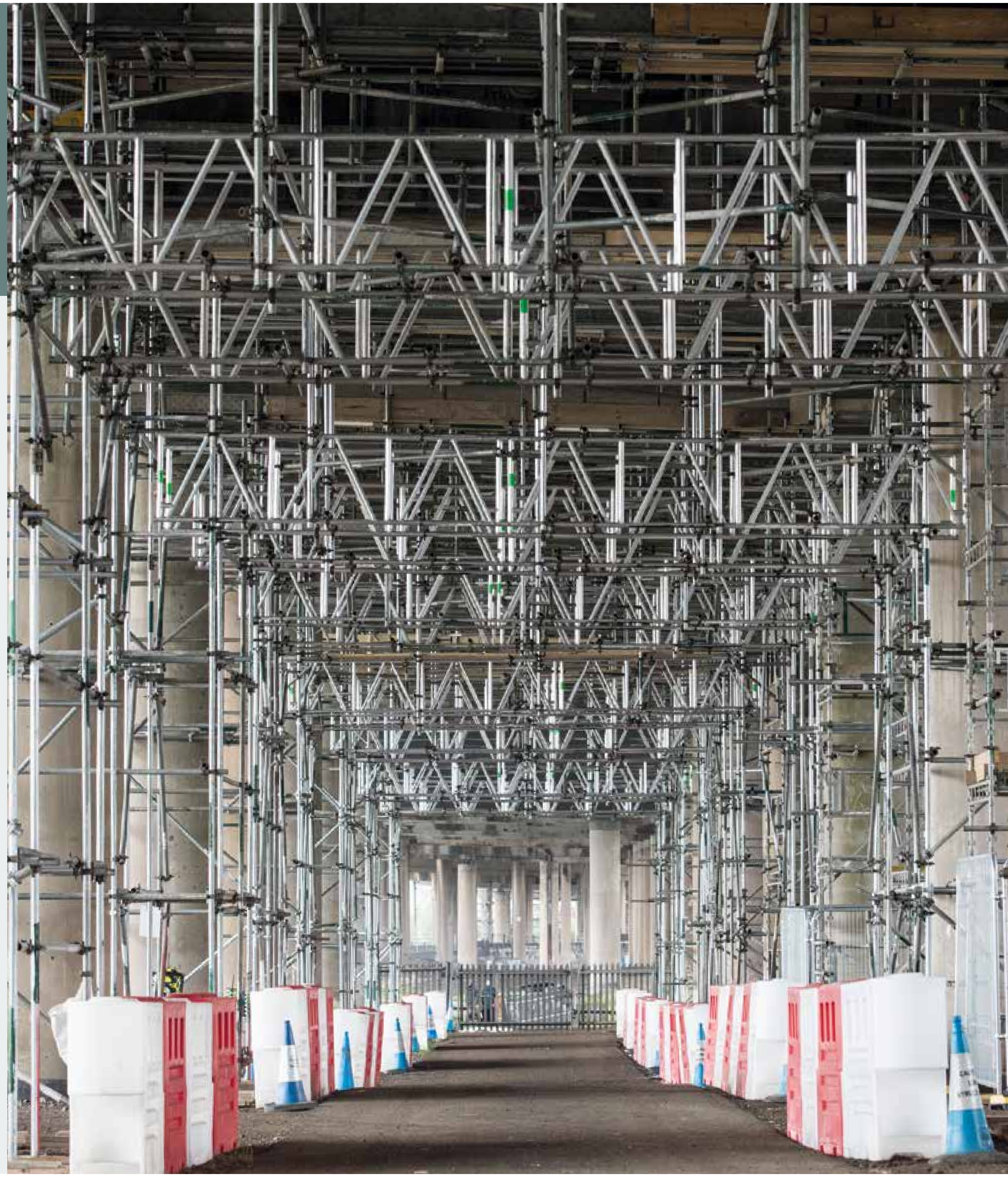
Now we know what we are dealing with, we will be able to achieve much greater efficiencies and we have learned lessons from how we did things on the southbound carriageway."

**COLIN JACKSON** LEAD ENGINEER

"Communication with all of our different stakeholders has been absolutely critical throughout this project. We know that there has been frustration about the length of time taken to complete these works, so we have looked at different ways to explain what's happening to road users and the local communities.

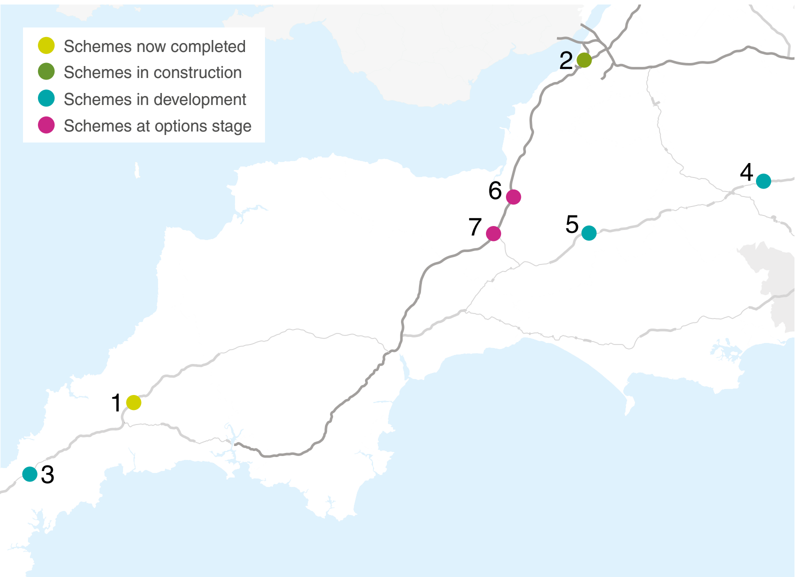
We have worked particularly hard to improve our signage across the Oldbury project - both to explain what is happening when, as well as to advise of any diversions."

**MARTIN PHILLIPS** SUSTAINABLE BUSINESS MANAGER



Strategic report

## South West




| South West | No. | Name |
|---|---|---|
| Schemes now completed | 1 | A30 Temple to Carblake |
| Schemes in construction | 2 | M49 Avonmouth junction |
| Schemes in development | 3 | A30 Chiverton to Carland Cross |
| | 4 | A303 Amesbury to Berwick Down (includes Stonehenge tunnel) |
| | 5 | A303 Sparkford to Ilchester dualling |
| Schemes at options stage | 6 | M5 Bridgwater junctions |
| | 7 | A358 Taunton to Southfields |

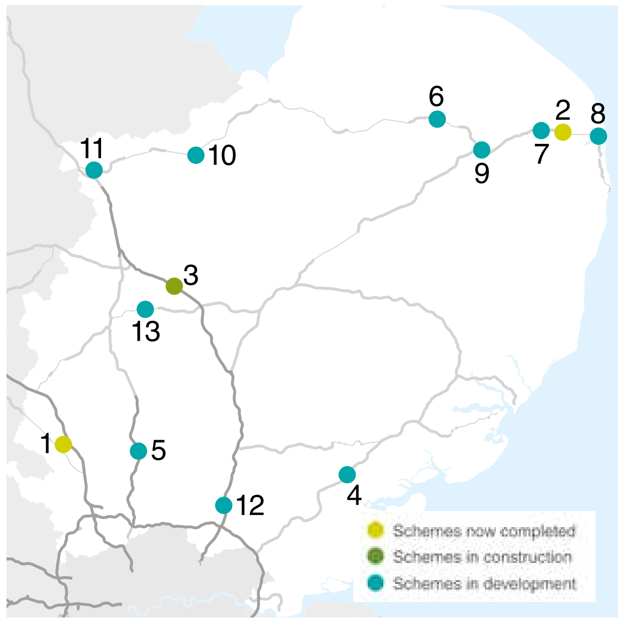
1. Information correct as at 31 March 2019.

### M49 Avonmouth junction

Through this project, we are constructing a new junction on the M49, which will boost the local and regional economy. The project has a Benefit Cost Ratio of 32:1 as it opens up land for development on one of the largest brownfield sites in western Europe, bringing an estimated 14,000 jobs to the area.

After starting construction in December 2017, meeting our *Delivery Plan* target, we have made significant progress with designing and building the scheme.

## East




| East | No. | Name |
|---|---|---|
| Schemes now completed | 1 | A5/M1 junction 11a link |
| | 2 | A47 Acle Straight |
| Schemes in construction | 3 | A14 Cambridge to Huntingdon |
| Schemes in development | 4 | A12 Chelmsford to A120 widening |
| | 5 | A1(M) junctions 6 to 8 smart motorway |
| | 6 | A47 North Tuddenham to Easton |
| | 7 | A47 Blofield to North Burlingham dualling |
| | 8 | A47 and A12 junction enhancements |
| | 9 | A47/A11 Thickthorn junction |
| | 10 | A47 Guyhirn junction |
| | 11 | A428 Black Cat to Caxton Gibbet |
| | 12 | M11 junction 7a upgrade |
| | 13 | A47 Wansford to Sutton |

1. Information correct as at 31 March 2019.
2. There are currently no schemes at options stage in this region.

Our flagship A14 Cambridge to Huntingdon scheme is the only major scheme in construction in the East this year.

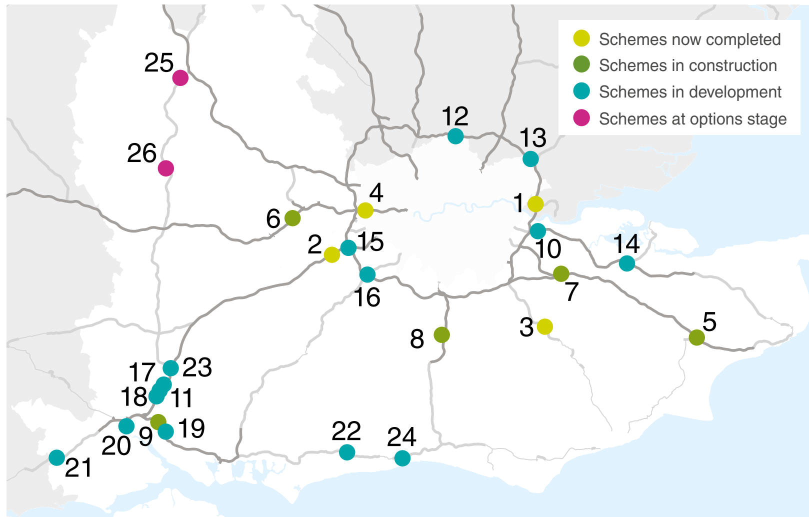
**Read more** about this scheme on page 32







## London and the South East




### M20 junction 10a

This scheme consists of a new roundabout over the M20 motorway near the existing junction 10, as well as a new dual carriageway link road to the A2070 serving the nearby hospital and retail park.

**31,000** new homes

**28,000** new jobs

Facilitating 31,000 new homes and 28,000 new jobs, junction 10a will be the biggest boost for the area since the arrival of international rail services more than 20 years ago. Situated close to the Channel ports and with direct access to the SRN, Ashford in Kent is uniquely positioned to leverage national and international trading opportunities.

The new junction will ease congestion on the M20 and at the existing junction 10, with safety improvements predicted to prevent more than 14 serious or fatal injuries over the next 60 years. Through this project we are improving facilities for pedestrians and cyclists, as well as creating 20 hectares of new habitats and reducing road noise.

Following fragmented development over a number of years, our *Delivery Plan 2015-20* confirmed works would start in 2017-18. We modified previous proposals to allow for changing interdependencies with developments in Ashford, and achieved planning consent. Construction started in February 2018. We have missed the *Delivery Plan* commitment of 2018-19 because the constraints of the site have led to a longer than anticipated delivery duration. The project is expected to be open for traffic later in 2019.

We have had significant contributions from the South East Local Enterprise Partnership and Ashford Borough Council. Despite the difficulties we have faced, we have worked closely with these partners to deliver the planned developments.

| London & South East | No. | Name |
|---|---|---|
| Schemes now completed | 1 | M25 junction 30 |
| | 2 | M3 junctions 2 to 4a |
| | 3 | A21 Tonbridge to Pembury |
| | 4 | M4 Heathrow slip road |
| Schemes in construction | 5 | M20 junction 10a |
| | 6 | M4 junctions 3 to 12 |
| | 7 | M20 junctions 3 to 5 |
| | 8 | M23 junctions 8 to 10 |
| | 9 | M27 junctions 4 to 11 |
| Schemes in development | 10 | A2 Bean and Ebbsfleet |
| | 11 | M3 junctions 9 to 14 |
| | 12 | M25 junction 25 improvement |
| | 13 | M25 junction 28 improvement |
| | 14 | M2 junction 5 improvements |
| | 15 | M25 junctions 10 to 16 |
| | 16 | M25 junction 10/A3 Wisley interchange |
| | 17 | M3 junctions 10 to 11 improved sliproads |
| | 18 | M3 junctions 12 to 14 improved sliproads |
| | 19 | M27 Southampton junctions |
| | 20 | M271/A35 Redbridge roundabout upgrade |
| | 21 | A31 Ringwood |
| | 22 | A27 Arundel Bypass |
| | 23 | M3 junction 9 improvement |
| | 24 | A27 Worthing and Lancing improvements |
| Schemes at options stage | 25 | A34 Oxford junctions |
| | 26 | A34 technology enhancements |

1. Information correct as at 31 March 2019.

## 3. Supporting economic growth

### Our delivery over the year

The SRN plays a critical role in contributing to the success of the UK economy, enabling businesses to benefit from safe, reliable and efficient movement of people and goods, connectivity to skills, and access routes to national and global markets. Supporting economic growth is one of our objectives in our *Strategic Business Plan*, and our commitment to our Growth and Housing Designated Fund is included in our *Delivery Plan*.

### The Road to Growth

Our *Strategic Economic Growth Plan, The Road to Growth*, sets out four economic roles for the SRN and Highways England:

1. Enabling a high-performing SRN to support reliant business sectors' productivity and competitiveness
2. Providing efficient routes to global markets through international gateways
3. Stimulating and supporting the sustainable development of homes and employment spaces
4. Providing employment, skills and business opportunities within our sector

### 1. Enabling a high-performing SRN

The SRN's role in supporting business productivity and competitiveness should be seen as part of a wider and integrated transport system.

In the current road period, we are delivering a programme of major improvement schemes across the country, improving safety, capacity and access, supporting existing businesses and supply chains to be more productive, unlocking land for development, and reducing congestion and delays.

Progress made in 2018-19:

- We opened our smart motorway improvement in Greater Manchester, between junctions 8 to 18 on the M60, and on the M62 between junctions 18 to 20. We made improvements between junctions 16 to 19 on the M6.
- We opened a replacement junction between the A19 and A1058 near Newcastle, allowing free-flowing movement for traffic along both the A19 and A1058. This provides uninterrupted access to the northern end of the Tyne Tunnel.
- We started widening the A500 between Wolanston and Porthill in Staffordshire, complementing local road measures funded under the Stoke-on-Trent and Staffordshire Growth Deal.
- We held the statutory consultation for the Lower Thames Crossing.
- We made the Preferred Route Announcement for improvements to M3 junction 9, which will enable strategic access to South Coast Ports, including Southampton, from the Midlands and support freight exports.
- We sought to better understand the needs of the freight and logistics sectors. We analysed our landholdings to identify sites that could be developed into lorry parks, assisted local authorities in identifying areas of lorry parking need, and provided potential solutions.
- We developed a comprehensive spatial understanding of where road-reliant businesses are based and their size, and undertook research to explore how freight could be more appropriately and accurately accounted for in appraisal.
- We developed programmes of activity with Network Rail that support passenger commuting and freight in a more integrated way, including establishing success criteria for parkway stations and exploring how both organisations approach, forecast and engage with freight.

### 2. Providing efficient routes

Within an ever-changing global trading environment, our interventions remain mindful of the need to boost UK export capability and provide reliable access to international markets.

A number of our schemes support access to international gateways. We have schemes to improve road access to Liverpool, Hull, Southampton and Tyne ports, as well as Birmingham, Manchester, Gatwick and Heathrow airports. These are currently in the planning stages and are due to start delivery by 2020.







In 2018 we completed the M1 smart motorway upgrade between junctions 24 to 25, which benefitted East Midlands Airport.

We work with key gateway operators and stakeholders across the country, facilitating UK trade and exports. Our engagement with ports and airports at a national level is maturing, including supporting the UK Ports Conference 2018, and we are supporting Government preparations for a third runway at Heathrow airport and the construction of HS2. We have also worked with the Department for International Trade to understand the developments they are working on that impact the SRN.

### 3. Stimulating and supporting sustainable development

The connectivity and capacity of the transport system has a significant effect on local demand for homes and employment spaces.

As a statutory planning consultee, we support well-planned developments around the SRN, which bring new job opportunities and homes to communities across the country.

Our dedicated Growth and Housing Fund is aimed at supporting road improvement schemes which help unlock the development of housing and employment sites across the country. We work in partnership with local authorities and housing developers to deliver schemes that help generate long-term economic benefits for local communities.

### Growth and Housing Fund

The M1 junction 16/A45 Daventry Development link road scheme formally entered the Growth and Housing Fund programme in July 2016 and was approved for up to £3.5 million investment in February 2017. This was supplemented by over £20 million in Local Enterprise Partnership and Local Authority contributions, and a further £15 million identified from private sources.

The improvements were overseen by Northamptonshire County Council and involved the construction of a new 3.5 mile single carriageway link road. This connected a new roundabout on the A45 between the villages of Dodford and Weedon to a second new roundabout between Upper Heyford and the M1 motorway at junction 16.

In addition to providing a critical infrastructure link for local communities, the works removed outstanding transport restrictions to the delivery of the North East Daventry Sustainable Urban Extension, which is expected to enable up to 4,000 homes to come forward over the lifetime of the development. This includes up to 150 homes in the current road period. Collectively, these improvements will help to address the identified infrastructure deficit on the A45 corridor and contribute towards the wider housing allocation target outlined in the adopted *West Northamptonshire Joint Core Strategy.*

In the current road period, we have committed £93 million on 28 schemes. These will bring in a further £231 million of funding from private and public sectors. Seven schemes opened to traffic in 2018-19, with a further three on site. Over the lifetime of the developments related to our funded schemes, we expect over 45,000 homes and 44,000 jobs to be developed. We expect to close the fund in March 2020 at the end of the current road period.

In addition to our funding, we seek third party contributions, through our engagement in the planning system, to mitigate impacts on the SRN, where necessary. We are involved in several Housing Infrastructure Fund proposals across the country, where significant infrastructure investment is required to enable large scale housing to be delivered.

We are working with the DfT to support changes to their planning policy on the SRN and the delivery of sustainable development.

### 4. Providing employment, skills and business opportunities

As a direct employer and significant investor, we have major direct and indirect impacts on the economy.

We have developed, and are implementing, a national skills and employment strategy to create the conditions in which our supply chain can best respond to labour risks and opportunities. This is being implemented through our supply chain, as well as through regional skills and employment strategies.

Our Routes to Market initiative provides a framework for our work with our supply chain. In late 2018, we announced the appointment of multi-billion-pound contracts that will help us deliver RIS1 and RIS2. Moving from contracting on a scheme-by-scheme basis to a programme approach will begin a transformation within the infrastructure construction sector. With greater certainty of future work, we can instil confidence in our supply chain to invest in recruitment and workforce skills. These arrangements include incentives for buying more efficiently and buying locally, ensuring that our spend has real local economic benefit.

Recognising our role within the wider transport sector, we are pleased to be part of the Strategic Transport Apprenticeship Taskforce. We work with SMEs and regularly update our published list of upcoming contract opportunities. Our contract terms include a requirement for our supply chain to invest in one apprentice for every £5 million of designated spend as a minimum.

## Wider developments

Alongside the specific four areas, we are demonstrating our economic focus in our work through:

- increasing the assessment of economic growth and the impact of road investment, including improved internal guidance and national economy model, and using our economic evidence base to support long-term planning
- being an active partner of Sub-National Transport Bodies
- supporting the DfT in the development of the Major Road Network

## Our Digital Roads vision

We are on the verge of a great change in the way we use roads, and in the way that roads affect our economy and quality of life.

By 2040, experts are predicting a world of connected vehicles and road users, where semi-autonomous and autonomous control of vehicles will be part of life. We know that vehicles will communicate not only with the road infrastructure, but increasingly with each other.

Better information has the power to unlock more value from our road network. Already, drivers can get information about their journeys using the internet, smartphone applications and a dedicated customer information line, allowing them to plan ahead.

New technology carries with it the prospect of a new, greener vehicle fleet. Already, electric vehicles are a growing presence in the vehicle market. The internal combustion engine is also becoming more efficient in response to environmental concerns.

Well-connected road infrastructure with sufficient capacity is a vital component of economic success.

+ **Read more** about our Innovation schemes on pages 72-74

The current state of our digital capability is defined by initiatives such as Building Information Modelling (BIM), the Rapid Engineering Model (REM) and the Business Information Framework (BIF), which we are promoting through our Major Projects directorate and specifically our smart motorways programme.

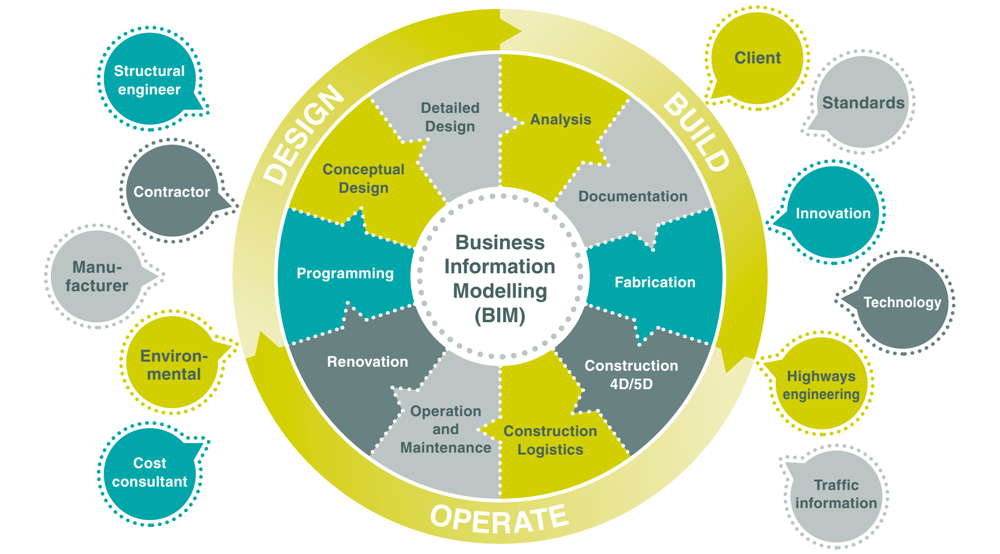
BIM is a digital approach within the construction sector that allows collaboration between project stakeholders in designing, creating and maintaining any given asset, throughout the project lifecycle, using digital tools and software to manage information from concept to delivery. It uses various technologies to generate 3D technical drawings and digital representations of structures and spaces, which can be used to support decision-making before commencing the build of – or any work on – physical infrastructure. BIM enables multiple parties (designers, engineers, contractors, operators) to input data into a shared virtual information model, contributing to safer, leaner ways of working, and greater opportunities for efficiencies. It is considered to be a key agent for economic growth.

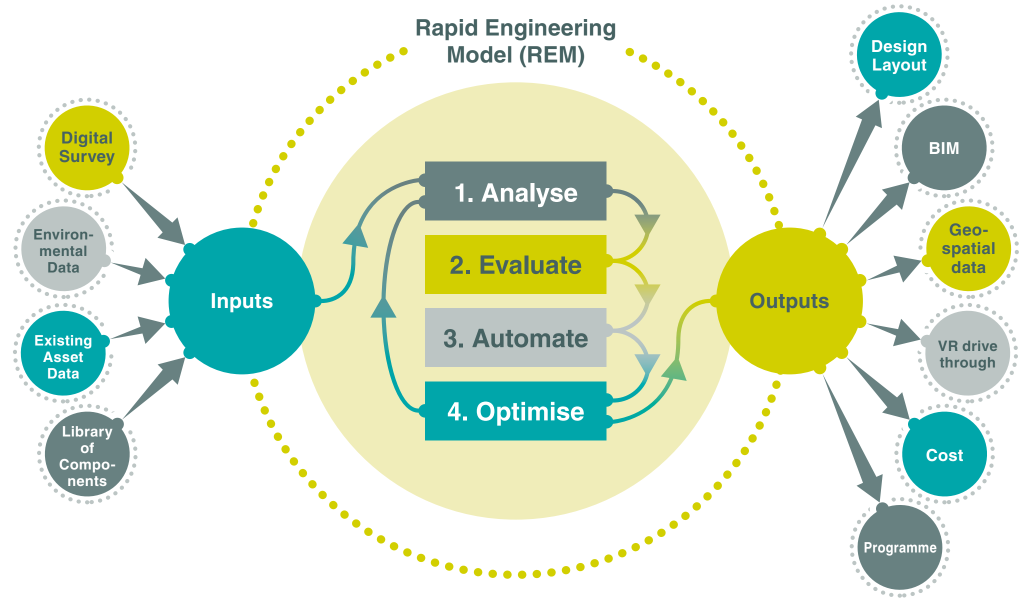
REM is a digital workflow, rather than a single piece of software, that enables smart motorway programme schemes to be designed automatically, and much faster than by traditional means. Different types of data are digitally analysed – for example, the landscape and environment of a given area – to help identify opportunities and risks within a specific project, or along an entire asset in the network. Using this data, design layouts of major roadside assemblies can be automatically generated, in accordance with smart motorways programme guidance. These can be optimised for a variety of different design and performance criteria, such as our safety and engineering standards. REM can generate many different output types and formats, including 3D virtual reality 'drive through' visualisations.

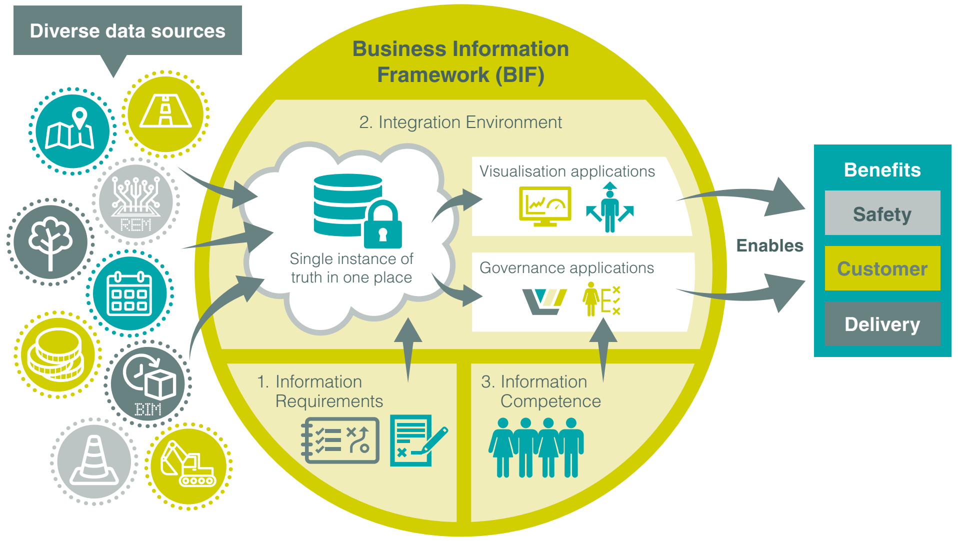








The BIF defines a common language and provides a single environment in which people can access, share and use trusted information. It gathers verified data from different sources to create powerful visualisations of information to support decision-making, foster collaborative problem solving and achieve efficient assurance. This is underpinned with organisational and people development to embed these new ways of working within our company and supply chain. Over time the BIF can be used across Highways England to help maximise benefits throughout the asset lifecycle.

The future is likely to be defined by the extension of the application of BIM, the REM and the BIF to all stages of the end-to-end strategy, asset management and customer lifecycle in a joined-up manner.

Increased autonomy of construction technologies, cloud-based software and Internet of Things applied to asset condition monitoring could all come into play at this stage. Artificial Intelligence, fully automated construction robotics and, of course, fully automated vehicles are also expected to be key themes.

Our longer term vision for the SRN, *Connecting the Country,* supports our *Initial Report*. It outlines the nine trends, shown below, that are considered in planning to ensure we develop our network to cater for evolving needs and the influence of technology.

### The nine trends that might affect the future of the SRN








## 4. Supply chain

### Working closely together

This year, we made a number of major contract awards, including for two of our national infrastructure schemes: Lower Thames Crossing and the A303 Amesbury to Berwick Down.

The viability of our supply chain is important to us. We assess the financial position of each organisation before we enter into contracts, including an evaluation of the sustainability of the lead bid. During the life of the contract, we assess risks, including financial performance and capacity, as part of our project and contract management process. We also regularly consider the ongoing financial position of key supply chain organisations and we are proactive in exploring any concerns directly with them. Members of our senior leadership team are designated contacts for key organisations in our supply chain and they have built, and maintained, constructive working relationships.

Last year saw the failure of Carillion. We closely monitored their position from their first profit warning and had a cross-business team ready to develop and implement contingency plans, should they be required. Following the announcement of the company's collapse, we immediately mobilised our team and managed the step-in by Carillion's joint venture partners or the transition of business to other framework providers. We strongly encouraged the partners or new providers to make offers of employment to Carillion employees on similar terms and conditions, and we understand that the vast majority accepted the offers. This included 21 apprentices, trainees and graduates, all of whom transferred to the joint venture partners.

Our use of project bank accounts enabled us to provide both security and continuity of payment to the lower tiers of the supplier base. Because of this, we were able to ensure that no significant disruption to our operations or projects was caused by Carillion ceasing to trade.

### Routes to Market

Until now, we have contracted work on a scheme-by-scheme basis or used a framework called the Collaborative Delivery Framework. The new contracts developed and announced under the Routes to Market procurement approach have been designed to start a transformation within the infrastructure construction sector.

By declaring a pipeline of work, we are encouraging our supply chain to invest in recruitment and in their workforce, as well as incentivising a drive for value for money and innovation.

We have appointed 13 companies to work with us to carry out up to £8.7 billion worth of work. These companies, known as Delivery Integration Partners, will be part of the new Regional Delivery Partnerships, helping to develop, design and construct projects for the Regional Investment Programme from 2019 through to 2024.

**The new contracts contain incentives for results, which include:**


### Smart Motorways Alliance

In autumn of 2018, we launched the procurement process for our Smart Motorway Alliance.

This will identify six partners who will join us for 10 years to develop a smarter network, creating extra capacity and relieving congestion so that more traffic can use the country's busiest motorways. This will generate a step-change in performance and aid the delivery of a large number of schemes, while improving safety during the delivery of these schemes.

The infrastructure that goes into creating this capacity also forms the foundation for connected vehicles to use our motorways in the future.

> "We want a step change away from traditional thinking and more towards creating value. We want companies that can learn from their experiences, and work together to deliver ever-improving efficiency and productivity."
>
> **JIM O'SULLIVAN** CHIEF EXECUTIVE

We developed the model through engagement with our supply chain, and the Alliance puts integration and collaboration at the centre of how our smart motorway programme will operate.

The six partners will work with us to provide exemplar performance and achieve results that include:

- better safety, through better aligned and common working practices and reduced time on site
- more efficient delivery, through a programmatic approach that will drive standardisation, production and off-site assembly
- improved customer service, with a reduction in time needed for works and minimising any disruptions for road users
- increased investment in skills and innovation from the supply chain, supported by a secure and long-term pipeline of work

### Asset management

We recognise that an effective asset management approach, underpinned by accurate good quality data and information, is essential if we are to manage our assets so they provide the sustainable level of service that our customers need. Understanding our assets, knowing how they perform and managing them in a consistent and effective way is critical to ensuring we can identify and deliver the right investments and keep our assets safe and serviceable.

This year, we established an Executive-level Asset Management Steering Group to lead the delivery of our *Informed Asset Management Plan,* our asset management improvement plan.

We have completed a number of elements from the plan:

- We trialled a new risk-based and evidence-based approach to our asset interventions, covering a wide range of activities.
- We reviewed and clarified our roles, responsibilities and accountabilities across all our asset management processes and we are now working to better align asset-related activities, in line with the defined roles across all aspects of asset creation, maintenance and replacement.
- We developed our asset decision support tools to provide better information on the condition of our key carriageway and structures assets. We used these tools to underpin our business case for renewing our assets in the second road period, as well as supporting delivery of our pavement (road surface) KPI.
- We carried out a review of our asset inspection programmes and are implementing a new assurance approach, ensuring that our assets are consistently assessed and the right information recorded to inform future required investments.
- Following the tragic bridge collapse in Genoa, we confirmed that we do not have any bridges of similar design. Our structures specialists worked to understand the causes of the incident and used the learning to review our policies and procedures for managing our structures. We had a number of overdue inspections (around 10%), which we cleared by the end of March 2019.

#### Our new approach to Asset Delivery

Asset Delivery means that we directly manage maintenance operations and scheme delivery. We are moving to this operating model to ensure a longer term, more effective approach to planning and delivery, allowing us to take more control of our assets and to really focus on customer need.

In 2018-19, we rolled out the approach in Greater Manchester and Merseyside, which went live at year end, and undertook the work necessary for go-live in the East region in October 2019. Half of our Company will be using the new model by 2019-20.

Under this initiative, we are insourcing the decision-making on all maintenance activity, scheme planning and development and network access, previously undertaken by our supply chain. We expect this will keep our road assets in the same or better condition, improve customer experience and generate savings from directly managing and contracting with secondary contractors.





To date we have:

- let contracts worth up to £2.5 billion
- developed direct relationships with more secondary contractors than before
- grown our Operations team by about 450 people
- developed our first Quality Management System

The Asset Delivery approach is performing well, with reduced asset renewal unit costs, improvements to asset condition, and increased customer satisfaction.

+ **Read more** about customer satisfaction on page 77

## 5. RIS1 performance

### Efficiency

+ **Read more** about efficiency on page 23

#### Our delivery over the year

Our Efficiency Working Group shares best practice to enable us to implement repeatable efficiency initiatives. We have set efficiency targets for individual projects and provided incentives for project managers. This is supported by a comprehensive review of the business changes which have the potential to contribute directly or indirectly to our overall efficiency target. We have clear timescales for these to be implemented and we are exploring emerging opportunities for further efficiencies. We have created a network of efficiency managers to capture efficiencies and share knowledge.

This year, we appointed a Pavement (or 'road surface') Efficiency Lead and we have identified further ways to improve pavement productivity.

We are working with our supply chain to identify and implement better ways of working on our major construction schemes. This includes adopting standardised designs, common components and moving our construction off-site. We applied this approach to design eight over-bridges for the ongoing A14 Cambridge to Huntingdon scheme, using standardised elements and allowing pre-fabrication rather than construction on-site. This has the benefit of improving quality control, reducing safety hazards to road workers and generating efficiencies in how we deliver.

Using Lean expertise, we are supporting the development of modular off-site construction within our Smart Motorway Programme, which should result in these schemes being delivered more quickly and safely.

### A better maintained network

+ **Read more** about this KPI – keeping our network in good condition – on page 28

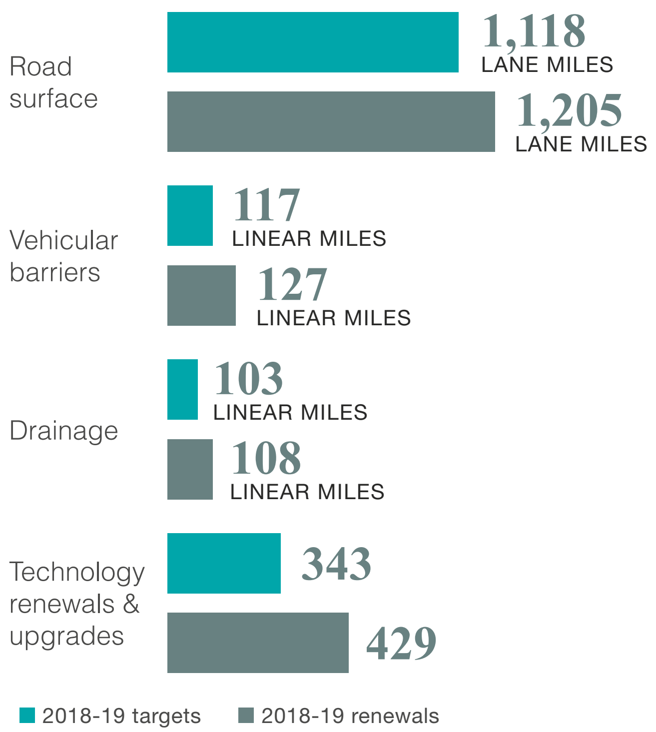
#### Maintaining and renewing our network

We continually monitor the condition of our roads and carry out investigations of any potential defects.

Our maintenance and renewals programmes are based on the needs of our customers and our assets in each region, as well as our capability to deliver the investment effectively. We schedule our renewal activity across the year to minimise the overall impact of roadworks on our customers.

During 2018-19, we invested £674 million on renewing road surfaces, structures and technology on our network. This represents 18% of our total planned investment for capital maintainance within the first road period. The table below provides an overview of the extent of the renewal activity we carried out this year on the SRN, compared with our plans.

**Asset renewals**



## Managing the Severn River Crossing

Since taking over responsibility for the operation, maintenance and tolling collection for the Severn Bridges in January 2018, we have focused on integrating their operation into our wider network and removing the toll charge. This was achieved in December 2018, ending 52 years of tolling at the crossings.

The project was delivered with minimum disruption to the travelling public and fulfilled Government's commitment to create a free-flowing, charge-free motorway between England and Wales.

We are working with our customers to close down their 33,000 tolling accounts, and to return their financial balances and tolling pass deposits.

## A free-flowing network

+ **Read more** about these KPIs – network availability and incident clearance – on pages 25-26

## Our delivery over the year

### Planning and managing roadworks

We are working with our supply chain to improve how we plan and manage roadworks.

Regional reports on closures planned for that night are completed on a daily basis and released to a wide stakeholder base, including more than 200 logistics companies ranging from Royal Mail to National Express and John Lewis. Alongside this daily report, a forward look of the next seven days is provided to enable these companies to plan.

In response to customers' requests for additional information about roadworks, we have developed a communications approach to improve user engagement. This includes providing customers with key information about the works, potential disruptions, and the expected benefits of the project.

+ **Read more** about our customer service initiatives on pages 78-79

### Developing our incident management capability

We have worked hard this year on improving how we manage incidents when they happen. A report commissioned by the ORR highlighted that we remain at the forefront internationally in terms of incident management and we have updated core incident management documents and ensured incident managers are briefed on best practice.

Regional incident management has been increased with the introduction of national network managers. They maintain a real-time 24/7 overview of how the whole network is operating across all our regions, employing strategies to minimise impacts of incidents on customers. Managing multiple events across regions, they support senior managers in the co-ordination of national communications for customers and are involved in developing pre-planned responses to future events.

Vehicle breakdown is one of the most prolific incidents occurring on our network; we recorded just one short of 15,000 vehicle breakdowns in 2018. Where customers do not have private recovery arrangements, we call on our own vehicle recovery contract to remove customers and their vehicles to a place of safety. Delivery against the terms of the contract was higher this year than in any of the previous five years. Following a trial in the West Midlands region, the practice of recovery operators being dispatched directly from our Regional Control Centres when an incident is viewable on CCTV is now firmly embedded. In December 2018, 56 such instances (a record number) were recorded. With over 20% of vehicles being recovered an average of 20 minutes quicker than previously, our ability to return the network to free-flowing conditions has been greatly improved.

We have invested in the capability of our front-line traffic officers, and have now coached over 60% to work as single crews, maximising our ability to respond to incidents and ensure a free-flowing network. In 2018, we also introduced new training and equipment to assist in the safe recovery of animals on our network. 85% of traffic officers have now been trained in handling dogs and 38% have been trained in handling swans (the most common animals attended to in 2017); and all regions have been provided with animal handling kits.

### Keeping the network open during severe weather

We are continuously upgrading our winter service vehicles to improve our levels of service. The newer vehicles are more efficient in their operation and the use of de-icing materials, have enhanced visibility, and can treat roads with minimal driver intervention. The newer vehicles have an increased 26 tonne capacity, enabling us to treat more of the network in a single trip.







## Sustainability and the environment

We know that our network has an impact on the surrounding environment, and we aim to ensure that all our activity on the SRN contributes towards a sustainable future and delivers long-term benefits to the natural and built environment. We have two specific KPIs around delivering better environmental outcomes: noise and biodiversity.

## Embedding our strategies and principles

Our *Sustainable Development* and *Environment Strategies*, published in April 2017, set out our vision for ensuring our work supports society and the wider national interest, as well as both minimising our environmental impact and improving the environment where possible.

Our *Sustainable Development and Environment Action Plan,* published in December 2018, describes how we will deliver against our aspirations in the current road period through 13 actions, supported by all areas of our business. We will seek to implement them in collaboration with partners, stakeholders and local communities.

We formally published a design vision and principles in January 2018 in *The Road to Good Design*. The principles are now embedded within our major projects' processes, and teams within our schemes have been challenged to consider and respond positively. We also established a design review panel to provide scheme-specific advice and report to the Highways England Strategic Design Panel.

### Strategic Design Panel Progress Report 2

The panel was established to put good design at the core of England's road improvement projects, and has members from across a range of disciplines, representing stakeholders who have a strong interest in the design of our network. The second progress report, published in December 2018, sets out progress over the past year (April 17 to June 18), provides recommendations and looks ahead to the coming year.

In the foreword to the second report, Mike Wilson, Chief Highways Engineer and Chair of the Highways England Strategic Design Panel, says:

> "There has been good progress over the past year by both the Strategic Design Panel and Highways England to guide the design and delivery of safer, better, more beautiful roads which connect people and connect our country.
>
> Last year Highways England published its vision and principles for good road design which follow the themes of people, places and processes. The Panel have examined and challenged our processes to make recommendations to respond better to the needs of users and local communities. It is important for the company to be challenged to improve design outcomes, but also become more efficient in what it does. The new design review panel overseen by the Panel will also help us do that."

## Flood mitigation

We are committed to reducing flood risk to those using, or living next to, the SRN. We have a programme of schemes to address high priority flooding locations throughout the remainder of the current road period.

In 2018-19, we mitigated 35 flooding hotspots and culverts, some of which were funded through the Environment Designated Fund.

## Air quality

Air quality on and around the SRN remains our highest risk. In RIS1, Government established a £75 million Air Quality Designated Fund for RP1 (2015-20), to improve air quality on and around the SRN, with a further £25 million designated for 2020-21.

In support of our ongoing compliance with the *National Plan for $NO_2$*, in August 2018, Government formally commissioned us to review 101 links on the SRN that have been identified as potentially exceeding the thresholds for poor air quality, and to develop proposals for improving air quality at these locations. We have met our commitment to undertake preliminary modelling of these links by the end of March 2019, and to identify potential mitigation measures, where possible, for development and delivery in 2019-20 and beyond.

We are working with local authorities as they develop local air quality plans, particularly those authorities included in Government's *UK Plan for Tackling Roadside Nitrogen Dioxide Concentrations.* We have appointed Air Quality Focal Points to work with the relevant authorities and ensure a shared understanding of the interactions between the SRN and the local air quality plans. Where local authorities are considering the implementation of Clean Air Zones on their networks, we are preparing to support the provision of associated signage on the SRN.

We carried out air quality monitoring around a sound barrier in the Netherlands and confirmed that it helped disperse pollutants to improve air quality for those living closest to the network. As a result, we have developed a programme to undertake feasibility reviews and deliver up to 15 large air quality barriers alongside the SRN to protect neighbouring properties (subject to wider environmental and engineering constraints). Construction work for the first barrier alongside the M1 in South Yorkshire started in spring 2019.

Management of vehicle speeds is a potential mitigation for the improvement of air quality. In 2018, we launched a trial of different speed management regimes on the M1 in South Yorkshire, to build an evidence base to support decisions around the use of this measure elsewhere on the SRN. This pilot is also intended to help other road authorities elsewhere in the UK, and local authorities, who may also be considering speed management as a means of improving air quality.

We recognise that improving air quality is a collaborative effort. For the second year, we were a major supporter of the Energy Saving Trust's Fleet Heroes Awards, sponsoring the Freight Hero Award. We congratulate Bibby Distribution (winner) and Oxford City Council (highly commended) on their success in this award category and for their work in managing their vehicle fleets to improve efficiency and reduce emissions.

### Carbon

Our corporate carbon metric for the current road period has an established measurement and reporting history. It measures our carbon footprint, the total tonnes of carbon dioxide equivalents ($tCO_2e$), from our activities. We are committed to supporting the DfT to meet the Greening Government Commitments carbon target, and we recognise the clear financial benefits from becoming a more energy and resource efficient organisation.

The current DfT Greening Government Commitments target is a 43% reduction by 2019-20, against the 2009-10 baseline, modified in 2018 from a 36% reduction in the same timeframe. Our reduction trend remains on target to exceed this figure. Designated spend on energy-efficient equipment brings an immediate and long-lasting energy consumption cost saving, along with a corresponding carbon cost saving. Our actions have contributed towards a 44.8% reduction against the baseline.

Our supply chain recognise the need, imperative and opportunity of carbon management. We monitor the carbon footprint of our supply chain as they operate, maintain and improve the SRN. We are working with them to reduce emissions as part of our carbon management priority within our *Sustainable Development Strategy*. To support this, our action plan states that we will deliver a meaningful contribution to the Government target of an 80% reduction in carbon emissions, against the levels in the 1990s, by 2050. We will investigate and plan for the uptake of low carbon technology across the SRN. Our milestone is to ensure timely and high-quality supply chain carbon submissions each quarter.

## 6. Operation Brock

In 2015, the Kent Resilience Forum developed Operation Fennel. This is a suite of multi-agency delivered plans that can be called upon in the event of disruption at the Kent ports – Dover and the Eurotunnel – to manage traffic in Kent. This included Operation Stack, the Kent police-led solution which closes sections of the M20 to queue coast-bound lorries heading for mainland Europe when channel crossings are seriously disrupted.







In January 2018, the Secretary of State for Transport instructed Highways England to expand on this work. We were asked to deliver a contingency plan to provide temporary HGV storage on the M20 SRN by 29 March 2019 that was less disruptive to Kent traffic than Operation Stack. We called this plan Operation Brock.

In October 2018, the DfT further instructed that Brock should extend to the Manston Airfield and the M26, and should be used to avoid the need for Operation Stack. By December 2018 – in partnership with the Kent Resilience Forum – we completed preparations for Operation Brock, and it has now been added to the Operation Fennel suite of plans. It remains available to use as a first response should there be any unplanned disruption at the ports.

The M20, Manston Airfield and the M26 can collectively be used to queue more than 10,000 lorries heading for mainland Europe, keeping other traffic flowing for people living, working and travelling in and around Kent. Using an escalation and phased approach, if the M20 becomes full, lorries heading for the Port of Dover can be routed to Manston Airfield, while the M20 is used to hold traffic for Eurotunnel. If needed, the coastbound M26 can also be used to queue Eurotunnel-bound HGVs.

The project was not RIS1 funded and work was subsequently undertaken – with DfT approval – against the previous M20 Lorry Area project budget, with an investment spend of £30 million, and a further £5 million for the M26. The work at Manston was delivered by DfT and Kent County Council.

A web-page for Operation Brock was published on 15 March 2019 to provide advice to road users. This can be found at www.highwaysengland.co.uk/OperationBrock

## 7. Developing RIS2

Following the publication of our *Strategic Road Network Initial Report* and *Connecting the Country* in December 2017, the DfT created their *Draft RIS2* alongside the Chancellor's *Autumn Statement* in October 2018. This announced our funding for the second road period (2020-25) at £25.3 billion.

In response, we developed and submitted our *Draft Strategic Business Plan* in January 2019. This will be subject to an efficiency and deliverability review by the ORR, whose advice will inform the final RIS2. This is due to be published in autumn 2019.

# Our risk management



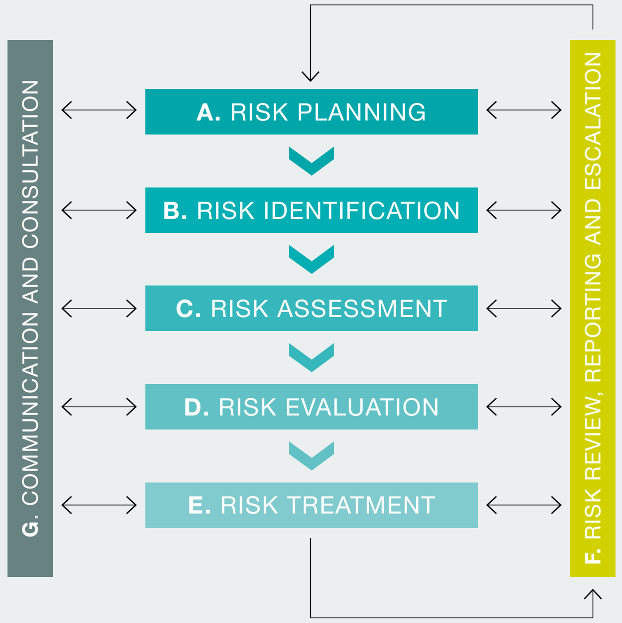
We work closely with our partners and stakeholders to mitigate the impact of all risk. Our approach encompasses managing risk across our broad range of activities at operational, tactical and strategic levels.

## Overview

Our risk management process focuses on the early identification and management of risk. Our framework provides the structure for all staff to identify, prioritise, manage, monitor and report risks.

Our principal risks, identified by the Board and our Executive team, align to our strategic objectives, which we agree with our Shareholder, the Secretary of State for Transport. Risk identification and review exercises are carried out across all key business areas throughout the year and we use the outputs from these to fully review and refresh all our risk register information regularly.

### Key elements of our risk management framework




Highways England risk management process based upon core requirements of ISO31000:2018

**A. Risk planning** – Our policy, processes and procedures define the external or internal criteria to be considered when identifying and managing risk.

**B. Risk identification** – We have a defined process to help identify, recognise and describe opportunities and threats to strategic, programme, project and operational objectives.

**C. Risk assessment** – We assess the probability and impact of all risk against a matrix that recognises that any risk has the potential for multiple impacts. We encourage the risk owner to identify the most important impact and this helps us to prioritise our response.

**D. Risk evaluation** – We compare the level of risk assessed with our risk appetite (set by the Board) to help the risk owner to prioritise management activity.

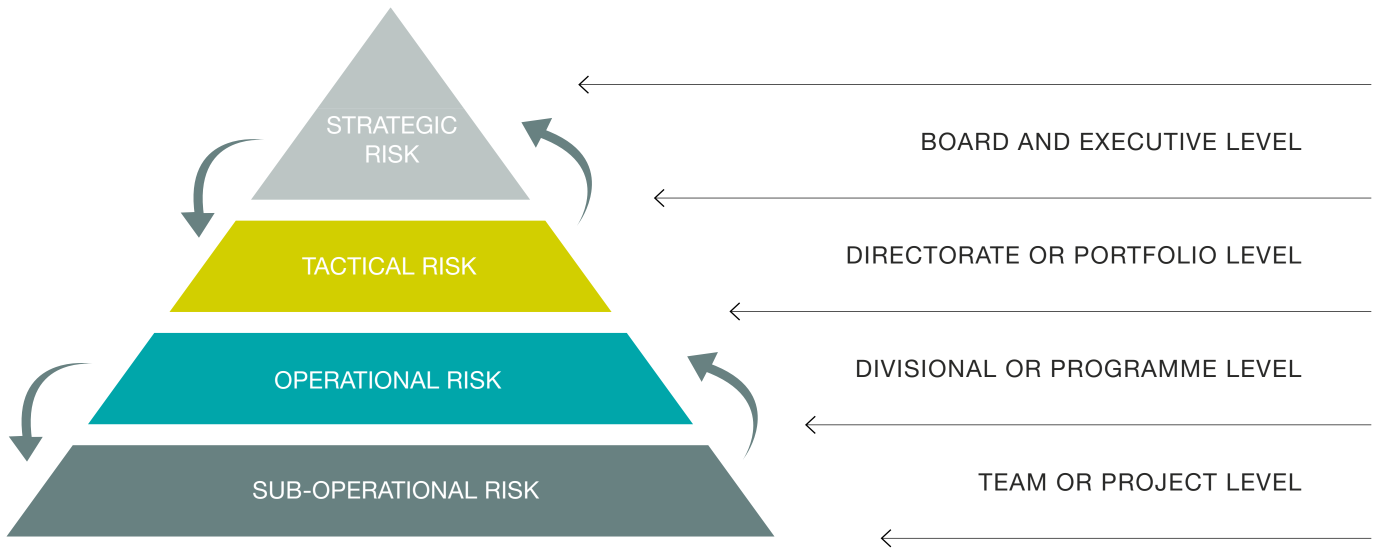
**E. Risk treatment** – We identify actions to enhance opportunities and reduce threats (putting controls in place) and any further activity that will help the risk owner manage the risk.

**F. Risk review, reporting and escalation** – We structure this area so that:

- risks and opportunities are managed in line with our risk appetite
- risks are updated as additional activity to manage them is delivered
- escalation of risk to senior management for information, review and/or further management action is on a timely basis

**G. Communication and consultation** – We consult and communicate with internal and external stakeholders through all stages of the risk management lifecycle to increase understanding and improve our risk management capability across the business.

### Our strategic objectives




## Roles and responsibilities

The Board has overall responsibility for determining our risk appetite: the amount and type of risk that we are willing to take to meet our strategic objectives. Our Chief Executive (as Accounting Officer) is responsible to Parliament for the stewardship of public money and he exercises his delegations in line with the Finance and Reporting letter and Accounting Officer letter, issued by our Shareholder.

While the ultimate responsibility for risk management rests with the Board, it delegates oversight of the risk management framework to the Audit and Risk Committee. This committee reviews the effectiveness of our internal controls and procedures to identify, assess and report risk. The outcomes from their work feed into the Board's wider discussions.

Our underlying principles are that risks are:

- identified, assessed and then mitigated in line with our risk appetite
- monitored continuously
- reported through our established procedures

Each Executive Director owns the directorate-level risks relevant to their area of responsibility. A formal review is completed on a quarterly basis and the results reported to the Board. The Executive team escalate any significant risks, including those with the potential to jeopardise our business, to the Board. If acknowledged by the Board, the risk is added to our corporate risk register as a Board-level risk. This ensures that the Board can maintain visibility of its status and mitigation plan.

## Developing capability

We have deployed an enterprise-wide risk recording tool to improve the way that we record and report risk. This went live across our major projects environment in January 2018. During this financial year, we have added further capability to the tool to enhance the visibility and reporting of risk data and this has helped improve our risk management maturity. In 2019-20, we intend to roll out this tool across the rest of Highways England.

Alongside the development of our system functionality, we have increased the capability of our people. Within our Major Projects directorate, each programme now has a Head of Risk, with oversight provided by a Head of Profession for risk management, who sits at portfolio level. This role is linked to the Head of Corporate Risk Assurance to ensure cohesion at a corporate level.

We have developed online risk management training, aimed at our project risk managers, and risk awareness training for non-specialist staff whose role involves risk management to a lesser degree.

We have also introduced a company-wide risk management community of practice to share expertise and examples of good practice.

## Our risk appetite

**Recognising that we face risks inherent to the sector that we work in, and on behalf of our key stakeholders, we have defined our risk appetite as follows:**

### Safety

We face various risks in the operation of the high-speed road network, and with our construction and maintenance activities. While it is not appropriate to eliminate all risk inherent in our activities, we take all reasonable measures to minimise the potential for harm or loss of life for the public, road users and those who work for us.

### Delivery

We identify risks which might impact our ability to meet key performance goals and capital outcomes. We adapt our approach to optimise and meet our short-term and long-term targets.

### Customer service

We want to be trusted that we can deliver our commitments and be respected by those who use our services. In the pursuit of our delivery objectives, we will work to ensure risk outcomes only have potential for low-to-medium impact on our customers and stakeholders.

### Financial governance

We are willing to accept some circumstances where we will balance financial risk to optimise our long-term financial performance, operational performance and capital outputs. Decisions on these will be taken in accordance with our internal governance arrangements.







## Assuring our risk

We have several teams that work together to help the organisation manage risk properly. Each team has a unique perspective and specific skill sets. Their duties are coordinated carefully to ensure that there are neither gaps nor duplication of activity. We have created a four lines of assurance model and this provides the Board with an appropriate level of comfort that we are managing risks properly. Each line of assurance provides a level of oversight, appropriate to their position within the business. The model allows each risk owner to draw from a breadth of information and rely on assurances obtained at the most appropriate level, relevant to the risk being managed.

### Four lines of assurance model

**1st line assurance** — 1 MANAGEMENT CONTROL
- Business reporting
- Assurance by management
- Operational control

**2nd line assurance** — 2 CORPORATE OVERSIGHT
- Compliance
- Inspection
- Quality assurance
- Business and project review
- Risk and management issues

**3rd line assurance** — 3 INTERNAL INDEPENDENT ASSURANCE
- Internal audit
- Programme assurance
- Counter-fraud
- Safety assurance
- Contract assurance
- Risk assurance

**4th line assurance** — 4 EXTERNAL INDEPENDENT ASSURANCE
- National Audit Office
- Transport Focus
- Office of Rail and Road
- Other
- DfT client and Shareholder teams

# Our principal risks and uncertainties

We take a thematic approach to risk reporting, and have created reporting dashboards for nine themes, linked to the performance specification within RIS1. These are the focus of the Board and are managed by our Executive team. Management of these risks has meant that our raw and current risk exposure has remained constant throughout the year.

"Our performance in these areas is good but addressing these risks is critical to our success and it is right that the Board and the Executive remain focused on them."

**JIM O'SULLIVAN** CHIEF EXECUTIVE

We rate our risks without control (raw) and with control applied (current).

- **High risks** are events that, before mitigation, we consider have a high probability of occurring and which could have an extreme or major impact if they do so
- **Medium risks** are events that, before mitigation, we consider are likely to occur and which will have a significant impact if they do so
- **Low risks** are events that, before mitigation, we consider are unlikely to occur and which will have an undesirable impact if they do so

## Safety

| | Strategic risk | Summary of mitigation |
|---|---|---|
| **Raw risk** (High)<br>**Current risk** (Medium) | Ineffective control over safety, health and wellbeing could lead to an increase in staff and road workers being physically or mentally harmed | ■ Our contractual obligations are set to ensure certain health and safety standards are met, including the use of competent contractors at all levels<br>■ Our Health and Safety Management System incorporates policies and processes that direct our workforce and ensure the control of contractors<br>■ We have an ongoing monitoring regime, including inspections, leadership tours, accident reviews and compliance and assurance reviews<br>■ We have dedicated health and safety professionals across each region and programme team who provide health and safety advice and support to the business<br>■ Our wellbeing programme is in place and progress is monitored on a quarterly basis |

In the last four years, we have reduced accidents to traffic officers by a factor of four and to contracting staff by 30%. Read more on page 68.

| | Strategic risk | Summary of mitigation |
|---|---|---|
| **Raw risk** (High)<br>**Current risk** (Medium) | Ineffective interventions or investments for road user safety might lead to an increase in road users being harmed | ■ We have Executive and Board-level committees to assess and approve investment in our safety interventions and monitor the success of their implementation<br>■ Our *National Incident Casualty Reduction Plan* and *Regional Incident Casualty Reduction Plans* provide detailed programmes of interventions to reduce incidents on our network<br>■ We track, monitor and report on the overall levels of casualty incidents to our Executive and Board-level committees to help inform future investment and interventions |

This year has seen a slight increase in killed and seriously injured cases, although there has been an overall reduction in the number of reported incidents, with fatal casualties falling by about 10%. More information on our road user safety interventions can be found on pages 68-75.





## Delivering to customers and communities

| | Strategic risk | Summary of mitigation |
|---|---|---|
| **Raw risk** (Medium)<br>**Current risk** (Medium) | We do not listen to, influence or respond to changes in our customers' and stakeholders' expectations effectively, which might result in a poor level of customer service being delivered | ■ Our Executive-led Customer Group oversees cross-business activity and ensures that it is in line with our Customer Service Strategy<br>■ We have appointed customer service directors, who are responsible for understanding the needs of our customers within their business areas as well as delivering their element of the *Customer Service Plan* |

Customer service is one of our three imperatives and is an integrated part of our continuous improvement culture. Our customer satisfaction score for roadworks is at its highest level since the beginning of the current road period. We illustrate what we are currently doing in this area on pages 78-79.

| | Strategic risk | Summary of mitigation |
|---|---|---|
| **Raw risk** (Medium)<br>**Current risk** (Medium) | We do not manage our Company narrative effectively, which might result in reputational damage that undermines our capability and achievements | ■ We have developed a corporate back-story to portray Highways England's reputation. This is applied across all communications, both internally and externally, with our Corporate Editor reviewing key documents to ensure we use a consistent tone of voice<br>■ We use our supply chain Engagement Council to communicate key messages and briefings with our contractor community<br>■ Our strategic stakeholder engagement is supported by a full communications plan, which is reviewed regularly to ensure it is relevant and consistent |

We made good progress this year delivering to plan and with strong financial results. For further commentary on our performance, see our Chairman's and Chief Executive's statements on pages 10-13.

## Delivering performance and efficiency

| | Strategic risk | Summary of mitigation |
|---|---|---|
| **Raw risk** (High)<br>**Current risk** (High) | Government actions to improve air quality may impact on the ability to achieve our Licence obligations, internal performance indicators and deliver our capital programme | ■ We are working with the Department for Environment, Food and Rural Affairs and the DfT to support Government's *Air Quality Plan* – including engagement with local authorities<br>■ Our Air Pollution Strategy Board monitors the delivery of our Air Quality Strategy. This board includes representatives from the DfT, the Department for Environment, Food and Rural Affairs and the Office for Low Emission Vehicles<br>■ Our Major Projects Air Quality Roads Board manages scheme-level air quality risks and considers interventions to mitigate air quality impacts |

We are working closely with Government to address air quality. We have advanced plans to understand our air quality challenges and to introduce mitigations where possible, which you can read about on pages 53-54.

## Delivering performance and efficiency (continued)

| Risk rating | Strategic risk | Summary of mitigation |
|---|---|---|
| Raw risk / Current risk | Our capital project efficiency savings target may not be achieved, which might undermine our Shareholder's confidence in our delivery capability for future investment periods | ■ We have an *Efficiency Delivery Plan* and an *Efficiency Manual* in place to support the business in identifying and managing their efficiency activity. Compliance is established through a robust assurance programme<br>■ We have a framework for reporting efficiencies to the DfT and the ORR, with monitoring of efficiencies built into our corporate performance reporting process<br>■ Our business efficiency managers, coordinated by our commercial team, calculate and assure individual efficiency cases identified by the business. Results are independently verified by our Corporate Assurance function<br>■ Efficiency targets are part of our executives' and managers' personal objectives to embed accountability for their delivery across the business |

*i* Since 2015, we have delivered £848 million of efficiencies. Moving into our final year, we are on track to deliver the remaining £349 million. More information on our current financial performance is provided on pages 20-23.

| Risk rating | Strategic risk | Summary of mitigation |
|---|---|---|
| Raw risk / Current risk | Differing interpretation of VAT rules might result in a significant impact on our funding and an increased cost on road schemes going forward | ■ We have engaged a tax expert to help support our interpretation of current VAT rules<br>■ We have an open dialogue with the DfT and HM Treasury to discuss our interpretation and its impact on our current and future funding, based on best and worse-case scenarios |

*i* This topic remains a risk. For further information, read our Financial review on pages 20-23.

| Risk rating | Strategic risk | Summary of mitigation |
|---|---|---|
| Raw risk / Current risk | Inappropriate information and data governance, security and management might lead to the inefficient delivery of our business objectives | ■ Our policies, procedures and processes define the governance, control and management activities over any personal and sensitive information that we hold or use in the normal course of our work<br>■ We have a defined risk assessment framework for both information and operational technology, where we risk assess and assure the design, build and implementation of any technology solution (on and off our SRN)<br>■ We monitor across industry, accept Government best practice, and regularly review all significant data risks at the Board and the Audit and Risk Committee |

*i* Since 2015, we have increased our capability and capacity to understand and improve on our data management and security practices. See page 64 for further detail.

| Risk rating | Strategic risk | Summary of mitigation |
|---|---|---|
| Raw risk / Current risk | We may fail to engage with or understand the impact that our increased investment will have on our supply chain. This might result in an inability to deliver our commitments to time, budget and quality | ■ Our Supply Chain Group coordinates the ongoing monitoring and intervention around our contractor stability<br>■ We employ standard procurement evaluations as part of our tendering process and our published *Procurement Plan* is updated regularly<br>■ Our Routes to Market procurement approach is designed to establish long-term relationships and stable demand visibility to drive supplier investment in skills and capability<br>■ We regularly review our main contractor relationships and market resilience to provide assurance to our Board |

*i* We monitor the viability of our supply chain closely. Our handling of the Carillion failure is described on page 49.

| Risk rating | Strategic risk | Summary of mitigation |
|---|---|---|
| Raw risk / Current risk | We do not achieve commercial maturity and embed contract management capability fast enough, which could result in reduced ability to deliver the RIS portfolio to time, budget and quality, and achieve the outcomes and benefits we have committed to | ■ We have increased our internal commercial capability and this resource is embedded within project delivery, providing commercial leadership and assurance to all stages in a project's lifecycle<br>■ Our Commercial Head of Profession (Commercial Director) is responsible for developing commercial standards, practices, processes and training to support improved commercial awareness<br>■ We have an established governance process in place to deal with contract interpretation issues and to resolve emerging issues |

*i* We have increased our engineering programme management and supply chain management skills significantly in the current year. See page 85 for a description of our organisational change programme.





## Asset stewardship

| Risk rating | Strategic risk | Summary of mitigation |
|---|---|---|
| Raw risk / Current risk | A significant asset failure on our network could result in a major incident, leading to death, injury or vehicle/property damage | ■ Our standards for the design, operation, inspection and maintenance of assets are defined by the Chief Engineer in the *Design Manual for Roads and Bridges* (DMRB)<br>■ For structures (including geotechnical structures), we have an established design-check process that includes oversight by independent specialists working for the Chief Engineer<br>■ We have an incident reporting process and a programme of inspections in place, which are defined within the DMRB and are completed by either Highways England inspectors or our contractors (including our PFI concessionaires)<br>■ We use a suite of asset management systems to hold, manage and analyse data to identify needs and report performance |

*i* In 2018-19, we reviewed our policies and procedures for the management of structures following the tragic bridge collapse in Genoa, including ensuring that we have a robust inspection regime. For more information on our asset management activities, please refer to page 50.

| Risk rating | Strategic risk | Summary of mitigation |
|---|---|---|
| Raw risk / Current risk | We do not respond to our asset intelligence with appropriate maintenance or interventions and this could result in asset failure or network disruption | ■ We include clear responsibilities in our supply chain contracts and processes specifically aimed at identifying and reviewing asset interventions<br>■ Our value management process uses risk-based techniques to prioritise our asset interventions and this is supported by technical input and oversight by our asset specialists<br>■ Our operational processes and Designated Funds programme outline how we use asset intelligence to develop and inform our capital programme<br>■ We have a robust assurance regime which covers our processes, contractor compliance and performance to ensure they are fit for use and consistently applied |

*i* We ensured that 95.5% of our network was in good condition. Read more about our asset delivery approach on page 50.

## People and company

| Risk rating | Strategic risk | Summary of mitigation |
|---|---|---|
| Raw risk / Current risk | Our remuneration flexibility is not kept under scrutiny, which might impact on our ability to deliver the RIS outputs and associated benefits efficiently | ■ We work in collaboration with the DfT to identify and manage the risks of improving and maintaining our current remuneration processes<br>■ Our career pathways framework provides clear direction on career development and gives greater flexibility in optimising internal career development-related moves<br>■ Our governance arrangements, including our Recruitment and Reward Executive, approve all new permanent posts and contingency hires to ensure appropriate control over our pay spend is applied |

*i* Our employee engagement score has increased to 52% and our employee enablement score to 56%. We are committed to developing our staff to build our organisational capability and capacity. For more information on what we are doing, please see pages 86-87.

### Economic crime

We refer to the collective of fraud, bribery, corruption and money laundering and modern slavery as economic crime. We are determined to manage this risk across the Company and our supply chain. As well as the tragic human consequences, exposure could lead to financial loss or delays to delivery, and might impact on customer and stakeholder confidence in how we respond to any issues that we find.

In line with our values, we require all staff to act honestly and with integrity to safeguard the public funds for which they are responsible. All instances of economic crime will be dealt with effectively, ethically and in accordance with the law.

This year we have focused our efforts on raising fraud awareness through targeted training events and the use of internal social platforms, such as Yammer. Our counter-fraud culture is maturing throughout our organisation, with appropriate channels in place for staff, customers and our supply chain to raise concerns safely. Our suite of policy, processes and procedures reflects and builds upon current legislative requirements. These should be understood by all staff, no matter what their role.

We have improved our understanding of our risk profile, which captures internal and external economic crime risks, including those introduced through cybercrime. These are based on industry and Government information, updated on an annual basis. We use this information to carry out proactive testing over our control activity to improve our resilience.

We have seen an increase in the number of fraud allegations from external sources. All allegations are investigated in line with our policies. The Counter-fraud Group and the Audit and Risk Committee receive reports on the work of the Counter-fraud team, and the results of all investigations completed in the year, together with recommendations for future prevention.

Working proactively with our supply chain, we are raising the profile of economic crime risk across the sector. We have created the Supply Chain Economic Crime Group, a forum which brings together our staff and supply chain to highlight areas of commonality and share best practice.

We fully align to the work of the Cabinet Office in improving counter-fraud capability across Government. This year, our assessment of our performance against what is now called the Government Functional Standard 'GovS 013' has established that we are compliant in all aspects of the standard. Our ability to deal with economic crime has increased during the past financial year and we are progressing a risk-based programme of proactive work to help reduce the level of risk that we face.

### Brexit

In 2017, Government submitted its notification to leave the EU in accordance with Article 50. The triggering of Article 50 started a two-year negotiation process between the UK and the EU. Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of these negotiations. Currently, we have no significant impacts on our financial statements in the short-term from Government making the formal notification. We will keep this under review as negotiations continue.

We have delivered a solution to assist with planning for potential traffic congestion at the Kent ports, Operation Brock, outlined in detail on page 55.

### General Data Protection Regulation

The EU General Data Protection Regulation (GDPR), which harmonises data privacy laws across Europe, took effect in May 2018. In preparation for its implementation, we reviewed and updated our privacy-related policies and guidance and rolled out GDPR training across the Company. This enables all of our staff and supply chain to understand their responsibilities and the impact of the legislation. We worked with our commercial and procurement colleagues to include within relevant contracts the GDPR-compliant clauses issued by the Crown Commercial Services.

Since GDPR came into effect, we have seen an increase in the number of subject access requests for personal information and our average response time is consistently within the legislative deadline of one calendar month.

We are improving and streamlining our information rights practices, and working proactively with our supply chain to reduce the risk of non-compliance, while promoting the fair and ethical handling of personal information. We are also developing automation techniques to improve the efficiency of our processes.







# Viability statement

The Board has assessed the viability of the Company over the six years to March 2025, in line with our five-year road investment periods (currently 2015-20 and 2020-25). They review our going concern on an annual basis, taking into account Government funding, our business plan, our risk management framework and our risk register, including consideration of our current position in the first road period and our plans for the second.

We considered six years to be an appropriate timeframe, given the certainty of our final year in the current road period and the increasing certainty over our next five-year funding settlement.

We set out our proposals for the next road period in our *Draft Strategic Business Plan*, published in January 2019. Our final funding position will be agreed in late 2019, and will incorporate the output from this plan, the ORR Efficiency Review, and the results of Government's 2019 Spending Review.

We are funded from the public purse by grants-in-aid from the DfT. Before the start of each funding period, we work with the DfT and the ORR to determine our outputs, which provides a high degree of certainty over our capital and resource funding, detailed in the Statement of Funds Available and set out in Government's annual *Resource Delegated Expenditure Limit*. The Statement of Funds Available, covering April 2015 to March 2020, totalled £11.4 billion of capital funding to meet our first road period commitments. Government's Spending Review 2015 confirmed our resource funding and, for the final year (2019-20), this is £1.1 billion. As we are a company owned by the DfT, our creditors can rely on Government security, and the statutory obligations of the Secretary of State for Transport, to settle any liabilities due.

For each funding period we prepare a *Strategic Business Plan,* a three-year business plan and annual delivery plans. Together these detail how we will deliver our strategic outcomes, measure our success and identify our future improvement plans. Our performance is monitored by the ORR on a quarterly basis and we refresh and republish the *Delivery Plan* annually.

The statutory process for setting the next road period began in December 2017, with the publication of our first *Strategic Road Network Initial Report*. Based on our understanding of likely demand, customer service expectations, technological advancements and strategic levers, this report sets out the challenges we face over the medium to long-term in responding to Government's ambition for the SRN.

In October 2018, the Chancellor's *Autumn Statement* announced £25.3 billion of funding for the SRN between 2020-25. This announcement coincided with the preparation of DfT's *Draft RIS2*. Together with the summary of the responses to *Shaping the Future of England's Strategic Roads*, this forms part of the *Draft RIS* required by the Infrastructure Act 2015 and our Licence. Once finalised, our funding for the next road period will be provided through the National Roads Fund, which reserves the revenues of Vehicle Excise Duty within England for road investment.

Our *Delivery Plan*, budgets and related financial models are used to project cash flows, monitor financial risks and our liquidity position, and forecast future funding requirements relevant to our Licence. Linked to our ability to meet our strategic objectives, our principal risks (on pages 60-63) are identified through a robust assessment that includes a continuous cycle of reporting and review at all levels of the business.

We analyse the Company's resilience to the potential impact of these risks, based on:

- the Company's ability to withstand severe yet plausible scenarios
- the effectiveness of mitigating actions to reduce either likelihood or impact
- the Board's conclusions from their regular monitoring and review of risk management and internal control systems, as described on page 117

In making this statement, the Board has considered the safety of the SRN, the current political environment, the Company's performance in the first road period and the viability of our supply chain, in view of the collapse of Carillion during the year. The scenarios were considered in terms of the impact on our financial resources and the delivery of our first road period commitments.

Based on these assessments, the Board has a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due over the period to March 2025.

Our responsibility
BeSAFE
BeSAFE


# Safety first

Safety is our first imperative. We are passionate about making our roads as safe as possible for the people who are travelling and working on them. We are proud that the SRN currently comprises some of the safest roads in the world, and we work closely with our supply chain, partners and stakeholders to deliver vital safety improvements and initiatives.

**Read more** about our KPIs on pages 24-28

## Our delivery over the year

### Home Safe and Well

We want everyone who travels and works on our roads to be safe and to feel safe. Road safety is a complex issue and we recognise that safety is not an afterthought, but comes from a culture that puts it central to decision-making. That is why, this year, we implemented our new Home Safe and Well approach.

This initiative is our campaign to embed health, safety and wellbeing across our company as our first and most important imperative, and to drive continuous improvements in these areas. This involved developing corporate and directorate-level plans to promote greater ownership and drive safety improvements where they matter most. It was designed to improve safety for all our stakeholders, across our staff and supply chain, road users and vulnerable users.

### Improving safety for staff and our supply chain (road workers)

We want everyone to get home safely. Our 2015 RIS1 *Delivery Plan* provided a strong foundation from which to learn and improve as our industry adapts to emerging challenges, and we are proud of what we have achieved so far.

We are focused on improving safety for our customers and this year there has been a reduced frequency of customers being injured, with the number of casualties per hundred million vehicle miles reducing from 11.45 to 9.37.

We also monitor how safely people work on our roads and set internal targets to assess our progress in this area, measuring accident frequency rates (AFRs) for incidents reportable to the Health and Safety Executive. This year has seen an improved performance; we have seen a reduction in our supply chain AFR by 55% from 0.11 to 0.05 (from 39 to 20 RIDDOR accidents) and reduced our traffic officer and employee AFR by 36% from 0.11 to 0.07 (from 10 to 7 RIDDOR accidents). We have seen an overall reduction in the total number of RIDDOR accidents of 45% (from 49 to 27).

In this year's employee engagement survey, of more than 4,000 employees who responded, 89% felt that Highways England takes safety seriously, and 83% felt that their work area was safe. These high scores demonstrate the increasing safety-awareness of individuals within our business, and highlight how safety is now embedded within our culture.

We are encouraged by the progress we have made so far, especially for what this means for our 5,682 employees and supply chain of more than 16,000 people. We have improved our safety, even with the challenge of more people using our roads, and the substantial growth in numbers of employees and supply chain working for, and with, us during the same period.

### Improving safety for road users

We have now trained 55% of our traffic officers to perform visual safety checks on our network, increasing our reach and awareness of areas for improvement – including litter, vegetation and signage. Trained traffic officers undertake daily safety and condition inspections to identify critical defects that may impact our customers.





## Strategic case study

### Incursions Working Group

### The challenge

When road users ignore our traffic restrictions around roadworks and cross our safety barriers into our work sites, we call this an 'incursion'. These put our road workers' health, safety – and sometimes lives – at risk.

Between April 2018 and March 2019 there were 1,833 incursions into our roadworks; an average of 153 per month.

### The solution

We chair an Incursion Working Group, which is a sub-group of our Road Workers' Safety Forum.

The group is made up of stakeholders from across the highways industry who share expertise and knowledge to improve the health, safety and welfare of road workers and particularly to reduce risks imposed by incursions.

This year, members of the group have been working on many new initiatives and innovations such as Halo and SafetyCam to help protect road workers on our projects.

### The Halo safety system

The joint venture team working on our M27 junctions 4 to 11 scheme have collaborated with FHOSS (who produce high visibility safety equipment) to create new visual aids to help improve the safety of road workers at night.

The Halo safety system projects a high-intensity, continuous, solid red line onto the ground, which illuminates the exclusion zone.

The safety system has been embraced within the construction industry and has recently also been used on our M5 Oldbury scheme.

The innovation has been supported by the Home Office, as well as the DfT and Transport Research Laboratory.

### SafetyCam

SafetyCam is another road worker protection system, developed by our supply chain partners Carnell and Kier Highways. Funding from our Innovation Designated Fund led to a successful year-long trial of the technology, which began in July 2017.

The system uses two vehicle detection systems to capture instances of dangerous driving, while providing an obvious visual deterrent. Automatic number plate recognition, combined with 360° video and speed detection cameras, are installed within the vehicles to provide comprehensive coverage.

There is now a fleet of 23 SafetyCam vehicles operating across the SRN.

> "We're passionate about safety, not just of road users but also our workforce."
>
> **MARK BYARD** HEALTH, SAFETY & WELLBEING DIRECTOR

### The outcome

A trial is now underway with Essex Police to pursue prosecutions with motorists, using footage from the SafetyCams.

Separately, we are working with our supply chain to produce a series of short videos to raise awareness of the risk of incursions. These are aimed at managers, traffic management designers and road workers.

We are also working to make sure that all incursions are recorded, and plan to trial the issue of incursion awareness letters to drivers who incur into roadworks to emphasise the risk to our road workers' safety.

In May 2018, the International Road Federation (IRF) gave its prestigious annual Global Safety Award – known as the Find a Way award – to Highways England. The Find a Way was instituted as part of the United Nations Decade of Action for Road Safety by IRF Chairman Eng. Abdullah Al-Mogbel in recognition of the value of political leadership in driving road traffic injury reduction strategies. Every year, the award distinguishes outstanding commitment to safer roads by a local or national government on the anniversary of the launch of the Decade of Action.

> "This year's award gives special attention to efforts undertaken by the public sector to protect staff and motorists in road work zones, currently responsible for hundreds of thousands of injuries and thousands of deaths worldwide. The guidelines and contractor oversight practices established by Highways England to eradicate danger on road construction sites are widely praised for their results, and are an inspiration for road agencies worldwide."

**PATRICK SANKEY** IRF PRESIDENT & CEO

Receiving the award for Highways England, Richard Leonard, Head of Road Safety, noted:

> "At Highways England we believe passionately in the safety of everyone using our roads and although they are among the safest in the world we are always working hard to improve them. We have a long-term goal that no-one should be harmed while travelling or working on our network and are working with others on innovative ideas to achieve that. We are delighted the International Road Federation has recognised our work to date and we look forward to continued collaboration with partners across the world to further improve safety for all."


In 2018 we also won three awards at the TyreSafe Awards, receiving praise for safety initiatives designed to encourage motorists to check their vehicles. We won both the prestigious Safety in the Community category and the Online and Social Campaign award for our vehicle checks campaign. We also received an Emergency Services Award for a joint initiative to pilot tyre safety checks at charity car wash events with Lancashire and Cheshire Fire and Rescue Services and The Fire Fighters Charity.

In our *National Incident and Casualty Reduction Plan*, published in 2016, we set out how we will continuously improve our road safety performance. This plan aligns with our *Health and Safety Five-Year Plan*, which contains a number of actions aimed at improving road user safety. All our activities are based on our Safe System Approach:

> 'Safer roads, safer vehicles, safer people.'

Many of our construction schemes include major safety enhancements, and we carry out targeted smaller safety schemes. Our Safety and Congestion Relief Programme looks to address congestion bottlenecks and deliver targeted road safety interventions on our network. To date, we have completed 69 schemes, with 21 schemes in construction and 33 in development. We plan to open a further 17 schemes in 2019-20.

| To date we **have completed** | We plan to **open** a **further (2019-20)** |
|---|---|
| **69 schemes** | **17 schemes** |

As part of this programme, we completed a £3 million safety improvement at an accident black spot on the A64 at Barton Hill, east of York, in May 2018. This improvement included changing the alignment of the junction to provide a safe crossing point for vehicles onto the A64 dual carriageway, as well as a designated pedestrian route and cycleway and improved signage. These improvements will benefit over 9,000 drivers per day, on a major route between York and Scarborough.

We also invest in road safety infrastructure improvements for vulnerable users through the Cycling, Safety and Integration Designated Fund, delivering schemes that enable people to travel across and alongside our network safely. The £175 million funding is available during this road period, and we are targeting the safety element towards single carriageways as they have higher casualty rates. During 2018-19, we invested £18.84 million to deliver around 21 safety schemes on our network. Next year, we plan to design 40 schemes and construct a further 55 schemes.

Our *Cycling Strategy* sets out our approach to making the SRN more accessible and safer for cyclists. For our network, this mostly means cycling facilities that are separated from traffic and that enable users of all abilities to cycle safely. Since 2015, through our Cycling, Safety and Integration Designated Fund, we have delivered 101 cycle schemes across the country, as well as 90 new crossings for cyclists, pedestrians and equestrians, and 182 upgrades to existing crossings.

To support the development of safer roads, we launched our *Guide to Road Safety Route Treatments* in May 2018, providing guidance on following the safe systems approach. We also highlight the role of education and compliance measures alongside traditional engineering interventions. The guide draws on a range of different techniques to show how road safety issues can be resolved, including case studies demonstrating how measures have been applied and the subsequent benefits. We have updated a number of our *Design Manual for Roads and Bridges* (DMRB) standards, making it easier for designers to understand road safety considerations, as well as ensuring they are embedded within design decisions. This has been supported by wider research to understand the future needs of our customers, for example older driver engineering measures and wrong way driving interventions.

We worked closely with our key stakeholders and partners who have played a significant role in helping us develop targeted compliance and information initiatives aimed at addressing a wide range of issues which can pose a risk to our customers using the network.

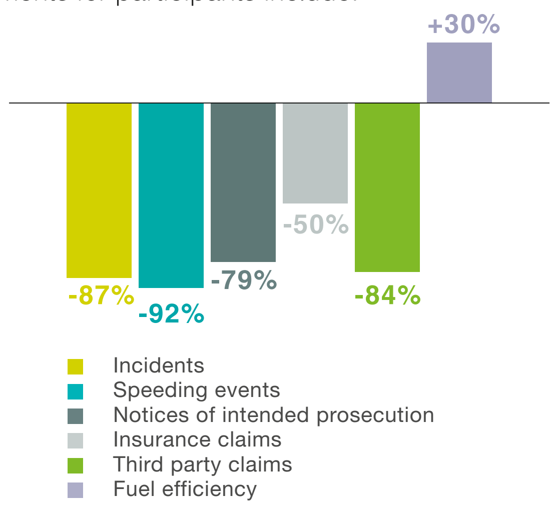
One key area of collaboration is our *Suicide Prevention Strategy*. Around 50 people take their own lives on the SRN every year. These deaths are preventable, not inevitable, and we are clear in our commitment to do everything we can to address this difficult issue. We support Government in its efforts on suicide prevention and have developed our own delivery plan. We are working with the Samaritans to undertake targeted research, while also undertaking crisis intervention, including installing over 500 crisis signs at 100 priority locations. We support those affected by suicide and work across our company to destigmatise mental health issues. We are members of the National Suicide Prevention Alliance and work closely with regional stakeholders, such as local authorities and the NHS, to identify broader interventions.

## Key safety schemes

### Driving for Better Business

We have further extended and strengthened our Driving for Better Business programme, which works collaboratively with our partners, to improve the standard of occupational road risk management. This has been achieved through securing strategic support from public and private sector partners. They provide advocacy and promote the programme through their networks and a broad range of marketing and communication activities, for example our Driving for Better Business Public Sector Summit in the Houses of Parliament in January 2019. We have also led by example, reviewing our occupational road risk management system and policies, achieving Driving for Better Business Champion status, and embedding the programme across our supply chain. These companies are now sharing this good practice with their own supply chains to allow others to achieve similar results.

Improvements for participants include:




Our responsibility

More details on how these benefits were achieved can be found in the Business Champion case studies on the Driving for Better Business website: www.drivingforbetterbusiness.com

## Supporting learner and new drivers

Novice drivers, typically aged between 17 and 24 years old, comprise 8% of driving licence holders, driving less mileage than other drivers but accounting for 13% of all car occupants killed or seriously injured in Great Britain in 2016. In their first year of driving, one in five will have a collision.

In their **first year** of driving

**1 in 5**

NEW DRIVERS WILL HAVE A COLLISION

In December 2016, the DfT undertook a consultation to allow learner drivers to take lessons on motorways, setting out the need to provide them with the broadest range of skills, knowledge and confidence to prepare for independent driving. The DfT subsequently proposed measures to enable learner drivers to have lessons on the motorway. The change in legislation came into force in June 2018.

To prepare for this change, we formed the New Driver Programme, a collaboration led by us between the DfT, DVSA, DVLA, and all the major motoring schools. We aimed to increase the knowledge of learner and novice drivers, approved driving instructors, and parents and guardians when driving on motorways or high-speed roads. The programme provided improved learning resources, key educational modules and a telematics app, giving learner drivers the knowledge and the confidence to drive safely on our network.

The first element was our online learning portal, Driving Hub. This supports the pupil, parent or guardian with five educational modules including CCTV clips from our control room and traffic officer vehicles. The site went live prior to the change in legislation and points all those accessing the site to partner resources and safe driving advice.

To date, we do not have any reports of incidents on our network involving learner drivers, and we will keep monitoring and working with the approved driving instructor industry to embed the change in legislation.

## Smart motorways, all lane running and stopped vehicle detection

In 2018-19, we completed our monitoring and evaluation of the two M25 all lane running schemes (junctions 23 to 27 and junctions 5 to 7), based on extensive evidence gathered over the first three years of operation. Our analysis demonstrated that the all lane running concept exceeded its safety objective, delivering levels of safety as good as, and possibly better than, a traditional motorway.

Both M25 schemes show an improvement in the fatal weighted injury (FWI) rate, which we use to assess the safety performance of a scheme:

**M25 junctions 5 to 7** show

**42%**

IMPROVEMENT IN FWI RATE

(Over the first **3 years**)

**M25 junctions 23 to 27** show

**18%**

IMPROVEMENT IN FWI RATE

(Over the first **3 years**)

In May 2018, we switched on our Stopped Vehicle Detection system between junctions 23 to 27 on the M25, enhancing our capability to detect and respond to stationary vehicles.

The system is now in operation on around 25 miles of all lane running on the M25. It uses radars to automatically detect vehicles that have stopped in a running lane, allowing our operators to set signals quickly in response. This has significantly enhanced our operational capability and reduced the potential for incidents.

We plan to roll out this capability across all lane running smart motorways, starting with the M3 junctions 2 to 4a in 2019-20.

## Innovation and technology

We invest time in developing innovative road infrastructure and new technologies, working with Government, customers, transport operators and businesses to deliver and operate a national network fit for the future.

We are investing £120 million in the first road period through the Innovation Designated Fund to support more innovation and use of technology across the road transport sector, with a view to reducing road delays and improving safety and the environment.





## Examples of our safety innovations projects include:

### HGV platooning trial

We are working with the DfT and leading an on-road pilot of HGV platooning to better understand what greater automation of HGVs can deliver.

### HumanDrive

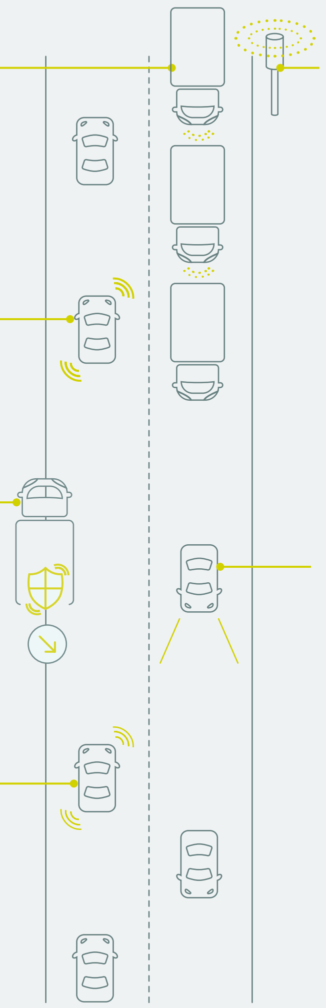
We are part of a consortium, jointly funded by central Government and industry, to build an autonomous vehicle with human-like control by 2020.

### Autonomous impact protection vehicle trial

We are working with industry to remove drivers from vehicles used to protect road workers and users during maintenance.

### Autonomous vehicle trials

We are working with the automotive industry, academia and others to develop safe trials of autonomous passenger vehicles on our network. Collaboration is crucial to ensure customers, road authorities and vehicle manufacturers all benefit from these technologies.



### UK CITE and connected corridors

We are involved with two exciting projects, which will be trialling how roads, infrastructure and vehicles can all talk to each other, safely and efficiently:

**UK Connected and Intelligent Transport Environment (UK CITE):**

This is an industry-led project on the SRN and local roads in the Midlands. We are providing the roadside infrastructure to allow vehicles to talk to our systems, as well as adapting these systems to provide information to trial vehicles in real time.

**Connected corridors:**

We are working with the DfT, Transport for London and Kent County Council to create a connected corridor along the A2 and M2.

### Connecting vehicles to each other and the road

This will improve journeys, safety and give drivers reliable, real-time personalised information; it could also help us manage traffic and respond to incidents.

- In October 2018, we delivered a TestFest in Kent, focusing on Hybrid communications and Green Light Optimal Speed Advice.
- In 2018, we began to install road side technology and equip the fleet of test vehicles.
- We believe this will enable vehicles to communicate road safety and other information using the road-side equipment and existing cellular networks.
- Test trials started in November 2018 and are planned to carry on until December 2020.

This year we launched our Innovation Portal, which allows others outside Highways England and our usual supply chain to connect directly with us. In the first four months since its launch, the site has attracted 16,000 hits and well over 100 enquiries, a number of which are now being considered as innovation trials.

In February 2019, we launched our first large-scale innovation and air quality competition, working in partnership with Innovate UK. The competition has a total budget of £20 million, with up to £1 million awarded for each winning proposal. It is designed to allow us to reach out to a much wider network of innovators, including small businesses, academics and manufacturers.

In March 2019, three Highways England projects won West Midlands Chartered Institution of Highways and Transportation awards: Best Innovation Award 2019 with Kier, for the pioneering Aqua-Slot drain; Best Innovation Highly Commended Award with Balfour Beatty Vinci, for their virtual reality training programme to improve roadworker safety; and Best Small Project Highly Commended Award with Kier, for their work on the re-waterproofing and concrete repairs at the A38(M) Gravelly Hill Viaduct. These awards recognise the achievements of those working in the transportation sector, promoting their professionalism as best practice to a wider industry audience.

### Connected and Autonomous Vehicles (CAVs)

Most road safety incidents are the result of human error. Reducing the level of human error on our roads is therefore critical to improving road safety. We recognise that technology has an important role to play in this area, particularly through autonomous vehicles and connected highways.

We are collaborating with industry, academia and others to develop safe test environments, operational standards and infrastructure to facilitate trials of CAVs on our network. We are also working with our European colleagues to standardise and test connected technology.

We see the potential for the greater automation of vehicles to deliver improved safety and increased mobility.

In response to a CAV trial in autumn 2018, Jim O'Sullivan, Highways England Chief Executive, commented:

> "We are pleased to be supporting the Government's ambition for the UK to be a global leader for innovation. The trial has the potential to demonstrate how greater automation of vehicles can deliver improvements in safety, better journeys for road users and reduction in vehicle emissions."

### Delivering our *Health and Safety Five-Year Plan*

*Our Health and Safety Five-Year Plan* has delivered 117 of its 130 actions, with 13 actions left to complete. We have also developed corporate and directorate-level plans to promote greater ownership and drive the right safety improvements where they matter most across our organisation and supply chain.

## Strategic case study

### Don't be a Space Invader safety campaign

Our multi-media campaign has shone a light on the very serious issue of tailgating on the roads this year.

### The challenge

Statistics show that:

TAILGATING IS A CONTRIBUTORY FACTOR IN
**1 in 8**
of all road casualties

WITH MORE THAN
**100 people**
killed or seriously injured each year

NEARLY
**9/10 people**
say they have either experienced tailgating or seen it happen to others

MORE THAN
**1/4**
of drivers have admitted to tailgating

While tailgating can be deliberate, often it is unintentional by drivers who are simply unaware they are dangerously invading someone else's space.

### The solution

Our Don't be a Space Invader safety campaign has been our most impactful campaign to date. We set up a dedicated website where drivers can find more information about tailgating and what they can do to stay safe. We also created bumper stickers for people to display on their vehicles.

The campaign worked particularly well across social media and we worked with LADbible to develop an Instagram slider for mobile phones to help young people understand the true stopping distance at 70mph.

A host of companies backed the campaign, including National Express which is carrying the message on some of its long-distance coaches. Other advocates include the Football Association, RAC, National Police Chiefs' Council, leading road safety bodies Brake and the Institute for Advanced Motorists, and Thatcham.

Professional racing driver and Hollywood stunt expert Ben Collins, best known for his role as The Stig on BBC motoring show Top Gear, has coached hundreds of celebrities from Tom Cruise to Lionel Ritchie around the race track, and is also a championship winning Le Mans racing driver. But he is now helping drivers travelling on our motorways and major A-roads to 'stay safe, stay back – and not be a space invader'.

Former Formula 1 world champion Nigel Mansell (now President of the Institute of Advanced Motorists RoadSmart) also acted as a spokesman for the campaign.

### The outcome

The number of people likely to change their behaviour towards tailgating has increased month-on-month since September 2018.

**250** **articles** published with a potential reach of over **34 million people**

**20** **broadcast and print interviews,** including BBC Breakfast, Sky News, Jeremy Vine and BBC Radio 5 Live

**20%** of our survey respondents said they had seen or heard the campaign (the benchmark for this type of campaign is 16-18%)

**43%** of participants in our survey agreed the campaign would change how other drivers behave

**79%** of participants agreed they would change their own behaviour as a result of seeing or hearing the campaign

OVER **300,000** car and vehicle stickers distributed to motorists and stakeholders to date

**Car sticker packs** available at all driving test centres in England

**Worldwide interest** in the campaign from every continent apart from Oceania and Antarctica

> "I discovered the dangers of tailgating at a very early age – in an overly enthusiastic game of musical chairs. The music stopped, so did the kid in front of me. But I didn't. I face-planted the back of his head instead.
>
> Following the vehicle in front too closely reduces your vision to zero, along with your time to react to danger. Stay safe, stay back and look ahead."

**BEN COLLINS** FORMERLY KNOWN AS THE STIG

> "Tailgating is a driving habit I utterly deplore. Not only is it aggressive and intimidating, but it can lead to a crash with a tragic outcome. There is absolutely no upside to it – you will not get to your destination faster, you are not a skilled driver for doing it, and you are putting so many innocent people at risk. So I very much back this campaign to highlight the dangers of tailgating."

**NIGEL MANSELL** PRESIDENT OF IAMR

Our responsibility



OUR RESPONSIBILITY: SAFETY FIRST

# Our customers

We serve the people who use our roads – from large and small business users to commuters and leisure drivers – and those who live and work alongside our roads. Our customers expect to feel safe on our network, to have good, stress-free journeys, and to trust the information we provide.

Our major projects and delivery schemes from the past year can be read about in detail in our strategic report on pages 30-43. We have also worked on a range of initiatives this year, focused on improving the experience of the millions of people who use, or are affected by, our network every day.

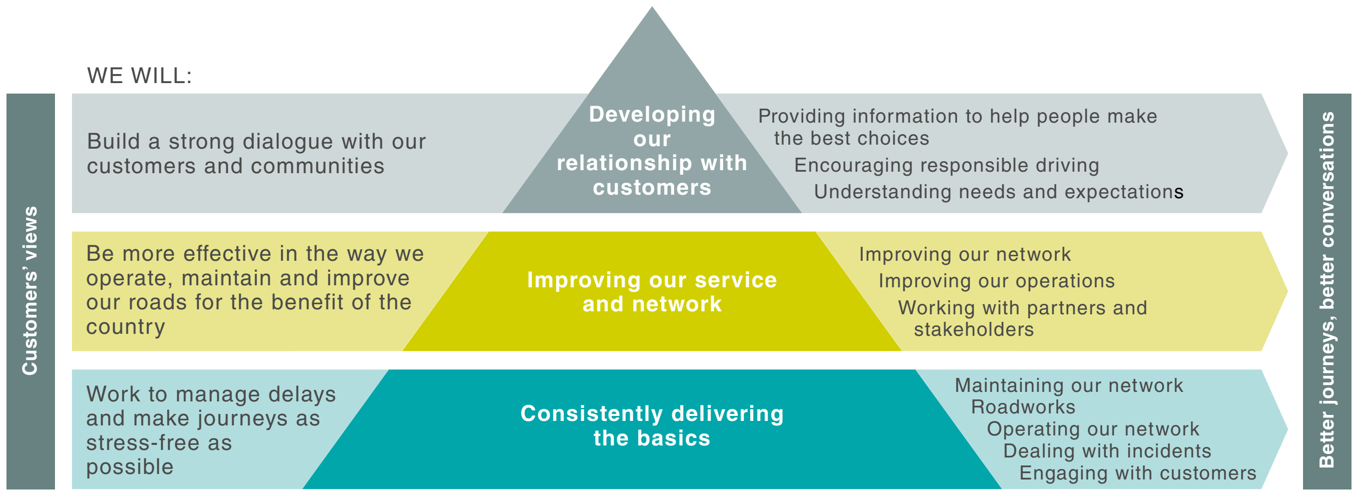
## Our strategy

Customer service guides all our activity and remains one of our three strategic imperatives: keeping people moving today, and moving better tomorrow. We are focusing more on being a service-led organisation.

Our Customer Service Strategy underpins everything we do, focusing on consistently delivering the basics, while ensuring that we improve the service and network for all our customers and communities. We are constantly looking at how we can develop and improve our relationships with our customers, including understanding and responding to their needs.

We want our customers to trust us, and for all our people, both on and off-road to understand their contribution to customer service. To help us focus on things that matter to our customers, we also publish an annual *Customer Service Plan*.

### Customer Service Strategy Model








## 1. Improving user satisfaction

### Responding to our customers and communities

We have an active customer research and innovation programme, and have implemented several initiatives to allow us to understand and respond to customer and community feedback. December 2018 saw us hold the first meeting of the National Mobility and Disabled Road Users Forum, giving us an early opportunity to discuss and act upon the findings of the Transport Focus research into the needs of road users with disabilities.

### Lifting roadworks

Responding to our customers' and stakeholders' feedback, we have reduced roadworks during high-demand travel periods. During Christmas 2018, we lifted approximately 400 miles of roadworks across England, allowing 99% of our network to be free from roadworks over this busy period.

**99%**

OF OUR NETWORK FREE OF ROADWORKS DURING CHRISTMAS 2018

### Improving our diversion routes

In July 2018, we issued a customer-focused standard for diversion routes for unplanned events.

This standard was developed with our supply chain, and tested with customers, stakeholders and partners. It sets out minimum requirements for a route to transport strategic traffic around an unplanned closure. It also provides guidance to ensure mitigating actions are considered to reduce the impact on our customers and communities when using these routes. This is being embedded across all regions.

### Review of variable speed limits

Following customer insight and complaints, we carried out a comprehensive review of variable speed limits this year. As a result, we developed a prioritised programme of 31 current and proposed improvements to variable speed limits. By December 2018, our existing and new improvements had saved over 750 hours of customers' journey time per day.

We will measure the impact of these changes throughout 2019-20.

### Complaints

We aim to respond to customer complaints within 15 working days.

The number of complaints we have handled is similar to last year (5,004 for 2017-18 and 5,022 for 2018-19), and our revised complaints process has been reviewed and further embedded. We have made it clearer to customers what the Independent Complaints Assessor (ICA) can and can't review and supported our correspondence teams to seek additional ways to resolve complaints when they reach us. Over 96% of all complaints received were resolved at the first stage of the process.

The table below sets out the number of complaints that were received by Highways England this year, those escalated through our own complaints process, those referred to the ICA, and those investigated by the Parliamentary and Health Service Ombudsman (PHSO).

| Stage 1 | Stage 2 | Stage 3 | Stage 4 |
|---|---|---|---|
| Complaints received | Complaints escalated from stage 1 | Complaints escalated from stage 2 to ICA[1] | Complaints escalated from stage 3 to PHSO |
| **5,022** (4,852 resolved) | **170** (121 resolved) | **49** (47 resolved) | **2** (0 accepted by PHSO) |

1. The figure represents the total referrals to the ICA. Previously we have only reported cases completed.

## 2. Improving customer experience

### Keeping the network in good condition

#### Smoother road surfaces

We know from feedback that smooth road surfaces play an important role in customer satisfaction, as they provide drivers with smoother, quieter and safer journeys. We are working hard to ensure that our road surfaces are maintained to a level that improves our users' driving experiences.

This year, the A1 West Moor to Newton-on-the-Moor scheme has been our first project to use the innovative in situ cold pave recycling solution. The process strips the top level of material off the road and mixes it with materials such as bitumen emulsion so that it can be re-laid on the road. This is a radical change to the pavement renewal process, where traditionally each section of road requires its own management, labour and support plant and equipment. The cold pave recycling process means that one single activity encapsulates both the planning and road-laying activities, leading to less disruption, shorter roadworks and significant environmental benefits for our customers, along with smoother driving conditions.

#### Fix Now

Our Fix Now initiative means our inspectors can carry out small-scale defect repairs themselves while they are undertaking their normal condition inspection duties, rather than calling out a maintenance contractor. This resolves small repair jobs immediately, lessening disruption for our customers and reducing our costs.

#### Improving emergency areas

We have been upgrading existing emergency areas on all lane running motorways to make them more visible to our customers and recovery operators. Before we started this work, our Insight division tested signs and surface colours with our customers to understand how we could help road users feel safe, confident and in control.

All 23 emergency areas on the M25 now have new SOS signing and orange surfacing, and all our schemes will now adopt these features. We plan to upgrade all smart motorway emergency areas by the end of the first road period.

### A free-flowing network

#### Increasing speed limits through roadworks

Our customers have told us that they want to see fewer speed restrictions during roadworks, especially if no road workers are present.

Following trials in 2017-18, we used a 60mph limit this year during the commissioning stages of our smart motorways schemes, and the initial results have been positive.

The increased speed limit was in place during the Christmas break on the M6 junctions 16 to 19 smart motorway scheme, supporting our customers as they travelled to spend time with friends and families. We have also undertaken further trials of 60mph in different roadwork scenarios, with a view to widening its safe use on the network in 2019-20 and beyond.

#### Improving traffic information

Our customers value traffic information, expecting it to be accurate, provided in a timely manner and communicated in a way they find accessible.

This year, we have started providing daily updates on road closure information for the next seven days, helping commercial road users with their logistics and planning. We also improved our capability to provide real-time information through social media by extending our Twitter service into our Regional Control Centres, ensuring that tweets are accessible to both national and regional audiences. These two improvements allow business and private road users to plan alternative routes when there is disruption on our roads, helping to minimise traffic and journey delays at points of congestion.

#### Motorway incident detection and automatic signalling

Our motorway incident detection and automatic signalling system automatically detects slow moving traffic and sets 40mph speed limits upstream to slow and warn approaching traffic. Once triggered, the speed limits stay in place for a minimum time. This was originally four minutes, but following research, we trialled two minutes.

As the trial was effective, we rolled out the change across our network, with 40mph restriction reduced by approximately 40 hours per day across the network. This created a cumulative daily customer journey time saving of 418 hours a day, equivalent to £2.12 million per annum.





#### National Roads Telecommunications Service

Our National Roads Telecommunications Services (NRTS) network was established in 2005, and the first contract, NRTS1, ended in September 2018. This service provides vital secure telecommunications interconnectivity between our seven Regional Control Centres, our National Traffic Operations Centre and our 30,000 roadside assets, such as cameras, helping us to monitor our network 24/7.

The demands of RIS1/RIS2 delivery, and an increasingly developed Customer Service Strategy, resulted in greater service requirements. For NRTS2 we needed a solution that was agile, flexible and scalable, suitable for business operating in a rapidly developing technological world.

For those bidding for the work, there was a clear contractual emphasis on the requirement to be innovative in how management and development of the NRTS network could reduce costs and improve customer service.

We completed the six-month transition programme (between March and September 2018) without any disruption to the business. This was achieved safely, to time and to budget. Based on a comparison of NRTS2 to NRTS1 direct costs, we have identified £93.7 million of efficiency savings: £44.1 million in the current road period and £49.6 million in the next. There is up to a further £10 million per year savings over the seven-year term, linked to the efficiency saving on reduced NRTS2 call-off prices for schemes.

## 3. Improving customer communications

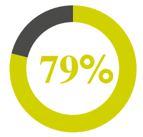
### Our major initiatives

#### Signage in roadworks

Our customers told us that, when they drive through roadworks, they want to know what is going on, why it is happening, and when the project will end. To address these points, we are investigating increasing the use of billboards in roadworks to include:

- an entry billboard which tells customers what is happening and where, when it will finish, and who is responsible for the work
- electronic billboards within the works which tell customers what is happening that day, particularly when they cannot see any activity (we are currently trialling electronic billboards on some of our projects)
- exit point signage which shows how the work is progressing

Feedback from our Customer Insight Survey shows:




POSITIVE
response to the use of **billboards in roadworks**

Billboards in roadworks is the first of our proposed Customer Service Standards, all of which will focus on relieving customer pain points. Our Customer Service Standards will ensure that we deliver consistency for our customers and will define what is expected from us and our supply chain.

#### Variable signs and signals

Variable signs and signals are electronic traffic signs that we use to provide in-journey information to customers. We have an ongoing programme of improvements based on insight gathered from our customers. During 2018-19, we have:

- trained all our variable signs and signals operators to set messages that customers feel are more relevant and helpful
- increased the number of devices capable of receiving messages sent from our National Traffic Operations Centre
- introduced new messages specifically developed for customers who might find themselves caught in traffic
- implemented new travel-time messages into city centres

This year, we have enhanced the amount of information and number of travel-time variable message signs. This included showing multiple routes to the same destination, and multiple destinations, on the same sign. We have rolled out these enhancements to over 400 signs across England. We also now regularly tell customers actual delay times and estimated times for incidents to be cleared on strategic variable message signs.

To embed improved ways of setting variable signs and signals, we have developed virtual reality training that allows our control room operators to be virtually transported into the vehicles and homes of customers impacted by incidents, and to see and hear how our customers feel.

### Social media

We operate eight regional Twitter channels, providing live traffic updates to over 433,000 followers across the country. All our regional control and operational centres are now engaging with customers through these channels on a 24/7 basis. We have found that empowering the people who have local knowledge of our network to operate our regional Twitter channels has resulted in more relevant conversations, and better engagement with our customers.

### Engaging with our communities

We are doing more than ever to become closer to our communities – through talking, listening, understanding and responding. We are involving them in our work when we are designing schemes, using community feedback from consultations to refine our plans, so that the people affected by the changes can provide their input.

For example, in July 2018, we initiated a local community consultation for our A303 Amesbury to Berwick Down (Stonehenge) scheme, asking how we could reduce any negative impact on our customers. Using the 5,000 consultation responses, we created a *You said, we did* document, and made a number of amendments to the proposed scheme based on this feedback. These included:

- adding an environmental screen
- providing safer entry points for vulnerable users (pedestrians, cyclists and equestrians)
- diverting traffic to avoid a tranquil village

This year, we also trialled community insight mapping, a tool which reaches a more diverse sector of our communities, helping us to understand their priorities, needs and concerns. We can use this insight to tailor and develop our schemes to meet the needs of those impacted by our works.

We have run a community satisfaction survey, which has 11,000 respondents to date, to better understand the needs of the communities surrounding our network. We will use the survey results to improve how we plan, undertake schemes and engage with our communities in 2019-20.

In summer 2018, seven Regional Control Centres gave the public an insight into what goes on behind the scenes. Parents were encouraged to bring children to find out how a motorway is managed, meet traffic officers, including a few familiar faces from the BBC documentary, talk to project teams who carry out our engineering schemes, and find out about our initiatives to improve safety. In total, 1,000 people attended, and all seven centres have said they will repeat the open days in 2019, pointing towards a new and lasting legacy to engage young people.

## 4. Building collaborative relationships

### Strategic stakeholder partnerships

Building strong and mutually beneficial relationships with our stakeholders is essential to the delivery of better customer service. This year, we have collaborated with a wide range of groups. For instance, we have developed partnership agreements with local housing authorities, including West Midland Shires and Unitaries Traffic Managers Group, and the West of England Combined Authority, which is made up of three of the local authorities in the region.

We also secured a partnership agreement with the Football Association (FA), which includes a commitment to share our traffic information on their social media channels to football fans travelling on the SRN, helping make journeys to events as smooth as possible. Our FA partnership case study is outlined on page 81.

We developed and shared a smart motorways training package with our partners. We distributed our smart motorway driver education course to 80 national organisations within the freight and logistic sector, including all companies named within our Delivery Plan. The 61 training organisations that are accredited to Delivery Driver Certificate of Professional Competence have also been contacted and offered the training package, resulting in engagement with a further 20 companies. Six of these organisations are training consortiums with large membership portfolios, outlined in the infographic on page 82.





## Strategic case study

### How our partnership with the FA is helping thousands of road users

This year we have teamed up with the FA to ensure fans get safely to and from events at Wembley Stadium. Many fans use the country's motorways and trunk roads to get to the 90,000-seater stadium, including the M1, M4, M40 and Britain's busiest motorway, the M25.

### The challenge

Through our customer profiling work, we identified football and event fans as being particularly vocal about the lack of information about delays on the network.

We used social listening tools to find out the reasons for these frustrations. We discovered that football fans were particularly unhappy about road closures and a lack of information about incidents, delays and congestion routes.

### The solution

We are now working with the FA to help drivers plan their journeys and warn them of any incidents, delays or congestion, using social media channels and the extensive array of digital messaging signs on motorway gantries.

"Each and every event held at the national stadium plays host to thousands of fans who choose to travel via the country's roads. It's essential they are able to do so safely, in plenty of time and with access to constantly evolving travel information.

Highways England has already made significant strides to improve the event day experiences of these fans, so I am delighted the partnership has now been formally announced and look forward to working together in this area."

**JON SELLINS** FA OPERATIONS DIRECTOR

Peter Carr is Chair of SpursAbility, the Disabled Supporters Association for Tottenham Hotspur Football Club. Tottenham played at Wembley Stadium between August 2017 and March 2019 while their new stadium was being built.

"As a wheelchair user, it's hugely important for me to have the choice to drive. A smooth journey for me is all about knowing what will happen – as far as is possible. So, tools like the Highways England app are a routine part of how I plan. I build in time and room for problems that might happen, like a traffic build up or lane closures on the M25 for example."

**PETER CARR** CHAIR OF SPURSABILITY

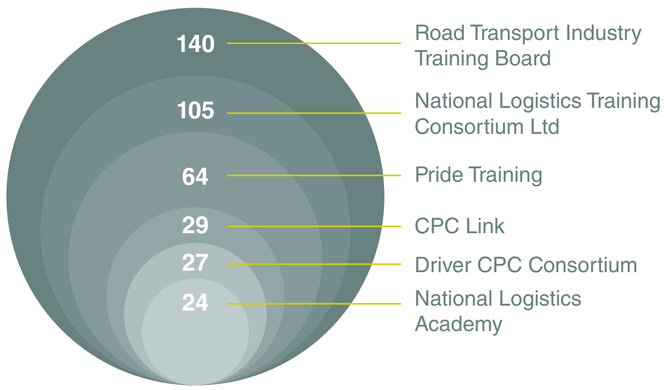
### Lessons learned

We are using learnings from our partnership with the FA to develop relationships with other strategic companies and organisations who rely on the SRN for their work, including health, distribution and motoring organisations. For example, we have signed a similar agreement with the 2019 Cricket World Cup organisers.

We also reached an agreement with DPD – the parcel delivery company – to work with them to improve safety and compliance and to keep traffic on the SRN free-flowing.

Figure outlining the training consortiums referenced in 'Strategic stakeholder partnerships' on page 80.

NUMBER OF MEMBERS




## Stakeholder engagement

### Stakeholder survey

Understanding our stakeholders' views is an important part of insight, performance monitoring and evaluation. It supports the implementation of our commitments set out in RIS1, delivery plans and other key strategies. Our new Stakeholder Survey helps us to understand our reputation, levels of trust and engagement, and what needs to change to improve our relationships with stakeholders. The survey is undertaken on a quarterly basis, alternating between a full survey and a sample pulse survey. During the first wave this year:

- 51% of respondents indicated that we have a good reputation
- 60% of organisations trust us

These figures highlight that we can improve in these areas.

### Stakeholder mapping tool

One way in which we have sought to improve stakeholder engagement is by developing a stakeholder mapping tool which identifies the key distribution hubs of our freight stakeholders to better understand pinch points when we are planning roadworks. The tool also tells us where we need to focus engagement with stakeholders at a local level.

Royal Mail, DPD and Eddie Stobart are currently using the tool, and we are jointly evaluating its success.

### Road closure reports and website

We produce a daily road closure report to provide our freight stakeholders with information on planned full closures on our network for that night.

In 2017-18, we were providing around 20% confidence in our road closure information. Having established a Regional Focal Point network and introduced new processes into our supply chain for road work scheduling, we have increased accuracy to around 83%.

Daily reports are being distributed to more than 220 stakeholders and the Road Hauliers Association has links to the data on their site. Positive feedback from stakeholders about the improved accuracy in closure information convinced us to invest in the development of a new website where roadworks information is displayed in a more accessible format. Royal Mail are now using this within their processing centres.

### Working with our supply chain

Our supply chain contracts include customer metrics to ensure that customer service and satisfaction is a core part of all delivery. We test delivery using supply chain assurance reviews.

This year, we have engaged extensively with our supply chain. We have developed customer-centric planning guidance and templates for them to document customer priorities and show how these will be delivered across design, consultation, delivery and scheme exit.

We proactively support sustainability and this is crucial to helping us meet Government's target of 25% of spend for goods and services procurement to come from SMEs. During 2018-19, we spent 26.24% with SMEs.

We need and value the expertise and innovation that our supply chain bring. We hold annual Highways England Awards, which recognise the contribution our supply chain make in areas such as safety, customer service and delivery.

### Working with Government

As a Government-owned company, we work closely with ministers and officials across many departments in Whitehall. We have worked hard to improve our communication with MPs, both around individual schemes and the impact of our work nationally. This has included holding regular surgeries in the Houses of Parliament to discuss our work in different regions and across the country.





We are working with local transport authorities to improve customer journey choices, and actively manage travel demand to reduce congestion. We have developed and rolled out a Travel Demand Management Toolkit to help us develop a range of solutions.

### Working with Transport Focus

As the independent road users' watchdog, Transport Focus' role is to advise the Secretary of State for Transport on their needs and views. They are responsible for measuring customer satisfaction by carrying out the *National Road User Satisfaction Survey*. We work with Transport Focus to exchange surveys and information gathered from across our regions and road-user groups to help us understand the specific issues that matter to our customers. The surveys are published on their website at www.transportfocus.org.uk

### Working with emergency services

We work closely with our partners through the Joint Emergency Services Interoperability Programme and through the Collision, Lead, Evaluate, Act, Reopen (CLEAR) initiative, which outlines the steps to take during an incident. We are strengthening our partnership working with the emergency services through the National Roads Police Intelligence Forum and developing a plan for enforcement and compliance activities on our network.

### Working with the ORR

The ORR is our monitor and advises Government on our efficient, safe and sustainable delivery of Government investment for the benefit of road users and the wider public. We submit data to the ORR, when requested, to help them produce regular reports on our performance. These are published on their website at www.orr.gov.uk

### Developing international relationships

Part of the vision in RIS1 is for Highways England to be a world leader in operating, maintaining and modernising roads, with the SRN enhancing the UK's global competitiveness.

We actively engage with international partners to share and learn best practice and expertise, helping to identify new ideas and innovation that will support the delivery of improved benefits and efficiencies.

As part of our collaboration through the Conference of European Directors of Roads (CEDR), we invest in the Transnational Research Programme. This supports our Innovation, Technology and Research Strategy commitment to invest up to 5% of our annual research budget with other European road authorities. It enables the exchange of experience, information and research, including developing proactive ways of delivery and a better understanding of benefits and costs for new techniques.

As a direct result of a previous mobility and intelligent transportation systems CEDR research programme of work, we were able, through pooled funding, to advance our understanding of Mobility as a Service, autonomous driving and the business case for connected vehicles. Our investment of both funds and resource will leverage around six times the value than if we had completed the research on our own.

Some of our investments this year:


- over three years supporting the CEDR Safety Call 2016, for the 2017 Research Call
- over three years on new materials and techniques, automation, and collaborative planning of infrastructure and spatial planning
- supporting the noise and nuisance programme in Call 2018

We also have an active collaboration agreement between the Belgian Roads and Traffic Agency, Rijkswaterstaat of the Netherlands and Highways England. Through this agreement, we work together with our partners on issues of strategic importance so that we can learn from each other's experience.

# Our people

We are proud of our people. We are committed to recruiting, developing and incentivising our staff to build our organisational capability and capacity. We are also dedicated to embedding equality, diversity and inclusion across all areas of our business.

## Employee engagement and enablement

We conduct an in-depth annual staff survey to gain a clearer picture of how our employees are feeling, recognising that people who are engaged with their role and the company in which they work are likely to perform better. We also conduct shorter pulse surveys, enabling us to measure engagement at regular six month intervals.

We are pleased with the year-on-year rise in satisfaction, with our annual survey identifying that we have increased employee engagement to 52%, and employee enablement to 56%. Our employees have a strong and positive view about our strategic direction and purpose, as well as our future. Our employees' attitude to safety is improving, evidencing our business-wide commitment to our first imperative. We have also seen a strong increase in commitment to teams and immediate managers, resulting in an above industry norm in this area.

## Our company values

Our company values and associated behaviours have informed our people's activity in 2018-19, and we have further embedded them in our processes, communications and management development.

Our values and behaviours, for example, form an integral part of our online recognition platform, High5. Over 29,000 recognitions were given for colleagues demonstrating our values, behaviours and imperatives in the last year. From these nominations, 2,300 were selected to receive financial awards (in the form of vouchers). Over 11% were cross-organisational, which demonstrates our progress towards working more collaboratively.


In February 2018, we launched MDP:Connect, a continuation of our Management Development Programme (MDP). This is the second phase and its purpose was to align everyone to our imperatives, values and behaviours. It focused on supporting our people to articulate how their role connects to why we exist, what we do, and how we do it. Our senior leaders delivered MDP:Connect through talking to our people about why their role makes a difference now and for the future, using personal stories as a way to bring this to life. It was delivered to over 5,600 attendees over an eight-month period, through a three-stage process as outlined in the case study on page 85.

## Our delivery over the year

### HE2020

As part of our transformation journey, we built on our *Highways England 2020 Organisational Plan* (HE2020), setting out the changes we are making to enable us to deliver current and future investment programmes. The plan contains cross-organisation and directorate-led initiatives, in areas such as capability development, culture change and estate and capital portfolio management, to improve how we operate.



## Strategic case study

### MDP:Connect

An HR-led programme for all our people, focused on connecting roles to our organisational purpose, has resulted in an increase in employee engagement, and a cultural shift within our developing organisation.

### The challenge

In 2016, we launched our management development programme, which was rolled out to 1,600 of our managers across 2016 and 2017.

This programme focused on developing our leadership coaching skills, allowing us to have good quality one-to-one performance conversations.

We were keen to build on the success of this programme and to get our whole business involved in becoming a high-performing organisation.

### The solution

MDP:Connect was designed to build on the previous programme, helping managers to communicate our strategy, imperatives, values, and business plan to all our people. It was designed to align leaders, managers and teams, focusing on everyone being able to articulate how their role connects to why we exist, what we do and how we do it.

It started with two-day workshops for the 80 most senior managers in the business. This was then followed up with workshops for all managers, led by our Executive and senior leadership teams.

Finally, we ran conferences that were open to every single employee in our business to share these themes and work out what they mean to each of us in our day-to-day activities.

### The outcome

We ran pulse surveys during the programme to gain quick insights into the feelings of our people in between the annual engagement surveys. These yielded some very positive results and enabled us to make improvements to the programme as we went along.

"I think I now have a greater appreciation of how many elements and teams around the business fit together to work towards common goals. The opportunity to meet and hear from the senior leaders in the business is really appreciated."

**MEMBER** OF STAFF

In our annual people survey, our engagement score has risen to 52% (from 40% in 2016 and 46% in 2017).

### Lessons learned

The three-stage approach worked well, with clear leader visibility and ownership through the second and third stages.

Interactive activities helped bring the messages to life and clear and concise language was used throughout.

Aligning measurement to engagement survey questions worked well to show the impact of the programme.

We will incorporate these lessons learned as we plan for MDP:Deliver, which we will launch in 2019. MDP:Deliver will help us all focus on the things we do that matter most to ensure our success.

This year we have focused on preparing for the final phase of HE2020 and the transition to HE2025. Recognising our Operating Expenditure will remain flat, we have been identifying how our organisation needs to evolve to deliver our imperatives efficiently and effectively through our existing resources and capabilities.

The findings of our external benchmarking exercises were published in spring 2018 and compared the structure and size of our corporate functions. The results confirmed that these functions are broadly the right size for the scale of our organisation.

We have started a programme of simplification across our directorates under our Organisational Effectiveness Programme to ensure the different elements of our organisation are as efficient as they can be. The six initiatives are:

- make/buy decisions
- shadow activities and removal of non-value adding activity
- spans and spines
- directorate operating models
- simplification of policies, processes and procedures
- metrics and benchmarking

## HR

In the last year, we resolved 47,519 queries from employees and line managers via our HR teams, with our average time to resolve a general query standing at 3.4 working days. To further improve our service delivery, we now have 54 current documented HR processes in place, along with a programme of continuous improvement to develop our processes and governance.

## Staff capability

We have built on the development of key capabilities, such as programme and project management and asset management, by defining technical competencies for all roles across the organisation and establishing corresponding training programmes. We also defined clear career pathways for all functions within each directorate.

Throughout 2018-19, our people attended roughly 30,000 training days. This represents on average six training days per employee. Our investment in training was mainly focused on areas linked to our capability development as an organisation:

- portfolio, programme and project management
- asset management and operations
- health, safety and wellbeing
- engineering
- customer service
- leadership and management
- commercial and finance
- IT

The remainder of the training was focused on supporting new starters with induction requirements, individual personal development, professional qualifications and personal development linked to people's current roles or career progression.

Our people accessed this learning 24/7 through our learning management system, Click2Learn. This provides access to over 100 online learning modules, a library of content through Ashridge Business School, Affinity Connect content to support career change, and a range of virtual learning events available on demand. To date, 91.7% of our employees have accessed a Click2Learn course, and have averaged six completed online modules per person throughout 2018-19. As the second road period approaches, we are reviewing and expanding our learning catalogue to support our staff in developing the skills they will require to deliver through the next road period and into the future.

### CLICK2LEARN

| 91.7% | 6 |
|---|---|
| STAFF UPTAKE TO DATE | MODULES PER PERSON IN 2018-19 |

We invested in developing leadership talent within our business, and across the sector, through our Roads Academy. It now has four programmes offering a full career pathway in leadership development. With an alumni of 157 and 95 current learners on programme, the Roads Academy is growing into a qualified and driven leadership community who will provide a step change in the way our leaders operate. Over the next 12 months, we will see three emerging leader cohorts and one senior leaders cohort graduate, increasing our alumni to





186. Over the last year the Roads Academy was a finalist for the CIPD People Management Awards Best L&D Initiative – Third/Public Sector, and won the Coventry University award for Enterprise and Innovation.

For our customer-facing staff in operations, some of the highlights in 2018-19 were:

- customer-focused variable signs and signals training for 350 control room operators, focusing on enabling the operators to see and hear how our customers feel when they are impacted by incidents
- Health and Safety training for over 1,000 traffic officers, including Driver First Assist (first aid) training, to support customers during incidents, and driver refresher virtual reality training
- recruiting and training 119 control room operators and 196 on-road traffic officers
- designing a mandatory training plan for traffic officers and control room operators, driving our Health and Safety refresher training for over 1,800 staff and ensuring safety competence of individuals throughout their career

## Staff capacity

Attracting employees with the right skills is essential to building and strengthening our organisational capacity and our ability to deliver our strategic objectives. Our recruitment processes delivered a stable, high volume resourcing service across the business: by the end of 2018-19, we filled 1,565 vacancies, with 1,148 being filled by external candidates, growing the business to over 5,600.

As expected, and as seen in the previous two years, growth has been significant in the capability areas of programme and project management, asset management and commercial roles. At the same time, we have reduced our reliance on contingent resource, temporary staff filling roles on an interim basis, and the year has seen these reduce from over 100 to less than 50 in number.

To support our sourcing requirements, we put in place a new recruitment supplier framework, appointing specialist organisations to work with our in-house team to reach wider candidate markets. We have also increased our social media attraction, with success in programme and project management. Our commercial and operational campaigns increased our presence in the market as an employer of choice.

Having initially piloted a Returners Programme in 2017-18, we have implemented this initiative as a standard part of our ongoing sourcing approach. Six people joined the six-month programme in communications, legal and engineering roles this year. We also launched our ex-military programme, actively seeking to attract those who have recently left or are due to leave the military. Once they have joined, we support them with a buddy who is also ex-military to aid with their integration into a civilian workplace.

This year, we recruited 18 apprentices and 30 graduates. We now have over 160 graduates and apprentices working across the business. Our early talent roles make up 3% of the entire workforce against our 5% target, and we plan to recruit a further 51 apprentices and 40 graduates in 2019-20.

| 18 | 30 |
|---|---|
| APPRENTICES | GRADUATES |

Having implemented a new HR and recruitment system, we have been focused on continually improving our recruitment processes. We are developing an inclusive attraction, selection and retention approach to attract and retain talent from the widest possible pools. To achieve this, we have signed up to the Clear Assured Standard for inclusion to benchmark our current recruitment practices and plan improvement activity.

We have developed and implemented a Strategic Workforce Planning approach and system within our Major Projects directorate. This supports our business planning process through accurate short and medium-term resource planning directly linked to programme planning and scheduling activities. Our Major Projects directorate is now able to deploy staff in a more objective manner, based on the needs of specific projects, as well as targeting development in line with future programme resource, competency and capability requirements. In 2019, we are developing the system to be used more widely across the organisation.

## Performance and talent management

In 2018, we transitioned our performance management process online within our HR system, driving a consistent approach to mid-year and end-of-year performance reviews. Employees' performance was reviewed in conversations with their line managers based on performance against their personal goals and how they delivered these in accordance with our organisational values.

We improved talent and succession planning processes through implementing a talent management module in our HR system. At mid-year, for certain paybands, talent reviews were facilitated through the system, using the mid-year assessments of performance and potential. This provided greater visibility and consistency, and enabled higher quality career-focused discussions with staff. It also ensured easy accessibility of data to enable us to manage those individuals with high performance and potential.

## Wellbeing

Through an extended programme of mental health first aider training, we now have 165 employees carrying out support at 53 of our 56 control centres, outstations and offices. Our mental health first aiders have also substantially contributed to raising the profile of our 24/7 Employee Assistance Programme. 27% of colleagues, a rise of 2%, now use this programme to access free, confidential advice from health, legal and debt specialists.

We launched our new online wellbeing platform, PAM Life, which is a 24/7 online service that allows our employees to assess, track and monitor their wellness. As well as interesting content – fitness videos, healthy recipes and articles to help assess physical and mental health – colleagues have direct access to a food coach, health coach, fitness coach and mind coach to get bespoke advice and guidance.

### Trauma support

Having undertaken research with representatives from our on-road and control centre colleagues, we identified that specialist trauma support would greatly improve the wellbeing of staff that deal with on-road incidents.

We recognise that colleagues may have reactions following a traumatic incident and this can be distressing. A well-planned, carefully coordinated and expertly implemented professional intervention can help a colleague manage their reaction and support their recovery.

The Centre for Crisis Psychology are experts in the field of trauma and pioneers in trauma aftercare. They provide us with:

- trauma training for staff in Operations
- specialist aftercare: guaranteed availability of Trauma Care Consultants and 24-hour trauma support helpline; and access to organisational and clinical advice post-incident
- incident management advice
- advice and support to our trained diffusers
- face-to-face or telephone clinical intervention
- ongoing follow-ups with individuals
- trauma support to staff in other parts of the organisation who may, more unusually, come across trauma events

## Equality, diversity and inclusion

### Our aims and commitments

We are working to create an environment where:

- individuals' differences are valued and respected
- everyone has an equal opportunity to contribute and develop
- our policies, procedures and behaviours support fairness and inclusion

We are committed to:

- recruiting and retaining a workforce that represents the diverse society we serve
- delivering services that all of our customers can access and that take account of their diverse needs
- meeting our legislative duty to promote equality and social inclusion, and to eliminate discrimination and harassment
- embedding equality, diversity and inclusion principles into all areas of our business, driving real change in how we work with our customers, communities, supply chain and our employees

Our colleague networks assist us in the shaping and delivery of our policies and working practices to improve our people's experience across our organisation. Our existing networks of Leading Women and Access for All have been complemented by the development of three further groups: LGBT+; Armed Forces and Veterans Group; and Menopause and Hormone Condition Group.





Our Armed Forces and Veterans Group is open to anyone who is part of the armed forces family. It is an opportunity to network and support our ex-military recruitment programme. Our Menopause and Hormone Condition Group aims to provide support and information for women experiencing any hormonal imbalance, helping them manage the effects in the workplace and in their personal lives.

Alongside our Armed Forces and Veterans Group, we achieved a silver award for our ex-military programme, which focuses on recruiting military personnel and supporting their transition into civilian work. As part of this programme, we also provide reservists with up to 10 days paid special leave to attend training.

We ran our Returners Programme for a second year, aiming at providing individuals who have had a career break of two or more years with the opportunity to come back into the workplace and start to build their careers again.

In 2018-19, we worked hard to establish and grow our LGBT+ group to ensure that we become a more inclusive and LGBT+ friendly employer. The group raises awareness across the business of LGBT+ issues, as well as providing insight, advice and support.

Our LGBT+ group is run by a committee of 12 volunteers, accountable to one of our Executive Directors as senior sponsor. In the past year, membership has grown from around 20 people to more than 280, three Prides have been attended, and the business has connected with more than 25 external LGBT+ networks in the public sector to share ideas and resources, and to foster opportunities for collaboration.

Looking ahead to 2019-20, we have agreed to submit an application to become Stonewall Diversity Champions, and to look to apply for the Workplace Equality Index for external validation and feedback for further improvements.

# Our social impact



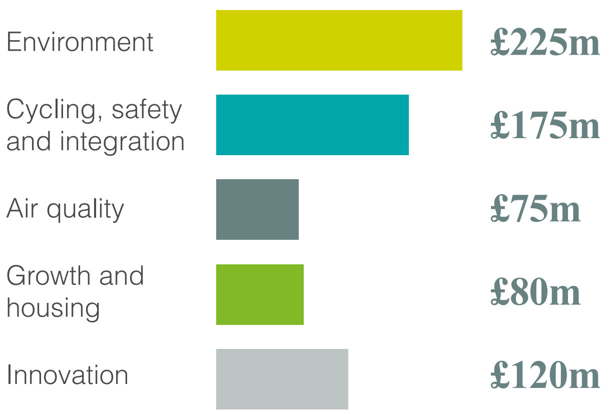
We believe that connecting people and communities creates jobs and social opportunities, and helps businesses and the economy thrive. As well as creating growth, we know we have a vital role to play in protecting the environment and in improving safety and quality of life for current and future generations.

We work in partnership with our supply chain to develop and deliver efficient and innovative solutions, and we listen closely to our customers and stakeholders who help shape our work.

## 1. Sustainability schemes

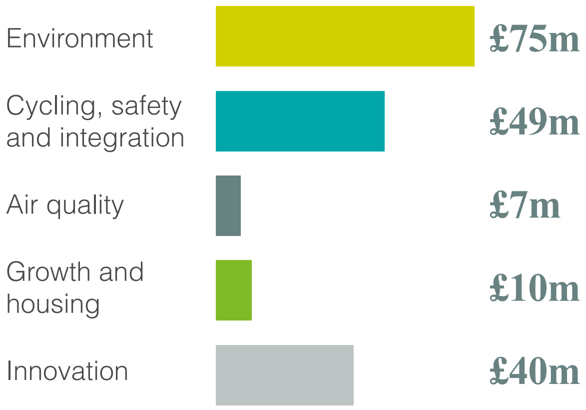
Our £675 million Designated Funds provide ring-fenced funding to improve the surroundings of the SRN as well as to support and protect quality of life.

Our Designated Funds for 2015-20 cover five areas:




Our Designated Funds Advisory Group helps us to test ideas and understand the opportunities for our network to have a more positive impact on those who use it and the communities who live alongside it.

In 2018-19, we spent a total of £181 million on social impact schemes, with funding divided as follows:




We are always looking at new ways of working with our stakeholders and using their expertise to help us deliver schemes. For example, we are working closely with the National Trust, Historic England and the English Heritage Trust on the A303 Stonehenge project to deliver a final design that protects and enhances this unique World Heritage Site.

In another important collaboration, in April 2018, we worked together with the Environment Agency on the jointly-funded £6.2 million Catterick Flood Scheme. This partnership was largely funded through our Environment Designated Fund, with the Environment Agency's field operations team delivering the construction work.



"We are always looking for innovative ways to get the most benefit from our flood schemes, and by also creating five hectares of new habitat, this is a fantastic example of how working together can bring multiple benefits for the local community, economy and environment."

**EMMA BOYD** CHAIR OF THE ENVIRONMENT AGENCY

We encourage our stakeholders to generate ideas for where the funds are spent. In 2018, we launched a new area on our website that allows any organisation to contact us with ideas that can be developed in partnership.

## 2. Environment

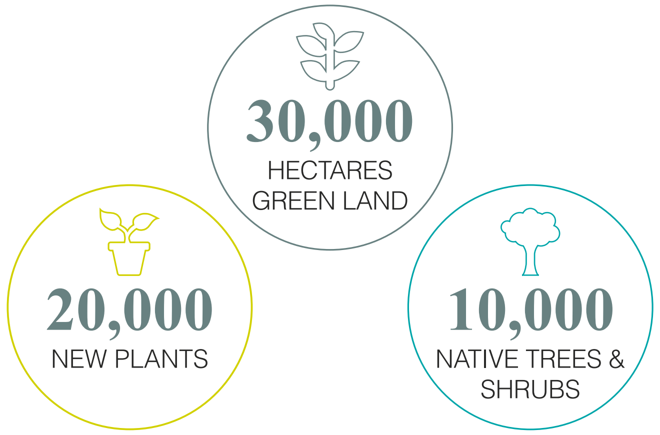
It would be easy to believe that the SRN only consists of tarmac and other hard features like bridges and signage.

Our road network also includes about 30,000 hectares (the size of about 30,000 full-size rugby pitches) of green land – known as our soft estate.

This buffers neighbouring communities from the full impact (such as visual impact, noise and air quality) of busy high-speed roads, and helps our roads fit more smoothly into the built and natural environment.

At the outset of any of our projects, we assess where we can offset the environmental impact, for example through planting, as well as looking at how we can protect native species. For example, on the verges of our A1M project in Yorkshire this year, we planted an area of 5.7 hectares with 20,000 new plants as well as seeding it with wildflowers.

We have delivered a vast woodland and hedgerow connectivity scheme at 21 sites (totalling 105 miles) along the A30 and A38 in Devon and Cornwall. Over 10,000 native trees and shrubs have filled or reduced gaps in hedgerow and woodland along the roadside.




We know reducing the visual impact of roads is important to our communities. In June 2018, we paved the way for improved road building with the release of the first suite of our new design standards in the *Design Manual for Roads and Bridges* (DMRB), helping ensure that roads are designed, built and maintained to the highest and safest standards. The DMRB was first published in 1992, and our review (which began in April 2017) is due for completion by March 2020. Highways England's Chief Highways Engineer and Chair of its Strategic Design Panel, commented:

"This is an exciting time for the highways sector as we deliver the Government's record £15 billion investment in roads. The updated DMRB documents mark a historic moment for the design of the UK's motorways and major A-roads."

**MIKE WILSON** CHIEF ENGINEER

## Strategic case study

### Minimising noise pollution for those who live near our roads

We have worked hard this year to ease the issue of noise pollution for people living in over 1,000 areas close to motorways and major A-roads.

#### Our challenge

We know that reducing the noise from our roads can have a positive effect on the quality of life for those who live near them.

We have a £39 million Designated Fund to reduce noise levels for people living close to motorways and major A-roads. We have pledged to reduce noise levels for people living in over 1,000 areas close to motorways and major A-roads by spring 2020 through installing noise barriers, providing free double glazing and using new road surfacing materials that create less noise.

#### Solution

We have installed free double glazing at more than 600 homes.

We have laid quieter surfacing on over 6,000 lane miles on motorways and major A-roads since 2015 – equivalent to resurfacing the entire M6 three times over. Quieter surfacing is now installed as standard wherever possible on the roads we manage. The smoother and thinner top layer can help make roads significantly quieter than traditional road surfaces, although it does have higher maintenance costs.

**40,000**

RESIDENTS ENJOY A QUIETER LIFE

People living near the busy A1 in Nottinghamshire are among 40,000 roadside residents enjoying a quieter life thanks to a major noise reduction initiative.

A 600-metre-long noise barrier close to the village of North Muskham, near Newark, is the latest structure to be installed as part of the scheme. The three-metre-high barrier has been adopted by the local community after villagers decided to plant 150 shrubs in front of it.

#### The outcome

Last year, we won the Silent Approach award at the Noise Abatement Society's annual awards ceremony in London for our work to reduce noise levels for over 40,000 roadside residents since 2015.

The awards recognise organisations which are judged to have been outstanding in their efforts to both reduce the impact of noise and seek to pioneer practical and innovative solutions.





Following this release we also published our *Strategic Design Panel Progress Report 2* in December 2018. This goes along with our design vision and principles in *The Road to Good Design*, published in January 2018.

### Clearing litter

Keep Britain Tidy run an annual Great British Spring Clean, encouraging people to clean up the country and make littering a socially unacceptable behaviour. The official Spring Clean ran from 22 March to 23 April 2019, and we ran an extended campaign to coincide with our main litter-picking activity on the network.

We ran a social media campaign from 1 March to 11 April to educate road users about the impact of dropping litter. Not only does it affect the environment, but it puts the health and safety of those who clear the network at risk – as well as taking them away from other maintenance and safety tasks. It also affects road users themselves, who subsequently experience lane closures and delays. Overall the campaign gained 225,542 impressions, with 1,054 likes, 448 shares and 342 comments.

We also focused on clearing the top 25 litter hotspots across our network. We coordinated our activity with local authorities to improve coverage and minimise disruption to our customers.

In the South West, for example, we cleared over 600 bags of litter from our key hotspots, and in the North West we ran a public awareness campaign using social media, posters and road signage. We also installed window-height bins at motorway service areas to make it easier for HGV drivers to dispose of litter before joining the SRN.

## 3. Helping vulnerable users

Motorists are not the only users of our roads, and we are committed to making it as easy as possible for non-motorised, or vulnerable users – primarily cyclists, walkers and equestrians – to navigate the SRN.

This year, we published our first cycling and accessibility report. We have made significant progress in integrating cycling and accessibility needs in the early stages of scheme design, and we are working closely with key stakeholders to deliver schemes which suit the needs of communities.

This year we teamed up with Sustrans, the walking and cycling charity, to deliver a £3 million cycle scheme to encourage more people to ride their bikes. We are also working closely with Sustrans to help provide safer crossings and connect cycle schemes on England's busiest roads with the charity's 16,505 mile national cycle network.

In another partnership, we are working with the National Trust to deliver improvements to an approximately 2.5 mile section of the national cycle network in Kent.

## 4. Community and relationships

### Community investment through our major projects

#### The M5 Oldbury Viaduct renewal scheme: leaving a legacy

West Bromwich is the second most economically disadvantaged area in the UK. One of the priorities of the scheme is to open up economic opportunities, use local skills and leave a lasting positive legacy for the region.

The project team worked with CRISIS, the national homeless charity, by employing 12 homeless people as operatives, as part of a pilot. The scheme's approach to inclusive working earned it recognition as part of the Construction News Talent Awards in the Best Place to Work and Diversity and Inclusion Initiative of the Year categories, and also a 2018 Highways England supplier recognition award for Building Capability and Capacity.

Our supply chain organisations who are delivering the M5 Oldbury Viaduct scheme have proactively engaged with local organisations to:

- employ local apprentices
- source people from a diverse pool of talent
- employ disabled and long-term unemployed people
- promote the industry in local schools and colleges to break down preconceptions

The scheme partnered with Sandwell College, Job Centre Plus, Think Sandwell, ex-forces agencies, The Prince's Trust and Women into Construction. They developed a bespoke marketing campaign to ensure we reached the widest pool of people.

### A new collaborative forum on mobility and disability

We set up a National Mobility and Disabled Road Users Forum in December 2018 to help us gain better insights into the accessibility requirements for people with a disability. The forum includes representatives from the Joint Committee on Mobility for Disabled People, Disabled Motoring, IAM, Driving Mobility, Transport Focus and the DfT, along with Highways England representatives across a number of different policy and delivery teams.

### Our work with the Armed Forces

We are particularly keen to recruit ex-forces personnel as many of the skills they possess are essential for the running of our business.

Our work over this year has seen us move from bronze to silver as part of our Army covenant agreement. Leading mental health charity, Combat Stress – which works with veterans to help them tackle the past and plan for the future – welcomed our latest recruitment campaign.

> "I'm delighted to see this campaign from Highways England to recruit more veterans into the company. The buddy initiative to help veterans transition to a civilian job is a fantastic example of how a company has created an effective support programme in the workplace."

**SUE FREETH,** CHIEF EXECUTIVE COMBAT STRESS

## 5. Employees and supply chain

As an employer of over 5,600 people, we are committed to creating a culture of inclusivity, and this commitment extends beyond our own workforce and into our wider community, fostering more inclusive services and outcomes for our customers and stakeholders. The benefits of being a diverse and inclusive organisation include safer working environments, improved productivity, greater innovation, and better staff engagement and talent attraction. Inclusive teams tend to be more productive because they better understand the diverse needs of the customers and communities we serve.

### Employee volunteering

We have revised our volunteering policy this year, allowing our people to focus on activities that broaden relevant skills, and to inspire young people. We have focused on schools or groups in disadvantaged communities close to our offices, Regional Control Centres or road schemes.

A highlight of our employee volunteering work this year has been our focus on the Year of Engineering. This is a Government campaign (through the DfT) to work with hundreds of industry partners – including Highways England – to offer a million direct and inspiring experiences to young people throughout the year.

The UK faces a potential shortfall of 20,000 Science, Technology, Engineering and Mathematics graduates a year. The campaign aims to showcase the creativity and innovation of engineering, and widen the pool of young people considering the profession, diversifying the UK workforce which is currently 91% male and 94% white.

### Bringing people back to work

Our Returners Programme is aimed at bringing people who have taken a career break of two or more years back to work. They are placed in positions of a middle to senior level on a six-month programme, with the aim of securing a permanent position at the end of the six months.

During the programme they are provided with a mentor, and participate in coaching sessions run by an external specialist.

Building on the successes of the first intake onto this programme (100% of participants secured permanent roles at Highways England), we took on a further intake of returners in September 2018. They worked in positions across Corporate Affairs and Communications, Safety, Engineering and Standards, and General Counsel.

Within the first three months of the programme, one of the participants secured a permanent role following a competitive recruitment process. At the end of the programme five secured permanent positions.





### Supply chain development

Our work with our supply chain focuses on two main areas of impact:

- employment and skills
- supporting diversity and inclusion

#### Employment and skills

We know that there could be a shortage of skilled and competent workers across our supply chain in the next five years, due to capacity constraints within the construction and infrastructure industries.

We have committed to:

- providing visibility of demand and expectations to enable our supply chain to better plan work
- procuring and operating to enable the supply chain to best respond to future demand and expectations
- considering the impact on the supply chain when planning work/determining our future delivery strategy
- scanning the market to ensure we have an understanding of future supply and demand

As an example, in our Regional Development Programme we have outlined how we want our supply chain to work in collaboration to solve regional and national labour issues.

#### Supporting diversity

Commitment starts from the top and, in June 2018, our Chief Executive Jim O'Sullivan invited 13 Chief Executives and Managing Directors from our biggest spending supply chain organisations to an event facilitated by global management consultants McKinsey. It focused on the case for change, where we are now, and what needs to be done to drive change. The session provided an opportunity to discuss current inclusion activity across the sector and future aspirations.

Formed in 2010, the Suppler Diversity Forum has delivered an extensive programme of activity to accelerate the pace of change in the sector. This year, the forum hosted an event at Birmingham's International Convention Centre during National Inclusion Week. The theme was 'valuing people at work', and focused on growing inclusive working environments and cultures at project level.

#### Measuring success – benchmarking activity

Since 2011, we have asked our supply chain to provide baseline workforce data by age, gender, disability and ethnicity for their staff who deliver Highways England contracts. This year we added religion, belief and LGBT+ data as categories.

Our collaborative performance framework is the primary tool we use to monitor how well our supply chain are meeting our requirements as set out in their contracts. Performance related to equality, diversity and inclusion is rated from scores of 2 to 10. This year our monitoring has revealed that, out of a total of 36 suppliers, 71% are routinely achieving a score of 6 (representing good performance) or above.

**71%**
OF OUR SUPPLIERS ACHIEVE 'GOOD' PERFORMANCE

# Our governance

Our governance arrangements align with the principles and provisions set out in the UK Corporate Governance Code and other public-sector governance codes.

# Our Board

## Nominations Committee

**Colin Matthews CBE**

**Chairman**
**Chair, Nominations Committee**

- Appointed December 2014; previously Chair of Highways Agency from July 2014
- Career includes Non-Executive Chairman roles at EDF Energy Holdings Limited and Renewi plc, a Non-Executive Director (NED) role at Johnson Matthey plc, Chief Executive Officer roles at Heathrow Airport, Severn Trent Water plc and Hays plc, a Managing Director role at Transco Ltd, and an Engineering Director role at British Airways plc
- Qualifications include an MA in Engineering, FREng (Chartered Engineer) and an MBA

+ For **Colin's report** see page 108

## Executive Member

**Jim O'Sullivan**

**Chief Executive**

- Appointed July 2015
- Career within transportation, asset management, and utility organisations, including Chief Engineer for Concorde at British Airways, Executive Director roles at National Grid Gas, Central Networks and Managing Director at Edinburgh Airport
- Qualifications include a BSc (Hons) in Air Transport Engineering, an MBA, CEng (Chartered Aeronautical Engineer) and an alumni of the senior executive academy at Massachusetts Institute of Technology (MIT), Boston

## Shareholder Representative

**Carolyn Battersby**

**Non-Executive Director**

- The DfT-appointed Shareholder Representative from February 2019
- Executive Director at UK Government Investments (the Government's centre of excellence in corporate finance and governance), which she joined in 2011
- Career in corporate finance and strategy, with roles at Tesco, The Prince's Trust, Schroders and Permira
- Qualifications include an MChem degree

## Senior Non-Executive Director

**Roger Lowe**

**Non-Executive Director**

- Re-appointed Senior NED 11 February 2019, having previously been the DfT-appointed Non-Executive Shareholder Representative from July 2016
- Currently with Capstar Advisers, a specialist communications group. From May 2010 to February 2019, Roger was a Director at UK Government Investments
- Career in corporate finance, specialising in acquisitions and disposals, joint ventures and restructurings, with roles in industry, including as Group Director of Corporate Finance at TI Group plc, a leading engineering business and Investment Banking at Lazard, including two years on secondment to Lazard Freres in New York

## Executive Member

**Vanessa Howlison**

**Chief Financial Officer**

- Appointed June 2016
- Career includes a number of Finance Director roles in Government departments, including at the DfT, the Department of Energy and Climate Change, and Ofsted
- Previous finance roles in the NHS, and in the Audit Commission
- Currently an Independent member of the Audit and Risk Committee at the regulator Ofwat, and a member of the CIPFA Institute Council
- CIPFA membership



## Safety Committee

**Alan Cumming**

**Non-Executive Director**
**Chair, Safety Committee**

- Appointed September 2017
- Director of Nuclear Operations at the Nuclear Decommissioning Authority (NDA), responsible for all aspects of safety within the NDA estate, and appointed the NDA-nominated Non-Executive Director at Sellafield Ltd in April 2018
- International career within engineering and energy
- Qualifications include CEng, MIStructE (Chartered Structural Engineer) and an MBA

+ For **Alan's report** see page 108

## Audit Committee

**Kathryn Cearns OBE**

**Non-Executive Director**
**Chair, Audit and Risk Committee**

- Appointed April 2018
- Member of the DfT's Group Audit and Risk Committee, Chair of the Office of Tax Simplification, Member of the International Monetary Fund External Audit Committee, and a Non-Executive Board member and Audit Committee member at Companies House
- Previous Chair roles at the Financial Reporting Advisory Board, HM Treasury and the ICAEW Financial Reporting Committee
- FCA and FCCA membership

+ For **Kathryn's report** see page 110

## Investment Committee

**Janette Beinart**

**Non-Executive Director**
**Chair, Investment Committee**

- Appointed January 2019
- Career in Information Technology having had a long international career working for Shell culminating as Global Upstream Chief Information Officer
- Further experienced in the savings and investment business as interim Group Chief Information Officer for M&G Prudential
- Economics graduate

+ For **Janette's report** see page 112

## Remuneration Committee

**Elaine Holt**

**Non-Executive Director**
**Chair, Remuneration Committee**

- Appointed April 2015; previously NED of Highways Agency from 2014
- Career includes a number of roles in travel and transport, including Chair, CEO and MD roles at Directly Operated Railways, East Coast & First Capital Connect, also Executive Vice-President at Carnival UK
- Currently undertakes a number of non-executive, advisory and chair roles in both the public and private sectors
- FCILT (fellow of the Chartered Institute of Logistics and Transport)

+ For **Elaine's report** see page 114

## We said goodbye to:

**David Hughes**

**Non-Executive Director**
**Chair, Audit and Risk Committee**

- Appointed March 2015; previously a NED of Highways Agency from 2009
- Left August 2018
- Member of the DfT's Group Audit and Risk Assurance Committee
- Career in finance at a number of major engineering and construction companies
- Chartered Accountant
- Qualifications include an MA and FCA membership

## We said goodbye to:

**Simon Murray**

**Non-Executive Director**
**Chair, Investment Committee**

- Appointed in April 2015; previously a NED of Highways Agency from 2012
- Left 31 March 2019
- NED at East West Rail Company (wholly owned by the DfT) from February 2019
- Career within the infrastructure sector, including roles at contractor Geoffrey Osborne Ltd, Acumen7, Transport for London, Anglian Water Services, Railtrack plc, and BAA plc (now Heathrow Airport)
- Chartered Civil Engineer
- Qualifications include a BSc, CEng, FICE and FCGI

# Corporate governance report

Highways England was established on 1 April 2015 under the Infrastructure Act 2015, appointed and licensed as a strategic highways company by the Secretary of State for Transport. We are the highway authority, traffic authority and street authority for England's motorways and certain major A-roads that together are known as the SRN.

## Accountability

### Our governance framework

We are a Government-owned arm's-length company, delivering and contributing to Government's long-term plan for the SRN. Our performance is monitored by the ORR and the consumer watchdog body, Transport Focus. Both organisations provide advice to the Secretary of State for Transport on our activities.

## Setting out roles and accountabilities

The DfT's *Framework Document* sets out the respective roles and accountabilities of the Secretary of State for Transport, the DfT and Highways England. This framework provides clarity of purpose as the parties work to achieve the shared objectives of delivering a network that:

- provides the best possible service for customers and stakeholders
- supports broader economic, environmental and safety goals

The *Framework Document* also:

- recognises our functional and day-to-day operational independence
- sets out how financial control and accountability is achieved
- recognises the governance and decision-making arrangements of the Board that are appropriate to us as a corporate, legal entity, and with the Executive team accountable to that Board

### Our Delivery Plan

Our *Delivery Plan* explains how we will meet the specific requirements of the first road period. The Board reviews the plan annually and agrees refinements in line with our annual objectives and other strategies, including our approach to safety. We publish an annual update describing the work programme for the current year.

### Relationship with our Shareholder and statutory stakeholders

The DfT's *Framework Document* also includes arrangements for regular formal meetings with the Shareholder and his officials. These take place throughout the year, supplemented by informal meetings as necessary. The *Framework Document* outlines the arrangements for ORR to monitor our performance. These include regular meetings between ORR and the appropriate areas of our business. ORR evaluate our performance, carry out regular independent reviews and publish the associated reports on their website.

Highways England representatives meet regularly with customer stakeholder groups, including Transport Focus, to gather insight and work collaboratively to improve our customer service.

### Role of Non-Executive Chairman

The Chairman leads the Board and is responsible for ensuring we conduct our affairs openly, transparently and with probity. He is also responsible for ensuring our policies and actions are appropriate to those of a Government-owned company and supportive of the objectives of the Secretary of State for Transport. The Chairman's role is non-executive and part-time, at a minimum of one and a half days a week.

### Role of Chief Executive

The Chief Executive has day-to-day responsibility for our performance. He leads the Executive team and oversees our operations. He also leads the development of strategy and makes recommendations to the Board. His leadership promotes our culture and standards. In compliance with Government requirements, the Chief Executive is also the Accounting Officer, responsible to Parliament for the stewardship of the public funds under his direction.



### Role of Senior Non-Executive Director

The Senior Non-Executive Director's role is to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary. The Senior Non-Executive Director is also available to our Shareholder if they have a concern that contact through the normal channels of Chairman or Chief Executive has failed to resolve, or for which such contact is inappropriate.

### Role of Non-Executive Directors

Non-Executive Directors are appointed to the Board to contribute their independent external expertise and experience in areas of importance to Highways England. They also provide independent challenge and rigour to the Board's deliberations.

### Role of Executive Directors

The Executive Directors support the Chief Executive in leading Highways England to deliver our strategic objectives. Executive Directors implement the Board's strategic decisions and are committed to doing this responsibly.

## Leadership

### Role of the Board

The Board is accountable to our Shareholder for all aspects of Highways England's activities and performance, including fulfilling our role and responsibilities as a strategic highways company. The Board is our primary governance arm in line with our fiduciary and other duties under company law. The Board's governance activities include setting strategy, overseeing performance, reviewing risks and appointing senior leaders. A number of strategic, financial or other significant matters are reserved to the Board for decision. The Board delegates responsibility for the day-to-day running and operations to the Chief Executive.

### Composition of the Board

The Board is expected to have no more than ten and no fewer than five members, with a balance in favour of independent Non-Executive Directors.

The Secretary of State for Transport, as Shareholder, appoints the Chairman. He may also appoint a further Non-Executive Director as his representative. He must approve all other Non-Executive and Board Executive Director appointments. The Chief Executive must be appointed to the Board together with up to two further Executive Directors, one of whom must be our Chief Financial Officer.

Information on our Board members, including their length of service and membership of the committees they attend and chair, is shown in the table on page 102.

### Board changes during the year

In April 2018, Kathryn Cearns joined the Board. Kathryn has extensive senior level experience in the accountancy sector and became Chair of the Audit and Risk Committee in September 2018, following David Hughes' retirement from the Board.

In January 2019, Janette Beinart joined the Board. Janette has extensive experience at a senior level in the development and application of information technology in a corporate environment. She became Chair of the Investment Committee in April 2019, following Simon Murray's retirement from the Board.

In February 2019, Carolyn Battersby joined the Board as the Shareholder-appointed Non-Executive Director. Carolyn replaced Roger Lowe who stepped down from this role and rejoined the Board as a Non-Executive Director. Carolyn has a background in business development and investment.

New Board members receive a formal induction programme organised by the Company Secretary, which is tailored to their individual requirements. The induction programme includes the provision of key corporate, strategic and financial documents, one-to-one meetings with Executive team members, site tours, safety tours, and ride-outs with traffic officers on the network.

## Board committees

Our Board committees include:

- Nominations Committee
- Safety Committee
- Audit and Risk Committee
- Investment Committee
- Remuneration Committee

The Board and Executive Committee Framework is shown on page 107. The role of each Board committee is described in the individual committee reports in this section.

## Composition, attendance and advice

The composition of the Board and its committees is shown on pages 98-99. The attendance of the Board and its committees can be seen in the table below. Directors have access to the advice and services of the Company Secretary at all times. The Company Secretary is responsible for ensuring that the Board operates in line with our governance framework, and that there is an effective flow of information to and from the Board, its committees, and the Executive team.

Regular attendees at Board meetings include the General Counsel and the Chief Highways Engineer. Other Executive team members and senior leaders attend from time to time on specific items of business.

## Board and committee membership and attendance

| Name | Role | | Term of office ends | Board | Audit and risk | Nominations | Remuneration | Safety | Investment |
|---|---|---|---|---|---|---|---|---|---|
| **Colin Matthews** | Non-Executive Director | Chairman and Chair, Nominations Committee | 31/08/20 | 11(11) | - | 2(2) | 5(5) | 5(5) | 7(7) |
| **Roger Lowe** | Non-Executive Director | Shareholder-appointed Non-Executive Director until January 2019 and Senior Non-Executive Director from February 2019[1] | 28/02/21 | 11(11) | 5(5) | 2(2) | 5(5) | 5(5) | 7(7) |
| **David Hughes** | Non-Executive Director | Chair, Audit and Risk Committee until August 2018 | 31/08/18 | 5(5) | 2(2) | 1(1) | 1(2) | 1(2) | 1(2) |
| **Simon Murray** | Non-Executive Director | Chair, Investment Committee | 31/03/19 | 11(11) | 5(5) | 2(2) | - | 4(5) | 7(7) |
| **Elaine Holt** | Non-Executive Director | Chair, Remuneration Committee | 31/03/20 | 10(11) | - | 2(2) | 5(5) | 5(5) | 7(7) |
| **Alan Cumming** | Non-Executive Director | Chair, Safety Committee | 30/09/20 | 10(11) | 3(4)[2] | 1(2) | - | 4(5) | 5(7) |
| **Kathryn Cearns** | Non-Executive Director | Chair, Audit and Risk Committee from September 2018 | 30/04/21 | 8(11) | 4(5) | 2(2) | 4(4)[3] | 4(5) | 6(7) |
| **Janette Beinart** | Non-Executive Director | From January 2019 | 31/01/22 | 4(4) | 1(1) | - | - | 1(1) | 2(2) |
| **Carolyn Battersby** | Non-Executive Director | Shareholder-appointed Non-Executive Director from February 2019 | 28/02/22 | 2(2) | 1(1) | - | 1(1) | 1(1) | 1(1) |
| **Jim O'Sullivan** | Executive Director | Chief Executive | N/A | 11(11) | 5(5)[4] | 2(2)[4] | 5(5)[4] | 5(5) | 7(7) |
| **Vanessa Howlison** | Executive Director | Chief Financial Officer | N/A | 8(11) | 5(5)[4] | - | - | 3(5) | 6(7) |

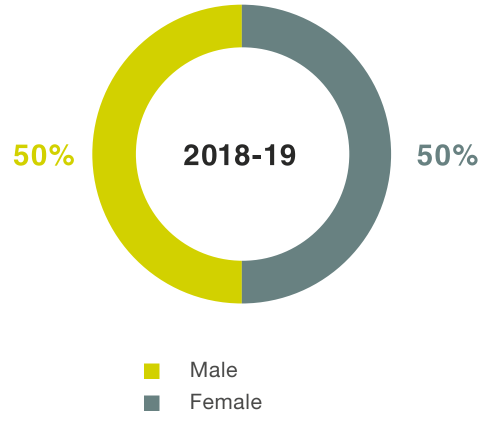
1. Roger Lowe resigned from his position as the Shareholder-appointed Non-Executive Director on 1 February 2019 (unremunerated) and was subsequently appointed as a Non-Executive Director for a period of two years with an option to extend for one further year. He serves as the Senior Non-Executive Director to the Board.
2. Alan Cumming stepped down from the Audit and Risk Committee in February 2019.
3. Kathryn Cearns became a member of the Remuneration Committee in June 2018.
4. Not a committee member – in attendance only.





The chart below shows the composition of Board members by gender.

## Board composition




Based on Board composition as at 31/03/19

## The work of the Board

The Board has maintained its focus on our three imperatives of safety, customer service and delivery, and reviews performance against targets at each meeting.

The Board approves the annual *Business Plan* and the *Delivery Plan Update* that support the delivery of the Government's RIS. Through the Investment Committee, the Board makes investment decisions based on recommendations from the Executive Investment Decision Committee and monitors progress of the capital programme. This is part of the Board's responsibility to ensure good governance and value for money. The Board also considers strategic risks at each meeting and the corporate risk register on an annual basis.

+ **Read more** about our approach to risk reporting on pages 56-59

As our capacity and capability are central to the delivery of both current and future investment strategies, the Board monitors progress on recruitment, retention and plans to develop and reward our people.

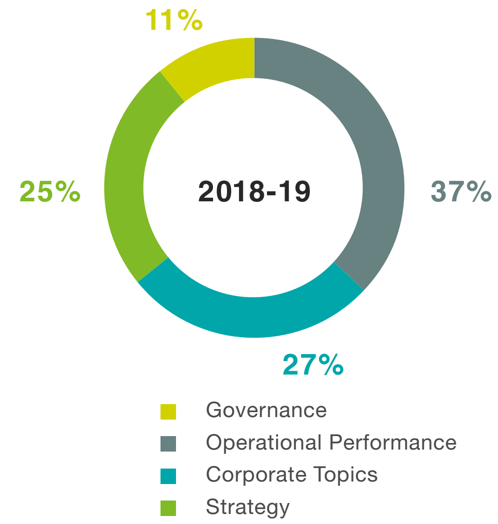
The Board also considers the development and delivery of key strategies and activities aligned with our imperatives and strategic aims. The Board has reviewed the approach and activities related to key national strategic projects, including preparations and contingency planning for potential Brexit impacts.

The Board placed emphasis on considering longer term strategic issues this year, including focusing on:

- the evolution of RIS2 and the development of our *Strategic Business Plan* for the second road period
- the potential impacts of technology developments on roads and vehicles
- development of the Smart Motorways Alliance model

The chart below shows how the Board allocated its time during meetings:

## Board activities




It is important to the Board that we maintain and improve our relationship with ORR and Transport Focus. As part of this, our Chairman and Chief Executive attended an ORR Board meeting during the year, and exchanged views on performance and how the two organisations could work effectively together. The Chairman and Chief Executive of Transport Focus attended one of our Board meetings during the year to give their perspective on Highways England.

## Evaluation

An independent formal evaluation of the Board in 2017 highlighted five areas for further improvement in 2018-19. The results of the 2018-19 evaluation confirmed that progress has been made:

| Board evaluation: key recommendations | Progress update |
|---|---|
| Maintaining the right balance in Board discussions between challenge and encouragement | A better balance was achieved in Board discussions between challenge and encouragement |
| Growing management capability and capacity | The Board, Nominations and Remuneration committees all considered Highways England's capability and capacity, which has been addressed at a senior level. The focus will continue into the lower levels of the organisation |
| Quality of Board papers | The quality of Board papers improved markedly during the year |
| Board activities beyond formal meetings | Board members were satisfied that there have been opportunities for informal interaction beyond formal meetings during the year |
| Time spent on strategic topics | Board members were satisfied that there has been an improvement in the allocation of Board time in meetings between operational and strategic items |

An internal Board evaluation exercise was held in November 2018. Following the evaluation, the Board will focus on the following five areas in 2019-20:

- Customer service
- Stakeholder relations
- The RIS1 narrative
- An appropriate RIS2 settlement
- The wider benefits to society

Following the evaluation, the Chairman held one-to-one performance review meetings with each Non-Executive Director. The Chairman's performance was reviewed by the Shareholder, with support from the Senior Non-Executive Director.

Other activities carried out by the Board during the year included regularly reviewing relationships with key stakeholders, and reviewing the committee structure to ensure continued effectiveness.

The next Board evaluation will be conducted internally in November 2019.



## Highways England's governance system overview

**The Infrastructure Act 2015 sets out the overall framework for Highways England, including the Licence, Road Investment Strategy, Office of Rail and Road and Transport Focus**

**Legislation**

Empowers SofS to appoint a Strategic Highways Company, set a RIS and issue directions via a Licence

### Parliament

SofS remains accountable to Parliament for the activities and performance of the Company.

### Secretary of State for Transport (SofS)

CEO, acting as Accounting Officer (AO) for the Company, is accountable to the DfT's Principal Accounting Officer (PAO) for the day-to-day management of public funds. Both the AO and PAO are accountable to Parliament

SofS, as sole Shareholder, holds the Board to account for stewardship of the Company

Board is accountable to the SofS for all activities and performance

**Articles of Association**
Set by SofS, as Shareholder, in consultation with the Company, and sets the internal rules for governing the Company

**Licence**
SofS sets directions and guidance for the Company about how it must act, and defines the process for setting and changing the RIS

**Framework Document**
Defines governance, decision-making roles and working arrangements between the Company, SofS and the DfT

**The RIS**
SofS sets strategic direction, delivery requirements and funding for the Company. The Company feeds into setting the RIS

### Board and Chief Executive

### Highways England

Operates, manages, maintains and improves the Strategic Road Network, delivers requirements set through the Road Investment Strategy and provides services to road users. In doing so, we comply with our legal duties, Licence conditions, other statutory guidance and relevant standards

**Office of Rail and Road**
The ORR reviews Company performance and advises the SofS on whether obligations have been met and can impose sanctions

**Transport Focus**
Transport Focus gathers road user views and advises Ministers on users' interests and priorities

### Road users





## Governance bodies: Board and Executive committee framework

### Board

#### Governance committees

**Board Safety Committee**
Oversight of our safety ambition and leadership, strategy, performance review and compliance

**Audit and Risk Committee**
Oversight of financial and internal control, risk and governance, financial reporting, internal audit and assurance programme and external audit

**Remuneration Committee**
Oversight of Remuneration Framework, including performance-related pay, Board and senior pay decisions

**Nominations Committee**
Board and Executive appointments

**Investment Committee**
Investments within delegated authority thresholds of between £200 million and £500 million

### Executive committee

#### Executive committees and Executive groups

**Executive Safety Committee**
Safety management and leadership, strategy development, performance monitoring and compliance

**Counter-fraud Group**
Oversight of systems, measures and a culture that counter the risk of economic crime

**Executive Customer Service Group**
Oversight of the development of an effective relationship with customers and communities

**Supply Chain Group**
Oversight of work to develop and manage an effective supply chain

**Reward and Resourcing Executive**
Workforce planning, including decisions under the Remuneration Framework

**Executive Finance Group**
Plan, control and manage resources effectively to support decision making and delivery over the short, medium and long term

**Information Leadership Group**
Data improvement, assurance of quality of reporting and internal decisions in support of the investment programme

**Investment Decision Committee**
Investments within delegated authority thresholds of between £50 million and £200 million

# Committee reports

## Nominations Committee

### Role
The committee's role is to make Board and Executive appointments. This is subject to approvals required by the Articles of Association, the *Framework Document*, and the Shareholder. Specific responsibilities include:

- Approving recommendations for the appointment of Executive Directors and Non-Executive Directors
- Keeping the structure, size and composition of the Board and its committees (including their chairs) under review
- The continuation in office of Directors, and the appointment process for Board members and Company Secretary
- Succession planning for the Board and for posts reporting to the Chief Executive, as well as ensuring planning arrangements are in place for the level immediately below, giving full consideration to the challenges and opportunities facing Highways England and future skills needed

### Composition
The committee is chaired by Colin Matthews and composed of five other Non-Executive Directors (including the Shareholder-appointed Non-Executive Director). The Chief Executive, Executive Director of HR and Company Secretary also attend meetings.

### Work
The committee meets regularly to discuss succession plans for senior managers and meets on a flexible, ad hoc basis when required.

### Chair's highlights
The committee's main business this year was to recruit a replacement Non-Executive Director for Simon Murray, who retired from the Board on 31 March 2019. His replacement was Janette Beinart, who was appointed with effect from 21 January 2019.

The committee also reviewed the composition of the Board and confirmed that the current structure remains appropriate.

+ For committee Chair Colin's biography, go to page 98

## Safety Committee

### Role
The Safety Committee ensures that the Board fulfils its leadership responsibilities in relation to our health, safety and wellbeing ambition, including strategy and management arrangements. It works closely with the Executive team to monitor safety performance, and to ensure that we have a strong, robust and continuously-improving safety culture, along with our supply chain.

Safety risks cannot always be eliminated entirely, so the Safety Committee provides leadership to ensure that key risks are identified, appropriately managed and mitigated. The committee is responsible for setting clear expectations to improve safety standards in the business, the supply chain and across the SRN.

### Composition
The committee is chaired by Alan Cumming. Members of the committee include the Chairman, all Non-Executive Directors, the Chief Executive, Chief Financial Officer, Chief Highways Engineer and Health, Safety and Wellbeing Director. Members of the Executive team and other senior managers with safety responsibilities attend the committee when required.



### Work
The committee's work is divided into four areas:

#### 1. Staff safety and wellbeing

The safety of our people is a priority for the committee. As such, it regularly monitors accident frequency rates and reviews major incidents reports. The committee monitors a range of health, safety and wellbeing work, aimed at highlighting issues in this area and developing capability in dealing with them.

### Chair's highlights
During the year, the committee received regular updates in two key areas: plans to improve safety in Operations; and plans to improve staff health and wellbeing. The committee also reviewed arrangements established as part of the Operational Excellence Programme for improving the safety culture and received a report on safety maturity within the organisation, including the establishment of leading indicators. The committee participated in a safety tour to the Severn Bridges in July 2018, to discuss the arrangements in place and specifically for staff recently transferred into Highways England. The committee also reviewed capability for dealing with mental health issues, which will form part of the next stage of the Management Development Programme, and provided input to support the roll-out of the Home Safe and Well approach internally.

#### 2. Road user safety

The committee challenges approaches to improving road safety. It also monitors performance against our KPI to reduce the number of people killed or seriously injured on our network by 40% at the end of the current road period.

### Chair's highlights
The committee reviewed the progress of our safe systems approach to improve road user safety, which is focused on safer roads, safer people and safer vehicles.

A number of guest speakers were invited to attend committee meetings during the year. All brought outside perspectives to support strategy discussions. Guest speakers attended from the Driver and Vehicle Standards Agency, Transport Focus and the DfT. A Detective Chief Superintendent also gave a presentation on policing the roads and future collaboration, which featured the campaigns we have run to improve driver behaviour.

The committee received regular reports on accident statistics and updates on the implementation of a new reporting methodology, including how the system will impact the classification of serious injuries.

The committee considered the following campaigns launched during the year:

- Driving for Better Business
- Communication campaigns, including the Space Invader campaign
- Commercial vehicle incident prevention programme

In response to concerns raised following the bridge collapse in Genoa, the committee sought and received assurances from the Executive team on our processes for the design and maintenance of our structures.

#### 3. Safety performance of our supply chain

The committee considered supply chain safety performance and recognised that there are still too many avoidable incidents in the supply chain. The committee closely monitors the accident frequency rates, progress on investigations, incident reporting and outcomes.

### Chair's highlights

Committee members take part in safety leadership tours of the major schemes to see how safety arrangements are working on the ground. The committee received a progress update on delivery of our *Suicide Prevention Strategy*, published in November 2017. The Samaritans attended a meeting to update members on their work and to highlight some of the risk factors and impacts of suicide. The presentation particularly highlighted the risks associated with those working in the construction industry.

### 4. Monitoring the delivery of our *Health and Safety Five-Year Plan*

Our updated *Health and Safety Five-Year Plan* sets out how we will achieve our safety ambition within the current road period. Delivery of the plan supports our ambition that "no-one should be harmed when travelling or working on the SRN." The committee monitors progress in delivering the range of actions and initiatives set out in the plan, holding the business to account for any deviation or late delivery.

### Chair's highlights

This year, the directorates have worked to deliver and report to the committee on the *Health and Safety Five-Year Plan*. The committee was pleased to note the progress made on delivery of the 130 actions as we approach the final year of the plan. With 26 Year 5 and ongoing actions to complete, 12 are on track, 13 are completed and one has been flagged for further intervention. The committee has also input to the Home Safe and Well approach, which has been well received by senior management, and launched to the wider business in August. The approach document is due to be published in April 2019.

+ For committee Chair Alan's biography, go to page 99

## Audit and Risk Committee

### Role

The Audit and Risk Committee's principal role is to assist the Board in carrying out its oversight responsibilities in relation to four areas: financial reporting; internal controls; risk management; and ensuring an appropriate relationship with our external auditor is maintained. The committee is also responsible for providing advice to the Chief Executive in his capacity as Accounting Officer.

In particular, the committee oversees:

- The strategic processes for risk management, internal control and governance arrangements
- The acceptability of the *Annual report and accounts*
- The integrity of the corporate reporting obligations under the Licence and *Framework Document*
- Responses to the external auditor's management letter
- Significant proposed changes to accounting policies
- The annual internal audit programme
- The suitability of our counter-fraud, anti-bribery and anti-corruption activity
- The suitability of our mitigation response to the risk of cyber-crime

### Composition

The committee is chaired by Kathryn Cearns. Members include six Non-Executive Directors, including the Shareholder-appointed Non-Executive Director, in accordance with the requirements of the *Framework Document*.

As part of the role, the Chair is also a member of the DfT's Group Audit and Risk Assurance Committee, representing Highways England as well as performing a similar check and challenge role to the DfT's senior management.

The Chief Executive, Chief Financial Officer, Financial Controller, Corporate Assurance Director and the National Audit Office (NAO) Financial Audit Director regularly attend meetings. Other senior management may be called to attend as necessary.

Periodically, the committee meets with the Corporate Assurance Director and the NAO Financial Audit Director to discuss any matters without Executive management being present. The Chair meets separately and periodically with our Chief Financial Officer and our Corporate Assurance Director, and also liaises with other senior managers, our Company Secretary and the NAO, as required.





### Work

The committee's work is divided into four areas:

### 1. Financial reporting

As part of its remit to ensure the integrity of the accounts and effective management of public funds, the committee considers the following matters:

- Accounting policies and judgements updates
- Taxation strategy, tax risks and other tax issues
- *Annual report and accounts* review and approval
- External audit approach and findings
- Year-end assurance over reported performance

### Chair's highlights

During the year, the committee focused on the approach to approving management of accruals and salary overpayments, and were content with the action taken. Members evaluated our accounting policies, including taxation and the management of the risk relating a reinterpretation of VAT treatment. The committee was satisfied with management's approach in dealing with this.

The committee's responsibilities in relation to reviewing the final validated position on our KPIs are substantive. Members reviewed the current suite of KPI and performance-related data (post-independent validation), and made a recommendation to the Board to approve its publication in this report and the *Performance Monitoring Statements*, published separately.

### 2. Internal controls

The committee is responsible for ensuring that we have the right control framework in place. It also ensures that its internal audit function is properly resourced, with the right skills and experience to provide the required level of assurance.

The committee's work in this area includes:

- Endorsing the annual internal audit programme
- Reviewing regular reports on the internal audit programme's progress, including a summary of the effectiveness of the areas under review (in addition to receiving individual reports on each audit assignment)
- Assessing the implementation of actions from internal audits, and outstanding and overdue actions
- Reviewing the annual assurance statement

### Chair's highlights

The committee reviewed the approach to applying GDPR. Members clarified Highways England and supply chain obligations, evaluated immediate risks and endorsed management's approach to improve its assurance processes. The committee also monitored current test cases to consider how they could affect risk exposure, depending on the court rulings made.

Recognising that our Corporate Assurance division incorporates a number of assurance activities as well as internal audit, the committee endorsed both parts of the internal audit programme and acknowledged the work completed by its other teams. The committee was satisfied that the Director of Corporate Assurance had deployed the right type of assurance activity with the right professional team, pooling skills and experience from across the division into a hybrid team, as required.

The committee discussed significant findings from their work throughout the year and focused on emerging themes, including capability development in the project and contract management environments and management actions to improve areas identified through the assurance process.

Under the *Framework Document*, we are required to participate in the DfT's management assurance process. Accordingly, the committee reviewed and endorsed our submission to DfT, noting the progress made in year.

### 3. Risk management

The committee is responsible for ensuring that the approach to managing key threats and opportunities is proportionate and appropriate to our operating environment. It regularly receives updates on how the process has been embedded internally and periodically reviews the status of the corporate risk register. At each meeting, an Executive Director is asked to present on a specific risk or area of interest. These 'deep dives' are important for the committee to understand whether the mitigation identified is suitable.

The committee also considers matters relating to the approach to mitigating the risk of economic crime. It receives regular updates on investigation progress and outcomes, and endorses actions taken to create a proactive approach to countering the risk of fraud, bribery, corruption and modern slavery within our supply chain.

OUR GOVERNANCE: COMMITTEE REPORTS

### Chair's highlights

Each year the committee completes a series of in-depth reviews into key risks or themes. This year, members focused on the issue of unit rates annual reporting, considering data confidence and the challenging position around our data requirements. The committee also reviewed risks around management's approach to a significant asset failure.

The committee reset its schedule of risk reviews, focusing on key areas of importance as we move between road periods.

This year, the committee placed a greater emphasis on the importance of establishing the right arrangements to address the risk of economic crime within our supply chain. The committee noted the progress made in improving risk management arrangements in this area and will challenge these activities to ensure that appropriate controls are applied.

### 4. External auditor and policy on provision of non-audit services

In accordance with the *Framework Document*, the Comptroller and Auditor General (C&AG) is Highways England's appointed external auditor. The external audit work is carried out by the NAO on behalf of the C&AG. The NAO does not provide non-audit services but is responsible for carrying out value-for-money reviews according to their statutory responsibilities.

Professional firms are used when specialist advice is required, such as on tax compliance and accounting standards. In these cases, the firms are engaged through our established procurement framework.

### Chair's highlights

During the year, Highways England engaged Deloitte LLP to provide advice in relation to VAT, corporation and employment taxes and the Senior Accounting Officer sign off.

+ For committee Chair Kathryn's biography, go to page 99

## Investment Committee

### Role

The committee assists the Board in exercising its investment decision-making authority. It advises the Board on investment approvals over £200 million and on other matters relating to the delivery of the investment programme. On decisions relating to schemes over £500 million, or where the treatment is considered novel or contentious (as per the HM Treasury definition), the committee advises the DfT's Board Investment and Commercial Committee on whether the investment is appropriate.

The committee is an integral part of the investment decision process and works closely with the Executive Investment Decision Committee to ensure effective governance of public expenditure. It also supports the Chief Executive in discharging his Accounting Officer responsibilities. This assurance regime meets the criteria outlined in the *Framework Document*, as agreed with the DfT.

### Composition

The committee was chaired by Simon Murray until 31 March 2019 and is now chaired by Janette Beinart. Members include the Chairman, six Non-Executive Directors (including the Shareholder-appointed Non-Executive Director), the Chief Executive and the Chief Financial Officer. The General Counsel and other members of our Executive team, who are responsible for the programmes and contracts under consideration, will also attend meetings as required.

### Work

The committee has met seven times this year and can meet more frequently if required. The work of the committee covered three areas:

### 1. Monitoring the investment programme

At each meeting, the committee reviews the capital portfolio progress and status. Capital forecasts are scrutinised and delivery risks for the current investment programme are considered.

### Chair's highlights

During the year, the focus remained on delivering Highways England's commitments by the end of the current road period and managing the existing over-programming situation to minimise the variance between this and available funding. Also, an update on the development work on RIS2 was provided to the DfT's Board Investment and Commercial Committee, who were impressed with the optimisation work being carried out, and were pleased with the analytical work and formal change process.

### 2. Reviewing proposed investments

The committee reviews the Executive team's business investment proposals and plans for project delivery, making recommendations to the Board in line with its delegations. It scrutinises these proposals and considers value for money assessments, forecast benefits and independent review outcomes as part of Highways England's decision-making process.

### Chair's highlights

During the year, the committee endorsed the development phase budget for the A417 Air Balloon scheme and the construction budget for the M1 junction 13 to 16 scheme. The committee provided input to the development of the Lower Thames Crossing and A303 Amesbury to Berwick Down scheme proposals and approved contracts supporting the roll-out of Asset Delivery arrangements in the North West and East regions.

### 3. Monitoring performance

The committee sets aside time for in-depth reviews of the performance of projects and major programmes that are in construction, covering forecast costs, completion dates and outstanding risks. It also considers emerging strategies for delivering future programmes and the overall performance of our supply chain.

### Chair's highlights

The committee approved the Full Business Case for the Routes to Market Regional Delivery Partnerships arrangements and gave the go ahead for the launch of the procurement exercise for the proposed Smart Motorways Alliance. The committee also monitored the performance of the A14 Cambridge to Huntingdon scheme, smart motorways programme and Collaborative Delivery Framework.

+ For committee Chair Janette's biography, go to page 99

# Remuneration report

## Remuneration Committee

### Role

The committee establishes a robust, transparent and formal procedure for developing policy on Executive remuneration. This includes the total reward packages for the Chief Executive, Executive Directors and Non-Executive Directors, subject to the approval of the Shareholder.

The committee is also responsible for keeping the Remuneration Framework, required under the *Framework Document*, under review. Any amendments must be agreed with the Shareholder, including recommending performance targets. The committee is responsible for deciding or recommending proposals for approval by the Board, including company-wide reward and incentive plans, and the structure of remuneration packages for senior management.

### Composition

The committee is chaired by Elaine Holt. Members include five Non-Executive Directors, including the Chair and Board Chairman. The Chief Executive attends all meetings, except when his own remuneration is under review. The DfT Director General, Resources and Strategy Group attends meetings as an observer on behalf of the Shareholder. The committee is advised by the Executive Director of Human Resources and Organisational Development, and the Head of Reward also attends meetings.

EY have been appointed advisers to the committee on a call-off basis. They were not used during 2018-19.

### Work

The committee maintains close oversight on organisational initiatives relating to staff performance and reward.

### Chair's highlights

The committee reviewed the corporate KPI performance and its impact on performance-related pay for 2018-19. Mid-year and year-end performance ratings for Executive Directors and the senior management group were also scrutinised to ensure they were appropriate and in line with the Remuneration Framework. The committee reviewed the following standing items at each meeting during the year:

- Use of contingent labour and consultants, including the development of plans to further reduce reliance on interim staff
- Use of specialist pay freedoms
- An assessment of all perceived senior flight risks, along with retention and resilience plans in place to manage these risks
- Activity and decisions of the Reward and Resourcing Executive, which considers remuneration issues for staff below Executive level

The committee also considered the following items:

- Approval of the pay review approach for 2018-19
- The DfT's Remuneration Framework review

+ For committee Chair Elaine's biography, go to page 99



## Executive remuneration (audited)

| | Year | Salary | PRP | Pension related | Other | Total |
|---|---|---|---|---|---|---|
| Jim O'Sullivan | 2018-19 | £375,000 | £51,727 | £30,000 | - | **£456,727** |
| | 2017-18 | £340,500 | £32,076 | £30,000 | - | **£402,576** |
| Vanessa Howlison | 2018-19 | £198,919 | £26,017 | £19,892 | £32,367 | **£277,195** |
| | 2017-18 | £196,950 | £12,227 | £19,695 | £16,808 | **£245,680** |

### Executive remuneration notes (audited)

1. Jim O'Sullivan received £30,000 in lieu of pension payments.
2. Vanessa Howlison is a member of the Highways England Personal Pension (Defined Contribution) Scheme. Employer contributions are equal to 10% of salary.
3. The PRP paid in 2018-19 related to performance within the financial year 2017-18 and that paid in 2017-18 related to performance in financial year 2016-17.
4. The 2018-19 performance process is being finalised and the value of payments have yet to be determined. Payments will be made in 2019-20.
5. 'Other' amounts relate to travel expenses for secondary workplaces as defined by HMRC (expense grossed up by 45%).
6. 'Other' amounts reported in 2017-18 incorrectly included employers' National Insurance. This has been restated for the 2018-19 accounts.
7. Only those members of the Executive team who are (or were) also members of the Highways England Board have their remuneration reported.

### Non-Executive remuneration notes (audited)

1. Service details for Directors are shown on page 102.
2. From 1 April 2017, the fees were updated to £25,000 plus an additional £3,000 for chairing a committee. These fees remain unchanged for 2018-19.
3. Elaine Holt is the serving Chair of the Remuneration Committee, a position she has held since February 2018.
4. Simon Murray was the serving Chair of the Investment Committee until 31 March 2019. He is replaced by Janette Beinart.
5. Kathryn Cearns joined the Board in April 2018, and became Chair of the Audit and Risk Committee in September 2018. At the same time, she also became a member of the DfT's Group Audit and Assurance Committee. She was paid a fee of £1,250 for her DfT services, which is not included in the fees reported here.
6. David Hughes served as Chair of the Audit and Risk Committee at Highways England, and also served as a member of the DfT's Group Audit and Assurance Committee. He was paid a fee of £1,935 for his DfT services, which is not included in the fees reported here. His term of office expired on 31 August 2018.
7. Janette Beinart joined the Board on 21 January 2019 for a period of three years. She became Chair of the Investment Committee in April 2019, following the departure of Simon Murray on 31 March 2019.
8. Roger Lowe resigned his position as the Shareholder-appointed Non-Executive Director on 1 February 2019 (unremunerated) and was re-appointed to the Board as a Non-Executive Director on 11 February 2019, for a period of two years, with an option to extend for one further year. Roger serves as the Senior Director to the Board.
9. Alan Cumming joined the Board in September 2017. He served as Chair of the Safety Committee from January 2018. He ceased being paid by Highways England on 3 April 2018 when he became an Executive Director at the Nuclear Decommissioning Authority.
10. On 11 February 2019, Carolyn Battersby joined the Board as the Shareholder-appointed Non-Executive Director.

## Non-Executive Remuneration (audited)

| Member | 2018-19 | 2017-18 |
|---|---|---|
| Colin Matthews (Chairman) | £130,000 | £130,000 |
| Elaine Holt | £28,000 | £28,000 |
| Simon Murray | £28,000 | £28,000 |
| Kathryn Cearns | £25,639 | - |
| David Hughes | £11,698 | £28,000 |
| Janette Beinart | £4,906 | - |
| Roger Lowe | £3,423 | - |
| Alan Cumming | £233 | £14,389 |
| Carolyn Battersby | - | - |

### Pay multiples notes (audited)

1. The median remuneration of the Company's staff in 2018-19, as shown in the corresponding table, is based on annualised full-time equivalents and is £31,214.
2. The ratio between the median remuneration and the remuneration of the highest paid director is 13.671. This has increased from 2017-18 figure of 11.175 due to an agreed performance related pay progression for the Chief Executive, as authorised by the Secretary of State for Transport and Chief Secretary to the Treasury.
3. In 2018-19, no employee received remuneration in excess of the highest paid Director (2017-18, nil). Full time equivalent remuneration ranged from £14,089 to £270,821 (2017-18 restated: £14,089 to £237,744).
4. Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

## Pay Multiples (audited)

| | 2018-19 | 2017-18 |
|---|---|---|
| Remuneration | £426,727 | £372,576 |
| Number of staff | 5,644 | 5,189 |
| Median point | 2,823 | 2,595 |
| Median remuneration | £31,214 | £33,340 |
| Ratio | 13.671 | 11.175 |

# Effectiveness statement

Our system of internal control is based on a continuous process of identifying, assessing and managing risk. The Board is responsible for ensuring that an effective internal control framework is in place. This framework is designed to minimise, to a reasonable level, risks to the achievement of our objectives, in line with our risk appetite. Our risk management processes are outlined on pages 56-59.

## Risk management

Our Corporate Risk Assurance function supports our Executive team in maintaining the corporate risk register. It monitors and reviews strategic risk and provides assurance through their monthly check, challenge and reporting processes to our Executive team and the Board.

On a quarterly basis, the business, supported by Corporate Assurance, reviews the effectiveness of key controls. This process incorporates areas such as contract and project management, finance, HR and security. The results of the assessment are used by our Executive team as an early warning system and considered by the Audit and Risk Committee as part of their wider view on internal control. Once a year we submit the results to DfT, as required by our joint governance arrangements. The 2018-19 results did not highlight any significant weaknesses and noted a number of improvements in control across all directorates.

Our Corporate Assurance division comprises:

- Corporate Risk Assurance (overseeing our Management Assurance process)
- Audit and Assurance (incorporating internal audit, contract assurance and IT assurance activity)
- Programme Assurance (incorporating Independent Assurance Reviews and the management case subject matter adviser assessments)
- Health and Safety Assurance
- The Counter-fraud team

The division's primary purpose is to provide objective and independent assurance on the adequacy and effectiveness of our internal control, risk management and governance framework. Through grouping the assurance activity under Corporate Assurance, the Corporate Assurance Director can deploy the right type of assurance activity with the right professional team and pool skills and experience from across the division into a hybrid team, as required.

## Economic crime

We take allegations of fraud and impropriety seriously. All allegations are received through the Raising Concerns at Work channels and logged and investigated by a professionally trained team. Regular reports on the progress and results of investigations are received by the Counter-fraud Group and the Audit and Risk Committee. This year we received 42 referrals. Allegations included false accounting or invoicing, irregular contract practices, salary overpayments and over-claiming of allowances, including annual leave. While there were no cases of economic crime proven to the required criminal standards, investigations completed during the year prevented £2.9 million of losses and detected a further £500,000 of fraud, which was reclaimed.

Increasing awareness of our Raising Concerns at Work channels has been a priority. This year we have focused our efforts on raising fraud awareness through targeted training events and the use of internal social media platforms, such as Yammer. As such, there is an improving counter-fraud culture throughout our organisation, with appropriate channels in place for staff, customers and our supply chain to raise concerns safely.

We have improved our understanding of our risk profile, which captures internal and external economic crime risks, including those from cyber-crime, based on industry and Government information. We update the information on an annual basis and use it to carry out proactive testing of our control activity to improve our resilience.



As a public-sector body, we do not fall within the remit of the Regulated Sector, as defined by Money Laundering Regulations 2017. However, we apply the spirit of the Regulations in our approach on a best practice basis. Our Dartford Crossing team, who manage the collection of fees from the public, operates an account facility for customers who make frequent journeys over the Crossing. This has the potential to be exposed to the risk of money laundering activity. Controls in this area are strong and our Crossings team are vigilant. As such, we identified one potential incident and reported it to the National Fraud Agency, in accordance with the Proceeds of Crime Act 2002. This protects us from any legal action taken against the perpetrator.

## Internal control

The annual Corporate Assurance programme is built in three layers:

- Core – the repeat assurance activities, such as our key control work, KPI validation, compliance with our Health and Safety Management System
- Business-led – areas requested by the business or drawn from the ongoing cycle of business activity, such as our independent assurance reviews focused on our projects
- Risk-driven – assignments that provide assurance over the management of specific risks or are based on themes and trends that could present a risk to the business

Results of the work are reported to senior management and monitored regularly by the Audit and Risk Committee. All assignments create management actions that are agreed with the business and progress of implementation is regularly reported to the Chief Executive and the Audit and Risk Committee, who will intervene, should progress stall.

This year, we had:

- One unacceptable rated report, relating to the management of defined costs within one of our schemes. Swift action was taken by management to improve the control framework and lessons learned from the review are being spread across the project environment.
- Several reviews where a limited rating was applied. These primarily related to our regional technology maintenance contracts, which illustrated the impact that a unilateral decision by one contractor can have on our ability to deliver our service safely, in line with customer needs, while achieving value for money for the Government. Management action is now focused on improving control for those contracts that will remain in place over the next few years, as well as using the learnings to develop the next generation of this type of contract.

We are required to be compliant with the additional controls set by the Cabinet Office and HM Treasury, and to report any instances of non-compliance. This year we identified the following non-compliance:

- A request for approval for a special (ex-gratia) payment on the A14 Huntingdon to Cambridge scheme to a third-party was not made to HM Treasury in time. HM Treasury provided retrospective approval in November 2018.
- A contract extension approval request for our Urban Traffic Management and Control System in the South East was not made to the Cabinet Office Government Digital Service, who view all digital and technology contract extensions as contentious. Approval was granted by the Department and the Cabinet Office in April 2019.

We consider these breaches do not indicate a systemic lack of control and, because of their rarity, we are using both cases as a learning opportunity across the business to promote awareness of our statutory responsibilities.

We have not identified any data breaches that had to be reported to the Information Commissioner's Office.

## Annual assurance statement

The Chief Executive, in his role as Accounting Officer, retains overall responsibility for maintaining an effective internal control framework. The Corporate Assurance Director provides an annual assurance statement to him, which confirms an opinion on the adequacy and effectiveness of our governance, risk and control mechanisms. This incorporates the outputs of Corporate Assurance and other assurance activity. The assurance statement offers reasonable rather than absolute assurance over the adequacy of risk management, internal control and governance arrangements.

This year, the Corporate Assurance Director recognised that Highways England:

- has a good governance structure to help it carry out its activities
- is maturing in its approach to risk management across the organisation
- is demonstrating a sound control environment

The statement recognised some of the challenges experienced in year and the need for the Company to improve. As such, and in reflection of this, the statement applied a 'moderate' assurance rating for 2018-19 activities.

Based on the arrangements set out above, and the information provided by the Corporate Assurance Director, our Chief Executive considers that there is a sound system of internal control, risk management and governance in place and working effectively across the Highways England.



# Directors' report for the year 2018-19

The Directors present their annual report on the performance of the Company, together with the financial statements and the Auditor's Report for the financial year ending 31 March 2019. Highways England was incorporated on 8 December 2014 as the appointed and licensed strategic highways company by the Secretary of State for Transport, who is the sole Shareholder. The Company's registered number is 09346363. The Company is the highways authority, traffic authority and street authority for England's motorways and major A-roads, termed collectively as the SRN.

## The Board

The Board is responsible for the overall strategy and direction of the Company. Details of the Board's role, composition and responsibilities are set out on pages 100-103.

## Directors and corporate governance

Full details of the Company Directors and corporate governance requirements are set out on page 122.

## Employees

The Company recognises that the commitment of skilled and experienced people is paramount to the efficient and effective delivery of the objective to operate, maintain and modernise the SRN.

Further information about the Company's employment strategy, including diversity and employee engagement policies, can be found on pages 84-89.

The number of employees as at 31 March 2019 was 5,872: 2,015 women; 3,849 men; and eight people of non-specified gender. This figure includes secondees and Executive Directors, and excludes interims, contractors and Non-Executive Directors.

As at 31 March 2018, Highways England had 5,083 full-pay relevant employees (those who received a normal month's salary i.e. excluding long-term sick, those on maternity leave and employees with a change in pay that month). Based on this population, the mean gender pay gap for Highways England is 7.28%. Excluding TUPE transfers into Highways England from Severn Bridges Group (SBG), this gives a like-for-like mean gender pay gap of 6.60%.

Full details of the Company's gender pay gap information were published in March 2019. The Company has a policy of paying all employees equally for the same or equivalent work, and considers that any gender pay gap does not stem from paying men and women differently for the same or equivalent work.

The Company is committed to providing an inclusive and connected working environment, in which individuals' differences are understood, valued and respected. Alongside our underpinning principles for inclusivity, we have a framework for timely actioning of adjustments for people with disabilities to create the right working conditions. There is also a well-established Access for All group which is a staff disability network where people can work together to address issues and share experience.

At the end of March 2019, 203 people declared themselves to have a disability, 3,036 declared themselves not to have a disability and 2,443 did not specify.

## Sustainability, corporate responsibility and environment

Highways England is committed to ensuring that activity on the SRN is delivered in a manner that does not harm the environment. Details on the measures the Company is taking to reduce impacts on both the built and natural environment can be found in Our delivery (pages 30-55) and Our social impact (pages 90-95).





## Human rights in the supply chain

Highways England is not a commercial organisation as defined in the Modern Slavery Act 2015, which covers how companies need to be aware of modern slavery practices in their supply chain. Our supply chain is required to comply with all legal requirements. Highways England uses contractual arrangements and regular meetings to remind the supply chain of the need to comply with all legislation, including the Modern Slavery Act.

## Payment to the supply chain

Highways England's payment systems aim to ensure that the Company pays the supply chain promptly. This is monitored through the application of project bank accounts, as well as through the Company's financial systems. More detail is provided within our financial review on page 23.

## Charitable and political contributions

The Company made no charitable or political contributions during 2018-19.

## Results, going concern, share capital and dividend

The Company has prepared its financial statements for the reporting period ending 31 March 2019 in accordance with International Financial Reporting Standards rules as adopted by the EU, and in accordance with applicable law. The audited financial statements for this period are set out on pages 134-137.

The Directors have a reasonable expectation that the Company has adequate resources to operate for the foreseeable future.

The financial statements have been prepared on a going concern basis and note 2.4 to the financial statements outlines the basis of this view. The Company did not pay a dividend during the financial year.

Highways England is a Government-owned, not-for-profit company, incorporated by shares and funded by grant-in-aid. The sole Shareholder is the Secretary of State for Transport and the authorised and paid-up share capital is £10. Note 20 of the financial statements highlights the funding we receive from Government, through DfT.

The Company's financial statements are consolidated into the DfT Group Accounts and can be found at: www.gov.uk/government/collections/dft-annual-reports-and-accounts

## Directors' third-party indemnity provisions

The Company has appropriate Directors' and Officers' liability insurance in place in respect of legal action against its Executive and independent Non-Executive Directors. Highways England did not indemnify any Directors during 2018-19.

## Conflicts of interest

There are established procedures in place, in accordance with the Company's Articles of Association, to ensure that the Company complies with the Directors' conflicts of interest duties within the Companies Act 2006. Procedures are in place for dealing with any situation in which a Director may have a direct or indirect interest that conflicts with, or may conflict with, the interests of the Company.

At the date of this report, there are no conflicts of interest. It is however appropriate to disclose:

- Kathryn Cearns is a Non-Executive Board member of Companies House and a member of the DfT's Group Audit and Risk Committee
- Simon Murray became a Non-Executive Director of East West Rail Company Ltd (a company wholly owned by the DfT) from February 2019

## Directors' responsibilities statement

The Directors are responsible for preparing this *Annual report and accounts* in accordance with applicable law and regulations.

Company law requires the Directors to prepare the financial statements for each financial year. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company for that period.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show, and explain, the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and viability to ensure that the financial statements comply with the Companies Act 2006. The Directors are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names and functions are described in this *Annual report and accounts*, confirms that to the best of his or her knowledge:

- the financial statements have been prepared in accordance with International Financial Reporting Standards rules, as adopted by the EU, and give a true and fair view of the assets and liabilities, financial position, and the profit and loss of the Company
- the Directors' Report and Strategic Report include a review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. The Directors consider that this *Annual report and accounts*, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the Shareholder to assess the Company's position, performance, business model and strategy.

## Accounting Officer's responsibilities statement

The Permanent Secretary of the DfT has appointed Jim O'Sullivan as Accounting Officer for the Company. The Accounting Officer shares, on an individual basis, many of the Directors' responsibilities listed above, as well as having responsibility for the propriety and regularity of the public finances for which they are answerable, for keeping proper records and for safeguarding the Company's assets. These responsibilities are set out in full in *Managing Public Money*, published by HM Treasury.

## Compliance with the UK Corporate Governance Code 2016 ('the Code')

The Company is required to comply with the Code, or specify and explain any non-compliance in the *Annual report and accounts.* The Company believes that the adoption of the principles of the Code is a means of recognising and embedding best practice in corporate governance. The Board considers that, for the financial year ending 31 March 2019, Highways England was fully compliant with the Code, except for the following areas that it cannot comply with:

- Provisions B7, B7.1 and B7.2: These are not applicable to the Company as all Non-Executive Director appointments, extensions and terminations are confirmed by the Secretary of State as the Company's sole Shareholder.
- Provision C3.7: The Company is unable to appoint, reappoint or remove our external auditors. The requirements reflected within the *Framework Document*, agreed between the DfT and the Company, require the Comptroller and Auditor General to act as independent auditor.
- Section E: This requires the Company to maintain a dialogue with its shareholders, based on a mutual understanding of objectives. Highways England has built, and maintained, its relationship with its Shareholder, the Secretary of State for Transport, with frequent contact with the DfT as their representative. The Board recognises that this sits outside of the corporate norms contained within the Code.





## Compliance with other Government best practice codes

Any term beyond six years should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the Board.

David Hughes served on the Highways Agency and Highways England Boards for a period of nine years, and retired from the Board in August 2018.

Simon Murray served on the Highways Agency and Highways England Boards for a period of six years, and retired from the Board in March 2019.

## Events after year-end

There have been no events after year-end requiring specific disclosure.

## Disclosure of information to auditors

The Company's auditor is the Comptroller and Auditor General.

In so far as each person serving as a Director of the Company is aware (at the date of approval of this Directors' report by the Board), there is no relevant audit information (that is information needed by the auditor in connection with preparing their report) that the Company's auditor is unaware of.

Each Director confirms that they have taken all the steps necessary as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This report and its contents are the Board's statement of compliance with the Company's Licence and *Framework Document* obligations. To the best of the Board's knowledge and belief, having made all reasonable enquiries, the information contained in this document and the accompanying Performance Monitoring Statements is set out appropriately. It also constitutes the Company's annual progress report under clause 6.26 of the Licence.

As Accounting Officer, I confirm that this *Annual report and accounts* as a whole is a fair and balanced reflection of the Company's performance this year. I take responsibility for this report and the judgements taken.

The Board approved this Directors' report on 9 July 2019. It is signed by:

Jim O'Sullivan, Chief Executive
In his role as Accounting Officer on behalf of the Board

# Accounts


# Independent Auditor's report to the sole shareholder of Highways England Company Ltd

## Opinion on financial statements

I have audited the financial statements of Highways England Company Ltd (the Company) for the year ended 31 March 2019 which comprise the Statements of Comprehensive Net Expenditure, Financial Position, Cashflows and Changes in Taxpayers' Equity and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Remuneration report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of its net expenditure for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union
- have been prepared in accordance with the Companies Act 2006

## Opinion on regularity

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

## Conclusions relating to principal risks, going concern and viability statement

I have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether I have anything material to add or draw attention to:

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; or



- the Directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

## Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'[1]. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016.

I am independent of Highways England Company Limited in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The regularity framework described in the table below has been applied:

| Regularity Framework | |
|---|---|
| Authorising legislation | ▪ Infrastructure Act 2015<br>▪ The Delegation of Functions (Strategic Highways Companies) (England) Regulations 2015<br>▪ The Licence issued by the Secretary of State for Transport providing statutory directions to the Company |
| HM Treasury and related authorities | ▪ The Framework Document between the Department for Transport and the Company<br>▪ HM Treasury guidance, including *Managing Public Money*, and Cabinet Office Spending Controls, to the extent they are made applicable to the Company by the Framework Document |

## Overview of my audit approach

### Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

[1] Reference here to PN10 is to cover the basis of our regularity opinion.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around the presumed risk of management override of controls under International Standard on Auditing (UK) 240, the Auditor's Responsibility Relating to Fraud in an Audit of Financial Statements, an area where my work has not identified any matters to report.

The areas of focus were discussed with the Audit and Risk Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 110-112.

## Comparison to key audit matters communicated in prior year

In my report on the 2017-18 financial statements, I reported on the key audit matter of the completeness and accuracy of staff related expenditure as a result of the Company transferring the HR and payroll responsibilities in-house from a shared service centre arrangement. This year I found that the in-sourcing of these responsibilities has improved the accuracy and completeness of staff related expenditure, and my testing demonstrated that staff costs are materially correctly stated. As such, I have not highlighted a key audit matter in this area.

As shown below, I highlight my audit work on the Strategic Road Network (SRN) asset as a key audit matter given the extent of judgement involved in its valuation. My work this year focused, in addition to the areas previously highlighted, on the reasonableness of the assumptions and methodologies involved in the Company's new method for calculating depreciation on structures, which considers condition, for 31 March 2019. I performed additional risk-based work this year relating to the implementation of Oracle Fusion, the re-financing of the M25 PFI contract and potential VAT liabilities, all of which I discuss in further detail below.

### 1. Valuation of the Strategic Road Network (SRN)

#### Description of risk

The SRN is the dominant component of the accounts (£118.6 billion as at March 2019). The valuation comprises an estimate of the depreciated replacement cost of the SRN, as a proxy for its fair value. The estimate uses the best information available on the actual cost of recent schemes, together with records about the number, type, and condition of physical assets.

A number of accounting assumptions are implicit in determining the SRN valuation, the validity of which needs keeping under review; for example, whether costing rates for material SRN elements remain a reasonable basis for valuing a modern equivalent asset. In 2018-19, management have carried out significant work in implementing a conditions factor for structures.

The costing rates for roadside technology have also been subject to a full revaluation, although there is limited estimation uncertainty surrounding this, due to it being a relatively small element of the SRN valuation.

This is a significant area of judgement which we have classified in our audit and reporting to the Audit and Risk committee as a significant risk of material misstatement. Inappropriate assumptions used in deriving a valuation could result in a material misstatement of the balance reported in the accounts.

Further commentary on the valuation is included at note 2.21a in the financial statements, where the Company details the critical judgements and estimates related to the SRN.

#### How the scope of my audit responded to the risk

I performed procedures on the SRN valuation, geared towards the reasonableness of management's estimate of its value, to assess: the quality of source data in the underlying databases; the reasonableness of cost indexation factors applied in-year; and the adjustments made in respect of the network's condition based on the available evidence from asset management activities, amongst other key assumptions. I also considered whether any of my findings were indicative of management bias.

I also reviewed the implementation of the conditions factor in the structures valuation and carried out audit procedures over the full revaluation of Roadside technology costing rates.

In respect of the implementation of the conditions in the structures valuation specifically, I performed specific procedures including:

- Assessing the reasonableness of the methodology adopted and assumptions within this.





- Analysing whether source data had been appropriately extracted from source documents.
- Evaluating the application of the chosen methodology.

#### Key observations

During the year, the net SRN valuation increased by £5.0 billion. The major driver of this increase is the indexation applied to the road, land and structures costing rates, with a small additional increase due to the implementation of a new condition measure in the valuation of structures. The full revaluation of Roadside technology costing rates caused a decrease in the majority of costing rates applied, as recent projects indicate that pricing of technology elements has fallen.

While I identified some immaterial issues in relation to the revaluation, I am satisfied that management's valuation represents a reasonable accounting estimate in respect of this cost-based fair value estimate.

I particularly focused on the new condition measure applied to structures as a revaluation adjustment, and have assured myself over the key elements of methodology and source data built into this new model, which strengthens the link between Highways England's inspection results and this financial estimate.

### 2. Oracle Fusion Implementation

#### Description of risk

The Company implemented a new ERP system, Oracle Fusion on 1 April 2018. This led to a number of changes in system processes and required the migration of general ledger transactions and other data.

This change led me to raise, in our audit and reporting to the Audit and Risk committee, a significant risk of material misstatement relating to the potential issues with accuracy and completeness of financial data migrated during such a change, as well as the increased potential for user error due to inexperience with the new system and a number of manual processes.

There are no relevant disclosures relating to Oracle Fusion in the financial statements.

#### How the scope of my audit responded to the risk

In response to this risk I worked with the NAO's Certified Information Systems Auditor qualified IT auditors to document the controls in place over the implementation and how the new Oracle Fusion system interacted with other Highways England systems. I did not seek to place reliance on these controls for 2018-19 and instead carried out a fully substantive audit approach.

I confirmed that the migration of financial data was completed successfully and validated the reconciliation of the opening balances in Oracle Fusion to the previous closing balances.

#### Key observations

Having evaluated my team's work on the transfers and the new system implementation, I am satisfied that financial data is materially complete and accurate.

### 3. Private Finance Initiative (PFI) contracts

#### Description of risk

The Company refinanced the M25 DBFO contract on 24 July 2018. The M25 is by far the largest PFI contract on the Company's balance sheet; the closing balance obligation at 31 March 2019 is £840.3 million, which is 58% of the total closing balance obligation. See note 2.17 and note 18 in the financial statements for further information on PFI contracts.

Given the complex nature of the re-financing, the materiality of the M25 DBFO liability and the lack of explicit information about refinancing in the relevant accounting standards, I considered this a significant area of judgement and therefore raised a significant risk of material misstatement in my audit and reporting to the Audit and Risk Committee.

### How the scope of my audit responded to the risk

I performed the following procedures over the refinancing:

- Reviewed the updated financial close model, which set out the changes in the contract as a result of the refinancing.
- Reviewed and challenged management's proposed accounting treatment against the relevant accounting standards.
- Engaged with technical specialists within the NAO.

I also reviewed two other significant PFI contracts and their financial close models to confirm that the Company's accounting model is reasonable.

### Key observations

The refinancing of the M25 DBFO contract led to a reduction in the interest charge of £149 million over the remaining life of the contract, which will have a predominantly prospective impact.

I am content that this reflects the economic substance of the transaction faithfully, and within the set of treatments potentially allowable under IFRS. Having reviewed in detail the brought-forward accounting model, I am also content that the adjustment is being applied to a reasonable base treatment.

Given the above, I am satisfied that the Company has correctly accounted for the M25 refinancing and that the closing balance obligation and service charge commitment for all contracts are materially and fairly stated.

## 4. Potential VAT liabilities

### Description of risk

Throughout the 2018-19 financial year, the Company has been in dispute with HMRC in relation to the recoverability of VAT on 'Design-Build-Finance-Operate' schemes, Hybrid schemes and the National Roads Telecommunications Service contract. An agreement over the value of the liability on each of the schemes was not reached before year-end, giving rise to significant estimation uncertainty and uncertainty over the classification of each provision. As a result, I classified this area in my audit as a significant risk of material misstatement, focusing my work accordingly.

See note 14 in the financial statements for further information on these liabilities.

### How the scope of my audit responded to the risk

I performed the following specific procedures:

- Discussed details of each of the disputes with management and ascertained how close the Company was to agreeing a settlement.
- Evaluated management's proposed accounting treatment against the criteria within IAS 37, together with evidence and correspondence between the Company and HMRC.
- Reviewed the calculations of each of the potential liabilities at year-end and evaluated the reasonableness of the estimates.

### Key observations

At year-end, all three disputes were classified as provisions within the financial statements at a value of £94.3 million.

In two cases I obtained evidence from the progression of HMRC's review following the year-end. In respect of the Hybrid scheme, I considered professional advice secured by the Company at the point of sign-off, interim feedback given by HRMC, and my own review of the data sources used as inputs to the model to represent the VAT previously recovered. My review included the preparation of an auditor's estimate.

I am satisfied that the potential liabilities have been accounted for appropriately in line with IAS 37 and that the provisions are materially fairly stated, having compared my auditor's estimate with management's point estimate which is included in the accounts.





## Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the Company's financial statements at £1.2 billion, which is approximately 1% of the value of the SRN asset. I chose this benchmark given users' interest in the Company's performance in managing and enhancing the SRN. I have determined that for non-SRN transactions and balances, and for SRN capital additions, misstatements of a lesser amount than overall materiality could influence the decisions of users of the accounts, given additional user interest in the publicly funded cost of the Company's activities. I have therefore determined that the level to be applied to these components is £59 million, being approximately 1.5% of the Company's total expenditure, excluding non-cash costs such as depreciation and impairment, but including capital additions.

As well as quantitative materiality there are certain matters that, by their very nature, would, if not corrected, influence the decisions of users, for example, any errors reported in Directors' Remuneration Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Audit and Risk Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Total unadjusted audit differences reported to the Audit Committee in respect of the SRN, against overall materiality, would have increased net assets by £99.9 million. Total unadjusted audit differences reported to the Audit Committee relevant to the additional materiality would have decreased net assets by a further £27.8 million.

## Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view.
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing the Company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Highways England Company Limited's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

### Audit scope

The scope of my audit was determined by obtaining an understanding of the entity and its environment, including entity-wide controls, and assessing the risks of material misstatement. It was designed to address the key risks and took account of materiality as set out above. I performed detailed testing on all significant balances and movements, in addition to the work on key audit matters described above.

### Other information

Directors are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the remuneration report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

I am specifically required to address the following items and to report uncorrected material misstatements in the other information, where I conclude that those items meet the following conditions:

- Fair, balanced and understandable: the statement given by the Directors that the *Annual report and accounts* taken as a whole is fair, balanced and understandable and provides the necessary information to enable users to assess the entity's performance, business model and strategy, is materially inconsistent with my knowledge obtained in the audit.





- Audit and Risk Committee reporting: the section describing the work of the Company's Audit Committee and Risk Committee does not appropriately address matters communicated by me to the Audit and Risk Committee.

I also have nothing to report in this regard.

## Opinion on other matters prescribed by the Companies Act

### Directors' remuneration

In my opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

I also report to you if, in my opinion, certain disclosures of Directors' remuneration required have not been made. I have nothing to report arising from this duty.

### The Strategic and Directors' reports

In my opinion, based on the work undertaken in the course of the audit, the information given in the Strategic and Directors' reports for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and the Company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic report or the Directors' report.

### The corporate governance statement

In my opinion, based on the work undertaken in the course of the audit:

- The information given in the corporate governance report, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), in respect of internal control and risk management systems in relation to financial reporting processes, and about share capital structures, is consistent with the accounts and has been prepared in accordance with applicable legal requirements.
- Rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees have been complied with.

Based on my knowledge and understanding of the Company and its environment obtained during the course of the audit, I have identified no material misstatements in this information.

## Matters on which I report by exception

### Adequacy of accounting records information and explanations received

I report to you if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff
- the financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns
- certain disclosures of Directors' remuneration specified by law are not made
- I have not received all of the information and explanations I require for my audit
- a corporate governance statement has not been prepared by the Company

I have nothing to report arising from this duty.

**Matthew Kay**
Senior Statutory Auditor

For and on behalf of the
Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
London SW1W 9SP

12 July 2019

# Financial statements

## Statement of comprehensive net expenditure for the year ended 31 March 2019

| | Note | Year to 31 March 2019 £000 | Year to 31 March 2018 £000 |
|---|---|---|---|
| Staff costs | 4 | 150,233 | 131,082 |
| Maintenance and similar activities | | 509,246 | 455,996 |
| Interest on PFI finance leases | 18 | 109,001 | 118,530 |
| PFI service charges | 18 | 276,965 | 323,678 |
| Depreciation and amortisation | 7 & 8 | 1,212,044 | 1,429,071 |
| Impairment | 7 & 9 | 840 | 1,388 |
| Loss on sale of assets, including detrunking | 7.1c | 54,017 | 220,960 |
| Other expenditure | 5 | 146,114 | 113,968 |
| Operating income | 3 | (68,735) | (56,881) |
| **Net expenditure before taxation** | | **2,389,725** | **2,737,792** |
| Taxation | 6 | 2 | 136 |
| **Net expenditure after taxation** | | **2,389,727** | **2,737,928** |
| Other comprehensive net expenditure items that will not be reclassified to net expenditure | | | |
| Net gain on remeasurement of property, plant and equipment | 7.1b | (3,843,034) | (1,518,192) |
| **Total comprehensive (income)/expenditure for the year** | | **(1,453,307)** | **1,219,736** |

The accounting policies and notes on pages 138-179 form part of these accounts.



## Statement of financial position as at 31 March 2019

| | Note | 31 March 2019 £000 | 31 March 2018 £000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 7 | 120,631,557 | 115,268,632 |
| Intangible assets | 8 | 20,011 | 1,176 |
| Trade and other receivables | 11 | 11,854 | 9,155 |
| **Total non-current assets** | | **120,663,422** | **115,278,963** |
| Current assets | | | |
| Assets classified as held for sale | 9 | 16,270 | 21,891 |
| Inventories | 10 | 46,991 | 36,923 |
| Trade and other receivables | 11 | 172,972 | 227,353 |
| Cash and cash equivalents | 12 | 16,395 | 18,722 |
| **Total current assets** | | **252,628** | **304,889** |
| **Total assets** | | **120,916,050** | **115,583,852** |
| Current liabilities | | | |
| Trade and other payables | 13 | 773,841 | 810,190 |
| Provisions | 14 | 198,291 | 76,825 |
| **Total current liabilities** | | **972,132** | **887,015** |
| **Non-current assets less net current liabilities** | | **119,943,918** | **114,696,837** |
| Non-current liabilities | | | |
| Provisions | 14 | 143,667 | 89,338 |
| Other payables | 13 | 1,404,243 | 1,482,798 |
| **Total non-current liabilities** | | **1,547,910** | **1,572,136** |
| **Assets less liabilites** | | **118,396,008** | **113,124,701** |
| Taxpayers' equity | | | |
| Share capital | | - | - |
| Capital contributions | | 49,656,937 | 49,538,620 |
| Retained earnings | | 4,110,184 | 2,681,911 |
| Revaluation reserve | | 64,628,887 | 60,904,170 |
| **Total taxpayers' equity** | | **118,396,008** | **113,124,701** |

The accounting policies and notes on pages 138 -179 form part of these accounts.
The issued share capital of the company is £10, as detailed in note 21.
These financial statements were approved and authorised for issue by the Board of Directors on 9 July 2019, and were signed on its behalf by:

Jim O'Sullivan, Chief Executive
Highways England Company Limited registered in England and Wales number 09346363

## Statement of cash flows for the year ended 31 March 2019

| | Note | Year to 31 March 2019 £000 | Year to 31 March 2018 £000 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Net expenditure after taxation | | (2,389,727) | (2,737,928) |
| Adjustments for non-cash transactions | | | |
| Depreciation and amortisation | 7 & 8 | 1,212,044 | 1,429,071 |
| Loss/(profit) on sale of property, plant and equipment | | 54,017 | 220,959 |
| Net increase in resource provisions | 14 | 45,443 | 6,281 |
| Programme impairments | | 840 | 1,388 |
| (Increase)/decrease in inventories | 10 | (10,068) | (1,619) |
| Decrease/(increase) in trade and other receivables | 11 | 51,682 | (60,713) |
| (Decrease)/increase in trade and other payables | 13 | (114,904) | (21,139) |
| Use of capital provisions | 14 | (51,747) | (60,535) |
| Use of resource provisions | 14 | (2,560) | (1,505) |
| Adjustment for capital element of PFI payments | 18.2 | 77,763 | 73,975 |
| **Net cash outflow from operating activities** | | **(1,127,217)** | **(1,151,765)** |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 7 | (2,807,769) | (2,339,129) |
| Purchase of intangible assets – cash additions | 8 | - | (272) |
| Proceeds of disposal of assets | | 7,763 | 13,663 |
| Capital element of movement in provisions | 14 | 184,659 | 62,754 |
| **Net cash outflow from investing activities** | | **(2,615,347)** | **(2,262,984)** |
| Cash flows from financing activities | | | |
| Capital contribution from Shareholder current year | | 3,818,000 | 3,468,000 |
| Capital element of payments in respect of on-balance sheet PFI contracts | 18.2 | (77,763) | (73,975) |
| **Net financing** | | **3,740,237** | **3,394,025** |
| **Net decrease in cash and cash equivalents in the year** | | **(2,327)** | **(20,724)** |
| **Cash and cash equivalents at the beginning of the year** | 12 | **18,722** | **39,446** |
| **Cash and cash equivalents at the end of the year** | 12 | **16,395** | **18,722** |





## Statement of changes in taxpayers' equity for the year ended 31 March 2019

| | Note | Capital contributions £000 | Retained earnings £000 | Revaluation reserve £000 | Total equity £000 |
|---|---|---|---|---|---|
| Balance at 1 April 2017 | | 49,411,478 | 1,951,839 | 59,513,120 | 110,876,437 |
| Changes in taxpayers' equity for 2017-18 | | | | | |
| Net gain/(loss) on remeasurement of property, plant and equipment | | (202,985) | - | 1,721,177 | 1,518,192 |
| Transfers between reserves | | 330,127 | - | (330,127) | - |
| Net comprehensive expenditure after taxation for the year | | - | (2,737,928) | - | (2,737,928) |
| **Total recognised income and expenditure for the year ended 31 March 2018** | | **49,538,620** | **(786,089)** | **60,904,170** | **109,656,701** |
| Funding from Shareholder | | - | 3,468,000 | - | 3,468,000 |
| **Balance at 31 March 2018** | | **49,538,620** | **2,681,911** | **60,904,170** | **113,124,701** |
| **Balance at 1 April 2018** | | **49,538,620** | **2,681,911** | **60,904,170** | **113,124,701** |
| Changes in taxpayers' equity for 2018-19 | | | | | |
| Net gain/(loss) on remeasurement of property, plant and equipment | 7.1b | (101,854) | - | 3,944,888 | 3,843,034 |
| Transfers between reserves | | 220,171 | - | (220,171) | - |
| Net comprehensive expenditure after taxation for the year | | - | (2,389,727) | - | (2,389,727) |
| **Total recognised income and expenditure for the year ended 31 March 2019** | | **49,656,937** | **292,184** | **64,628,887** | **114,578,008** |
| Funding from Shareholder | | - | 3,818,000 | - | 3,818,000 |
| **Balance at 31 March 2019** | | **49,656,937** | **4,110,184** | **64,628,887** | **118,396,008** |

# Notes to the financial statements for the year ended 31 March 2019

## 1. General information

Highways England Company Limited ("Highways England" or "the company") is a private company limited by shares and domiciled in the United Kingdom and registered in England and Wales under the Companies Act 2006.

The company is wholly owned by the Secretary of State for Transport.

The company registration number is 09346363.

The registered office of the company is situated at Bridge House, 1 Walnut Tree Close, Guildford, Surrey GU1 4LZ.

The company's principal activities are to operate, maintain and modernise the SRN in the interests of its customers. Highways England was incorporated on 8 December 2014 and commenced trading on 1 April 2015, following the transfer of assets and liabilities from the Highways Agency.

## 2. Accounting policies

This section provides additional information about the overall basis of preparation that the Directors consider to be useful and relevant to understanding these financial statements.

### 2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006.

Where IFRS permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to give a true and fair view has been selected. The particular accounting policies adopted are described below. They have been consistently applied in dealing with items considered material to the accounts.

### 2.2 Measurement convention

These financial statements have been prepared on an historical cost basis, except where specific departures (including fair value approaches) are described.

### 2.3 New or amended accounting standards and interpretations

The company has reviewed all new accounting standards, amendments and interpretations of standards that are effective during the year ending 31 March 2019 to determine the impact, if any, on the financial statements.

Two new standards have been applied for the year ending 31 March 2019. The nature and impact of these new standards are described below.

IFRS 9 Financial Instruments – This replaces IAS 39 and resulted in changes in some accounting terminology, with no material impact on balances and transactions.

IFRS 9 implements new classifications for financial assets with different measurement requirements superseding the previous categories of IAS 39 for financial assets ('held to maturity', 'loans and receivables', 'available for sale', and 'held for trading') by the measurement categories ('at amortised cost', 'at fair value through profit or loss FVTPL' and 'at fair value through other comprehensive income FVOCI'). The company's financial assets are classified on the new basis, but as we do not have complex financial instruments, only receivables and cash, this has not introduced any changes in measurement.

Recognition of credit loss allowances under the new standard occurs on an expected loss rather than an incurred loss basis. Where objective evidence exists we will recognise an allowance. The impact of this is a reduction in the bad debt provision in comparison to IAS 39. The provision for bad and doubtful debts would have been £2.7 million under IAS 39 at 31 March 2019 but is £2.1 million under IFRS 9, using historical patterns of default. Our assessment of potential future variations in default included a review of leaving the European Union.





IFRS 15 Revenue from Contracts with Customers – The key change in relation to revenue is that under the previous standard (IAS 18) the timing of revenue recognition from the sale of goods was based on the point at which the risks and rewards of ownership are transferred, whereas IFRS 15 focuses on when control transfers to the customer. This means that revenue should be recognised as and when performance obligations are met. A review of significant income streams (as detailed in note 2.14) has determined that recognition points have not changed as a result of the implementation of the new standard. Therefore there is no transition impact to be reported.

A further two new standards are on the horizon but are not yet effective for the period ending 31 March 2019 and accordingly we have not applied them in the preparation of these financial statements. The following standards are expected to be adopted in subsequent years:

- IFRS 16 Leases – This is effective for accounting periods starting from 1 January 2019 and will be effective in the company's 2019-20 accounts. The standard establishes revised principles for the recognition, measurement, presentation and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 requires lessees to account for all leases on their balance sheets, including those which are currently treated under IAS 17 as operating leases and accounted for in the Statement of Comprehensive Net Expenditure as an "in-year" expense. This will take place through the recognition of a 'right of use' asset and a lease liability. Costs will be taken to net expenditure through the depreciation of right of use assets and the interest charged on the lease liability, leading to a different expenditure profile as compared to the 'straight line' method used for operating leases in IAS 17. Had this standard been adopted in the 2018-19 annual accounts, the company currently estimates, subject to the completion of transition work, that gross assets and gross liabilities would have been around £68.3 million higher respectively, and net expenditure for the year around £1.0 million lower.

  IFRS 16 will be implemented using the cumulative catch-up method; as a result comparatives will not be restated and the measurement of the asset and liability balances will be recognised with effect from 1 April 2019. Leases, currently classified as operating leases, will be assessed and recognised in the Statement of Financial Position in accordance with IFRS 16 criteria, increasing the value of property, plant and equipment assets and the value of lease liabilities.

- IFRS 17 Insurance Contracts – This requires a discounted cash flow approach to accounting for insurance contracts. It is expected to come into effect from January 2021. Highways England currently has no contracts which meet the definition of insurance contracts.

### 2.4 Going concern

The Statement of Financial Position (SoFP) as at 31 March 2019 shows net current liabilities of £719.5 million. This reflects the inclusion of current liabilities that will be settled post 31 March 2019 largely from funding from the company's sponsoring department (DfT). The company's 2019-20 funding has been included in Her Majesty's Treasury Main Estimate which has been approved by Parliament.

The Directors have a reasonable expectation that the company has adequate resources to operate for the foreseeable future. The financial statements are therefore prepared on a going concern basis.
In forming this view the Directors/management have:

a. reviewed the company's future funding commitments received from the Government through the publication of RIS1, which sets out capital funding for the company through to 2020-21

b. kept the DfT fully aware of commitments made which stretch beyond the period covered by RIS1

c. reviewed the Draft RIS2 document covering the capital funding through to 2026. This strategy is aligned to the £25.3 billion funding announced in the October 2018 budget

d. reviewed internal budgets, plans and cash flow forecasts

e. reviewed the DfT's main estimate for 2019-20

### 2.5 Non-current assets: property, plant and equipment

Property, plant and equipment is sub-categorised into:

- SRN – This consists of the designated motorways and trunk roads in England, which form a single integrated network. The SRN constitutes road, land, structures and technology within the SRN's perimeter.

- Non-network assets – These include land, buildings and information technology outside the SRN's perimeter as well as all plant and machinery.

### 2.5.1 SRN

#### a. Capitalisation policy

Capital expenditure is the money that we spend to purchase, maintain, or improve our fixed assets. Costs are capitalised in accordance with the policies outlined in this subsection.

Construction costs: Construction expenditure on schemes is capitalised. Design costs are capitalised when the related scheme is included in RIS1 and where there is reasonable certainty the scheme will go ahead. Where a scheme is later withdrawn from the capital programme, total design expenditure already incurred is written off and recognised in the Statement of Comprehensive Net Expenditure. Any remaining land and property is transferred to surplus land and buildings or dwellings. Surplus land, buildings or dwellings to be sold within one year are valued and reported as assets held for sale where they meet the criteria of IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations).

Internal staff costs: Costs that can be directly attributed to the construction of an asset, including capital renewal schemes, are capitalised. Staff costs are capitalised by taking the ratio of capital spend to total programme spend for each directorate supporting the delivery of the work.

Renewals and enhancements: The SRN is intended to be maintained at a specific level of service potential by continual replacement and refurbishment. The SRN is inspected regularly to enable maintenance to be planned on a priority basis. Work on the SRN is capitalised only for projects which extend the network's service potential. This can either be done through enhancement, such as road widening schemes, smart motorway upgrades, new roads or structures, or renewal of the network including surface replacement works and major bridge refurbishments which extend the life of the network. Maintenance expenditure, which represents day-to-day servicing such as pothole repairs or drainage clearance, is charged to the Statement of Comprehensive Net Expenditure as incurred.

Technology equipment: Expenditure on technology equipment is capitalised when the equipment is installed and commissioned on the SRN for the first time. This principally comprises variable message signs, CCTV and automatic number plate recognition cameras.

There is no minimal value threshold for capitalisation of SRN expenditure.

#### b. Valuation

The company has chosen to value the network at fair value. The SRN is a specialised asset and as such does not have an easily attainable market valuation nor an income stream on which to base a valuation. The company therefore determines the fair value of the SRN using depreciated replacement cost. This approach is consistent with IFRS 13 and calculates the value to a theoretical buyer on the basis of how much it would cost to construct a network of equivalent service potential. At a high level, a depreciated replacement cost estimate involves first creating an 'as new' replacement cost based on a modern equivalent asset offering the same function (which the company takes to include identical routing and capacity) on a greenfield site, before applying depreciation to reflect the current condition of the network.

#### c. Revaluation

Highways England undertakes a full valuation of each of the high-level SRN elements (roads, structures and technology) at intervals not exceeding five years. This valuation is undertaken with support from professional cost estimators, and relevant experts on modelling and statistics. The five yearly valuation, known as a quinquennial review, is undertaken in accordance with the general principles of the Appraisal and Valuation Manual (Red Book) of the Royal Institution of Chartered Surveyors (RICS).

These valuations are not based on the historic actual cost of construction for individual elements of the SRN but on standard costing rates for the specific asset types making up the SRN on a modern equivalent asset basis, based on the best information available on the actual cost of recent schemes. Costing rates are kept up to date in intervening years using indexation, as described in note (d) on page 142.

A number of adjustments are taken into account in annual revaluations. Movements are taken against the revaluation reserve and are reflected in other comprehensive expenditure, to the extent that revaluation surplus is available.





Greenfield valuation basis: The SRN is valued on the basis that the replacement will be on a 'greenfield site' in line with RICS principles. VAT is non-recoverable on 'greenfield site' expenditure so the depreciated replacement cost includes non-recoverable VAT of 20%.

Dimensional variance adjustments: Data quantifying the extent of the SRN is held on a number of operational asset management systems which is used to inform the valuation of individual roads and structures. With the use of increasingly accurate measuring technology there can be changes to the measured length, width, and height etc of the road and structures when they are remeasured. When this happens it impacts on the valuation of the SRN and is reflected in other comprehensive expenditure, to the extent that revaluation surplus is available.

Condition-based adjustments: In line with RICS principles, Highways England assesses a depreciation 'discount' to the gross costing of a modern equivalent network based on the actual assessed condition of key SRN elements including roads and structures, reflecting a theoretical buyer's perspective in determining an accounting fair value for the network. This discount is implemented through the depreciation policies described below, including the adjustment of depreciation on the roads element of the SRN to reflect the inspection of surface condition.

In 2018-19, the company has refined and expanded its analysis on structures condition, and reflected this through an additional revaluation adjustment. The revised approach determines a depreciation percentage for the total asset based on the latest inspected condition of structures components, and the extent to which their useful lives have been consumed. Appropriate adjustments are applied, including a weighting towards higher-cost components to fairly reflect the impact on replacement cost. The company expects to incorporate this information into its estimate for structures depreciation from 2019-20.

Renewals-based adjustments: For both road and structures categories, where there are in-year renewals, the value of the replaced aged asset elements are assumed to have nil net book value and an appropriate adjustment made. This adjustment equally reduces the cost and associated depreciation categories so, unlike the condition adjustments described above, has no impact on net assets.

Timing of quinquennial revaluations: A quinquennial revaluation of all structures was undertaken in 2017-18 with costing rates updated to reflect the prices being charged on schemes completed in recent years. The road and land elements of the SRN were subject to a valuation at 31 March 2015 and are due for review in 2019-20. In 2018-19 the company undertook a quinquennial review of roadside technology assets.

Indexation: Various indices are applied in the years between quinquennial reviews to ensure the final valuation is at depreciated replacement cost. Indexation of the SRN valuation is applied as follows:

| Unit cost | Indexation determination |
|---|---|
| **Roads and structures** | Road Construction Resource Cost Indices (ROCOS) is applied to roads and structures for yearly revaluation and reflects the movement in prices in the construction industry. ROCOS is published on a quarterly basis by the Building Cost Information Service (BCIS) |
| **Land** | Land indexation is determined by the company in consultation with external consultants and the following external sources:<br>- urban land indices from the Land Registry House price index.<br>- rural land indices from the Royal Institution of Chartered Surveyors (RICS) and the Royal Agricultural University (RAU) market surveys. |
| **Technology** | ROCOS is applied to all technology assets |

Indexation based on these indices is applied to all elements of the SRN. However, there may be occasions where the use of indices for particular SRN elements give an unrealistic outcome, for example where there has been substantial technological change. When changes in the cost of specific assets are known to have been significantly different from the changes in the index, or where the special circumstances apply, depreciated replacement cost is based on expert opinion or other evidence of the current cost of assets or groups of assets having a similar service potential.

## d. Costing rates

The SRN valuation is based on a standard cost model. A number of accounting assumptions are made when calculating the unit rates for the various elements of the SRN as part of the quinquennial review process, as described below.

| Unit cost | Measurement principles at quinquennial review |
|---|---|
| **Road** | The standard costing for roads is based on 32 road types, each of which has:<br>■ a standard unit rate that is applied across the SRN for the relevant road type.<br>■ unit rates are generated from suitable schemes constructed over recent years that have opened for traffic. Since not all road types may be represented in the cost data from recent construction work, the company expands on actual scheme data by extrapolation to construct a complete table of unit rates. This analysis is performed based on known costing relationships between road types (i.e. greater width or higher specification driving cost). |
| **Land** | Land is an integral part of the SRN and forms an important part of the valuation. Some land occupied by the SRN is not actually owned by the company, e.g. Crown land. However, as the company has an entitlement to use the land in perpetuity, it is included within the valuation at freehold values. Land costing rates are determined for the SRN land parcels based on values provided by the Valuation Office Agency (VOA) which are differentiated by:<br>■ regional geographical location; and<br>■ classification as urban or rural |
| **Structures** | Standard structures – Unit rates for bridges, tunnels, gantries and retaining walls are adjusted to reflect the required scale of the asset – e.g. the span and width of bridges. The stock of these specific asset types on the network is known, and costing rates for them are based primarily on the financial information from recent actual schemes.<br>As for the road unit costs, scheme-derived costing rates are extrapolated in order to allocate a rate even when a direct comparator has not been constructed in recent years, based on known costing relationships. The aim for each asset type is to produce a robust valuation of the portfolio.<br>Non-standard structures – These are structures that, due to the unique combination of their size, construction and character cannot be quantified and valued in the same manner as other structures, e.g. the Dartford-Thurrock River Crossing. Actual cost data and professional judgement are used to inform the valuation basis for these special structures, which have a net value of around £3.9 billion. |
| **Technology** | Technology equipment comprises: Variable Message Signs; CCTV; Automatic Number Plate Recognition cameras; cabling; telephones; and signal power supplies etc. Unit costs are developed by the Highways England commercial team, using rates from technology frameworks currently in place between the company and its contractors and bulk purchase prices for materials procured directly by the company. The unit costs for technology equipment also include the cost of individual components, installation costs, commissioning costs, preparation and supervision costs, and traffic management costs where applicable. |

Between quinquennial valuations, costing rates are indexed using the principles in point (g) on page 144.

## e. Depreciation

Depreciation is a measure of the value of an asset that has been consumed during the accounting period. Simplistically, it is a loss in value caused by the use of the asset over the accounting period and is charged to the Statement of Comprehensive Net Expenditure.

All parts of the SRN, apart from land and the substructure of the road, which have an unlimited useful life, are depreciated.

### Road depreciation

The renewable road element subject to depreciation comprises:

- Surface layer
- Drainage, lighting, signage, kerbs and footways
- Road markings and studs
- Rigid concrete roads

These renewable elements make up an estimated 17.5% of the gross replacement cost for the roads component of our network. For the purpose of depreciation, the road surface is recognised as a single asset and depreciation on these elements is calculated in two parts:





1. Capital renewal expenditure on the SRN surface is capitalised as it restores the service potential of the asset. We perform renewals in order to maintain the road surface in a steady state. We depreciate 100% of renewals expenditure in the year it is incurred and account for this charge in net operating expenditure.

2. The condition of the road surface is then measured by assessing the extent of rutting. Rutting is a measurement of the deterioration of the wearable element of the road surface and is assessed using the Traffic Speed Road Assessment Condition Survey (TRACS). The depreciated value of the road network revealed by this analysis of actual condition of the road surface is compared to the carrying value following the renewals adjustment described above. Any further downward movement required is taken to the net expenditure as a depreciation charge; conversely, if an upward movement is required to reflect actual condition, this is taken as a credit to depreciation.

The life of the sub-pavement layer and earthworks is considered infinite and therefore it is not depreciated.

### Structures depreciation

In order to calculate the depreciation charge, we take into account the structure life consumed together with cost factors and condition to provide a more consistent measure for valuation.

Depreciation for structures is determined in two parts as follows:

1. Structures have a number of identifiable components with different design lives and are depreciated on a straight-line basis over their economic life, as seen in the table below.

2. Renewals expenditure on structures is capitalised to the extent that it restores the service potential of the assets that has previously been consumed. The resultant increase in PPE reflects the same increase in value as the regular credit in respect of cyclically renewed structures elements. To ensure a reasonable measure of the deterioration associated with these elements, an additional depreciation charge is included to match the in-year renewals spend.

| Structure | Design life in years | Percentage depreciable | Description |
|---|---|---|---|
| **Bridges and culverts** | 20-120 | 20% | Non-renewable elements not depreciated |
| | | 12% | Cyclically renewable elements which are depreciated over 20 years |
| | | 68% | Non-cyclically renewable elements that are depreciated over the design life of the structure |
| **Gantries and retaining walls** | 20-120 | 100% | The non-renewable elements of a gantries and retaining walls are considered to be negligible therefore a straight line depreciation of 100% is applied |

### Technology depreciation

The depreciation charge for technology assets is based on a 'straight line' depreciation method with the value reduced over the assets' assigned life. The life span of technology equipment varies between 15 and 50 years according to the type of equipment. The life span of the majority of technology equipment is 15 years, with a few technology assets expected to last 25 years. Technology assets with a life of 50 years are typically structures to support the technology e.g. MS4 mast.

## f. Assets under construction (AUC)

Highways England accounts for all new projects in the course of design or construction as AUC at their actual build cost. On completion of a project, the project is transferred out of AUC and into the SRN at depreciated replacement cost (which will be different from the actual cost). Any impairment loss that arises on the intial capitalisation of the asset is offset against any existing revaluation reserve. Since there is no distinction between asset 'constructed' and 'asset under construction' for the SRN there is no distinction in the revaluation reserve.

### g. Valuation adjustments to assets under construction (AUC)

Because road schemes are often performed on an operational asset rather than a greenfield site, and because of the expense of making improvements incrementally (e.g. lane-widening or smart motorway upgrades), the actual cost of additions to the network will often exceed the value attributable to them in the SRN following project completion. This results in an annual revaluation adjustment to assets under construction.

The company uses a standard revaluation percentage for construction projects lasting more than one year. These percentages are based upon projects constructed over the previous ten years. This ensures that the company adjusts the valuation on an ongoing basis rather than when a project is open for traffic. When a project is open for traffic, a formal calculation of the valuation adjustment is completed and compared with the cumulative valuation for further adjustment as necessary.

### h. Derecognition and impairment

Elements of the SRN removed from service during the year are derecognised in line with IAS 16 and charged to the Statement of Comprehensive Net Expenditure. Additionally, the road surface and other SRN components are subject to an annual impairment review.

Impairment refers to the permanent reduction in value of a company's asset. Impairments are recognised in line with IAS 36, Impairment of Assets, by recognising a charge in the Statement of Comprehensive Net Expenditure to the extent that the reduction in value exceeds the available revaluation surplus in the Revaluation Reserve.

### i. Trunking/detrunking

The company has responsibility for the maintenance, management and enhancement of the SRN. The value of the SRN can be increased by trunking which is where a road/route is transferred from a local authority to the company. Conversely the value of the SRN can be reduced by detrunking which is when the company transfers a part of the network to another party. This can occur for roads which are superseded as part of the SRN following the construction of a new road, such as a bypass and this is treated accordingly as a partial disposal of the SRN for nil consideration. Trunking and detrunking are shown within the PPE note as additions and derecognitions at the point at which the assets are added to or removed from the SRN.

### 2.5.2 Non-network assets

### a. Capitalisation policy

Expenditure on property, plant and equipment for acquisition or enhancement of an asset is capitalised above the thresholds as summarised below:

| Element | Threshold |
|---|---|
| Non-network assets | £2,000 |
| Non-network land | No minimum value |

Expenditure below these values is charged as an expense in the Statement of Comprehensive Net Expenditure also known as net operating expenditure.

The company groups assets in relation to bulk purchases of plant and machinery and information technology. This includes the following:

- Plant and machinery resulting from office refurbishments
- IT assets resulting from major IT upgrades

### b. Valuation

#### Land and buildings, including dwellings

Freehold land and buildings are valued on the basis of open market value for existing use. External professional surveyors, in accordance with the RICS Appraisal and Valuation Manual, undertake a full valuation of these assets at intervals not exceeding five years.

Between valuations, values are adjusted with regional land and building indices calculated by our consultant engineers using RICS Rural Land Market Survey and average house price changes per the Land Registry Office House Price Survey. Land and buildings include freehold and leasehold properties. Some Regional Control Centres are leasehold properties under 50 years and are defined as short leasehold properties.

The land and buildings assets were last fully valued by the Valuation Office Agency (VOA) as follows:

| Asset | Valuation date |
|---|---|
| Motorway maintenance compounds | 31 March 2016 |
| Motorway service areas | 31 March 2015 |
| Surplus properties (including dwellings) | 31 December 2018 |
| Regional Control Centres | 31 March 2016 |
| National Traffic Operations Centre | 31 March 2016 |





#### Plant and machinery

Structural steelwork is stated at fair value using the current market value of steel. Other plant and machinery is stated at fair value using yearly plant and equipment indices supplied by the Office for National Statistics.

#### Information Technology

Information Technology consists of IT hardware and database development. Other information technology assets are stated at fair value using yearly plant and equipment indices supplied by the Office for National Statistics.

### c. Depreciation

Freehold land is not depreciated. Other non-network assets are depreciated at rates calculated to reduce the assets value over their expected useful lives on a straight-line basis as follows:

| Asset | Life in years |
|---|---|
| **Buildings and dwellings** | |
| Freehold buildings | up to 60 years |
| Leasehold buildings | length of the lease |
| Dwellings – non-surplus | no depreciation |
| **Plant and machinery** | |
| Winter maintenance equipment | 10 to 25 years |
| Office equipment | 5 to 10 years |
| Vehicles | 5 to 10 years |
| Structural steelwork | 10 years |
| **Information technology** | |
| Technology equipment | 3 to 5 years |
| Test equipment | 5 to 10 years |
| IT equipment | 5 years |
| Database development expenditure | 5 years |

## 2.6 Non-current assets classified as held for sale

Non-current assets are classified as assets held for sale in accordance with IFRS 5 where they are available for sale in their present condition and expect to be sold within one year. These comprise surplus land, buildings and dwellings, plant and machinery and other assets no longer used. These assets are valued at the lower of carrying amount and fair value (market value) less selling costs where material.

## 2.7 Intangible assets

Intangible assets are only recognised if it is probable that future economic benefits will be produced for the company and the costs can be measured reliably. Intangible assets are measured initially at cost and are amortised on a straight-line basis. Licences over £2,000 are treated as intangible assets. Intangible costs below this are expensed as they are incurred. Intangible assets are amortised over their useful lives, and this is reviewed at the end of each reporting period.

## 2.8 Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of inventories is calculated based on the weighted average cost of items. The cost of inventories comprises all costs incurred in bringing the inventories to their present location and condition.

## 2.9 Financial instruments

### 2.9.1 Financial liabilities

Financial liabilities are any contractual obligations to deliver cash or other financial assets to a third party. They include those trade and other payables (current and non-current) that fall within the scope of the financial instruments standards.

They are valued initially at fair value, with the transaction value regarded as the fair value at the date of initial recognition. Thereafter, where the time value of money is considered to be material, they are held at amortised cost using the effective interest rate to discount future cash flows. They are derecognised when all obligations are settled.

### 2.9.2 Cash and cash equivalents

Cash and cash equivalents comprise bank balances held with the Government banking service and commercial bank accounts.

### 2.9.3 Receivables

Trade receivables and accrued income are covered by the financial instruments standards IFRS 9 and, for the comparative year, IAS 39. These financial assets are classified as financial assets held at amortised cost under IFRS 9.

Receivables are recognised initially at fair value, plus transaction costs. Fair value is usually the contractual value of the transaction. Thereafter, receivables are held at amortised cost.

### 2.9.4 Impairment of financial assets

The company assesses at each balance sheet date whether there is objective evidence that financial assets are impaired. Under IFRS 9 we employ a forward-looking expected loss model. This means that we consider current and forward-looking information to assess whether a historic event or the potential for a future event has an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

For the purposes of a collective evaluation of impairment, financial assets are grouped based on similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, overdue status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. Future cash flows in a group of loans and receivables that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

## 2.10 Provisions

In line with IAS 37, the company makes provisions for liabilities and charges where, at the balance sheet date, a legal or constructive obligation exists for a future liability in respect of a past event and where the amount of the obligation can be estimated reliably. Where appropriate, this is supported by independent professional advice. Provisions are charged to the Statement of Comprehensive Net Expenditure unless they relate to capital projects, in which case the provision is added to the asset's carrying amount. Provisions are discounted where the effect is material. Further detail, including our present obligation triggers, is included in note 19.

The majority of our provisions relate to blight and lands. These provisions are created when a scheme reaches a milestone of Preferred Route Announcement (PRA) or Start of Works (SoW). Utilisation of the provision occurs once payments are made against the scheme.

## 2.11 Contingent liabilities

A contingent liability is a potential liability that may occur depending on the outcome of an uncertain future event. Unless their likelihood is considered to be remote, the company discloses as contingent liabilities:

- potential future obligations arising from past obligating events, where the existence of such obligations remains uncertain pending the outcome of future events outside of the company's control
- present obligations arising from past events that are not recognised because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability

Where the time value of money is material, contingent liabilities, which are required to be disclosed under IAS 37, are stated at discounted amounts.

## 2.12 Contingent assets

A contingent asset arises where an event has taken place that gives the company a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the company.

Contingent assets are not recognised in the SoFP but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits.

## 2.13 Reserves

As the company generates minimal income, the DfT provides funds annually in the form of a cash contribution, on behalf of the Secretary of State for Transport in his capacity as the sole shareholder. The funds received are used to finance expenditure that supports the objectives of the company in accordance with the general service expectation contained in the company's licensing terms. These funds are treated as allocated to the retained earnings reserve, along with the company's net expenditure.





At the start of its operations on 1 April 2015, the company received a transfer from the Secretary of State for Transport comprising the assets of the Highways Agency, including the SRN (with the exception of the Severn Bridge and M6 toll road). In accordance with generally accepted practice in respect of common control transactions, the net assets from this transfer were credited at book value to the revaluation reserve to the extent of the revaluation surplus available in the Highways Agency at the point of transfer; and for the balance, to a capital contributions reserve. Intra-reserve transfers relating to revaluation are posted against the capital contributions reserve since they relate in the main to the transferred-in network asset.

All reserves are non-distributable other than to the Secretary of State for Transport within the legislative framework and as defined by the Companies Act 2006.

## 2.14 Operating income

Operating income relates directly to the operating activities of the company. It principally comprises: fees and charges for services provided on a full-cost basis to external customers; third party contributions to major road schemes and; recoveries from third parties for damage caused to the SRN.

The revenue recognition principles for each of the major revenue streams are reviewed below and, while the company does not have customers in the traditional sense, it has applied the principles of the IFRS 15 where relevant.

- Recovery from third parties for damage to the SRN. Where damage to the network occurs, the company considers that past events involving damage to the network initially create a contingent asset under IAS 37 since they create a situation whereby a reimbursement by the offending party is (taking all cases in the round) probable. Income (and a receivable) is recognised, as per IAS 37, at the point at which an insurance company decides that they will make a payment, since at this point the reimbursement is deemed to have reached a threshold of being virtually certain. IFRS 15 is not directly relevant since this income does not derive from a bilateral arrangement.
- Contribution to road schemes relates to non-exchange contributions to schemes from third parties. Where applicable revenue from this category of scheme is apportioned based on the percentage of construction completed. This treatment is in line with the principles of IAS 20 whereby income is systematically recognised over the period necessary to match them with the related costs. Non-exchange transactions are not directly covered under IFRS 15.
- Fees and charges to external customers relates to contributions to schemes from third parties for S274/278 contracts. Revenue in relation to this type of contract is received in advance and is then held as deferred income until costs are incurred. The treatment of this revenue is unchanged under IFRS 15 whereby revenue is recognised over time as the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced in accordance with section 35 (b).
- Other income relates to various less material revenue streams including income relating to vehicle recovery charges, short-term property lettings income, grant income and income from memorandum of understanding (MOU) agreements with Government departments.

Operating income is stated net of VAT, and is measured at the fair value of the consideration received or receivable.

## 2.15 Research and development

Expenditure on research is not capitalised. Expenditure on development is capitalised and written off over the useful life of the asset if it meets the criteria for capitalisation. Expenditure that does not meet the criteria for capitalisation is treated as an expense and shown in the net expenditure in the year in which it is incurred.

Non-current assets acquired for use in research and development, are depreciated over the life of the associated project.

## 2.16 Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. In making the classification, the company does not separate the land and buildings elements of arrangements which cover both elements. All other leases are classified as operating leases.

Assets held under finance leases are recorded as property, plant and equipment and a liability to the lessor is recorded as the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the net expenditure over the period of the lease at a constant rate in relation to the balance outstanding.

Rentals under operating leases are charged to the net expenditure on a straight-line basis over the term of the lease. Where the arrangement includes incentives, such as rent-free periods, the related benefits are deferred over the full term of the lease.

## 2.17 Service concessions – PFI contracts

Under a service concession, a Government entity contracts with a private sector entity to develop, build, finance, operate and maintain infrastructure and to deliver services directly or indirectly to the public, but controls or regulates those services and controls any significant residual interest in the infrastructure.

The company recognises the infrastructure associated with service concessions as an asset and recognises the related liability. The asset is accounted for in the same way as other assets of that type. Interest on the liability and expenditure on services provided under the service concession are recognised in the net operating expenditure as they accrue. The annual payments for PFIs are apportioned between three elements: an element to pay for services; an element to pay interest on the liability; and an element to repay the initial liability.

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. PFI are first recognised once the property comes into use, for example when a road is ready to open for traffic.

## 2.18 Employee benefits

### Short-term employee benefits

Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees. Where considered material, the cost of leave earned but not taken by employees at the end of the period is recognised in the financial statements to the extent that employees are permitted to carry forward leave into the following period. In practice, all material short-term employee benefits are settled during the period in which they are earned.

### Pensions

There are three main pension schemes: the Principal Civil Service Pension Scheme (PCSPS), the Highways England Personal Pension (Defined Contribution) Scheme (HEPP), and the Federated Pension Plan (FPP). The details below identify why they exist. Due to the nature of the joining criteria, the membership in PCSPS is on the decline, while membership in the HEPP scheme is increasing. Membership in FPP is increasing but at a much slower rate.

Employees who transferred from the Highways Agency, as at 31 March 2015, retained access to continued participation in the PCSPS.

The PCSPS is an unfunded multi-employer defined benefit scheme. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by IAS 19, accounts for the scheme as if it were a defined contribution scheme.

Employees who joined the company with effect from 1 April 2015 are eligible to participate in the HEPP. The pension scheme came into effect on 1 April 2015 and is managed on the company's behalf by Legal & General Ltd.

Highways England also has an FPP which is a master-trust defined benefit scheme managed on the company's behalf by Pan Trustees Limited. The FPP came into effect on 1 July 2016 to accommodate pension benefits protected under TUPE for employees transferring in to Highways England with legacy defined benefit pensions. The FPP currently has a small membership, but may be used to provide comparable pension benefits for future transfers in to Highways England, where protected under TUPE or similar pension legislation.

Under the PCSPS, and the HEPP, pension liabilities do not rest with the company. For all schemes, employer pension contributions are recognised as they become payable following qualifying service by employees.

For 2018-19 the company has had a transitional arrangement for the staff transferred from Severn River Crossing plc. These staff contributed to an existing private pension scheme while arrangements were sought to bring them into one of the existing three plans. These are accounted for in the same way as all other pension contributions.

### Termination benefits

Termination benefits are amounts payable as a result of a decision by the company to terminate employment





before the normal retirement date, or a decision by an employee to accept voluntary redundancy. Amounts payable are charged on an accruals basis to staff costs in the net expenditure when the company is formally committed to ending an employment contract.

## 2.19 Taxation

### VAT

Most of the activities of the company are non-business in nature and for this reason, outside the scope of VAT. The company is eligible under s. 41 (3) of the VAT Act 1992 to recover input VAT which is recovered under an annual Treasury Direction. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

### Corporation tax

The company is liable for corporation tax in relation to income earned from business activities.

The vast majority of the company activity is non-business as it has a statutory obligation to operate and maintain the SRN and is not in competition with the private sector in carrying out this activity, as no one else has a right to maintain the SRN. Non-business activity is further characterised by the fact the company is funded by contribution from the DfT. Non-business activities are not subject to corporation tax.

Business activities for the company are non-statutory obligations where the company is in competition with other providers. Income from business activities includes sale and rental of properties purchased as part of road schemes.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the net expenditure except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

The company at present has no deferred tax as business activity is minimal and is unlikely to do so in future.

## 2.20 Grants

Grants are recognised in the accounts when there is reasonable assurance they will be received. Grants that relate to specific capital expenditure with attached conditions are credited to deferred income on the SoFP and recognised in net expenditure over the asset's construction period. Grants for revenue expenditure are credited to the net expenditure.

The company also makes a small number of grants to a variety of public sector, private sector and voluntary bodies. These grants are recognised at the point at which the grant agreement is authorised by all related parties.

## 2.21 Critical accounting judgements and key sources of uncertainty

A series of estimates and judgements are used to produce these financial statements. These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a. Property, plant and equipment – The SRN is valued using an approach to determine depreciated replacement cost, as described in note 2.5. The valuation is built up using an understanding of the extent of the network and its component parts on a modern equivalent basis; the application of a number of costing rates for those component parts, by type; and the condition of the network. In this context, it is sensitive to a number of significant areas of estimation, including the following:

- Costing rates used to inform the valuation of the road and structures elements of the SRN are based on schemes constructed by the company (and, formerly, the Highways Agency) in recent years. At each full revaluation, costing rates are derived for specific asset types for example, bridges classified by their width and length. For some specific asset types there may be a limited number of construction schemes providing a direct costing comparator. In these cases, the company derives a reasonable costing rate through a line of best fit approach applied to the broader asset type (e.g. bridges), using scheme data available and known cost relationships between specific asset

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types. This provides a complete set of data points based on the best information available.

The statistical methodology involved does require estimation but the company is satisfied that the approach taken minimises uncertainty by making full use of the data available. Sensitivity of the overall valuation to extrapolations is also limited since the specific asset types most commonly represented in actual schemes also tend to be more commonly represented in the existing network, and therefore representing a large amount of its value. Changes to the costing rates will have an impact on the final valuation within the accounts. A 10% movement in costing rates would impact the valuation by £11.9 billion.

The company applies a number of construction-related indices to the costing rates for various elements of the SRN, both in updating actual scheme information to current cost as part of the full revaluation exercises described above, and in revaluing overall SRN components in interim valuation years. The company chooses the indices which it judges most relevant to the replacement costs for the SRN's component parts. Information on specific indices is provided in note 2.5. The valuation is sensitive to indices, particularly ROCOS which is used for annual indexation. An increase of 10 points in the ROCOS index would impact the SRN valuation by £4.6 billion.

- Road surface condition determines the in-year depreciation charge for the roads component of the SRN and therefore the extent to which the depreciated replacement cost reflects a reduction on gross replacement cost. It is analysed using surveys carried out across all lanes of the SRN that measure, at 10 metre intervals, the level of rutting (depressions/grooves in the road surface caused by wear or deformation over time). Rutting measures only the 'black top' of the road surface. The company uses the rutting level to determine when a road surface requires maintenance intervention, and has therefore determined that this provides a fair approximation for the overall condition of the road surface. The company currently estimates that the level of rutting that is acceptable before intervention is 15.5mm. At this level it is considered there is no further service potential in the road surface and this triggers the renewals programme.

  Rutting data is used to generate the depreciation charge which is the rutting percentage multiplied by the depreciable element of the road. The company has calculated that the depreciable element of roads is 17.55% of the total road valuation, based on the proportion of cost related to the elements regularly renewed. The company judges that the balance of the valuation relates to elements (including sub-layers) with useful lives long enough, subject to regular renewal of the top layer, as to require no depreciation charge.

  Any change in the acceptable level of rutting of 15.5mm will impact the SRN valuation. A change of 1mm would result in the valuation changing by £154.2 million as at 31 March 2019.

- Structures condition (e.g. bridges) is reflected in the carrying value of the SRN structures element, which is in turn influenced by a depreciation charge based on an asset valuation model. This builds in both the impact of deterioration over time, and periodic renewal, as described in note 2.5, and makes assumptions about the useful economic lives of structures. The company keeps information on the condition of its structures under regular review to assess whether an adjustment is required for depreciation to reflect an engineering assessment of the current condition point.

  In 2018-19 the company undertook a review of the information available to inform structures condition. This review involved analysis of historic schemes and the identification of additional modelling factors which could use inspections data to provide a value-weighted assessment of the overall depreciation percentage which would reflect the actual condition of the network and therefore more closely model a theoretical buyer's perspective. As well as building in additional inspection-based data, the review has also identified that the renewable elements of the bridges and culverts population would be more closely modelled as 70%, rather than 80%, of the total cost build-up. Together, these factors have had the impact of increasing the net book value of structure by £0.2 billion which has been taken as an in-year revaluation movement as reflected in note 7. From 2019-20, the company expects to use this new analysis – both the change in the percentage renewable and the potential for continuous adjustment aligned to recent inspection data – to inform the estimation methodology used to implement its depreciation policy as described in note 2.5. The company considers that this change will represent a change based on the best available data in the accounting estimate for the pattern of consumption of its depreciable assets, as described in IAS 8, rather than a policy change.





- Useful economic life – the company makes assumptions about the period of time during which various elements of the SRN will provide service potential. Estimates are made of the useful economic life of structures, roads and technology equipment, which are based on historic trends and expert knowledge.

**b.** Classification of legal claims recorded as contingent liabilities or provisions when the company faces legal claims and challenges, which may result in the possible outflow of economic benefits. The classification of these as well as their valuation, and presentation as current or non-current is based on legal advice.

**c.** PFI – Part of the SRN was constructed under service concession agreements where the Highways Agency entered into a contract with a private sector partner and funded (typically) design, build, financing and (for the contract period) maintenance of an enhancement to the SRN. These arrangements are accounted for as per IFRIC 12 *Service Concession Arrangements* – in respect of the capital element, a non-current asset is created at inception alongside a 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 network enhancement created. The asset is subsequently revalued and depreciated in accordance with accounting policies in note 2.5.

The yearly charge payable under PFI contracts is split to allocate payments between the cost of services under the contract, the repayment of the capital element, and the interest element on the liability.

During the year, the M25 London Orbital Motorway contract was refinanced. The refinancing of debt was performed by the SPV, but Highways England benefits from this as a result of a partial gain share in the contract. A remodelling exercise was undertaken to reflect the impact of reduced interest rates on the company's liability resulting in a reduction to the interest liability of £149 million. This reduction is being recognised over the remaining life of the PFI rather than via a one-off gain. Though not specifically covered by accounting standards, the company has chosen this approach as it is in line with comparable standards and appropriately reflects the economic substance of the transaction, in that the SPV refinancing exercise has reduced the future finance costs of the company.

**d.** Land and property is acquired as part of improving the network. During the early stages of a project, until the preferred route is announced, potential acquisitions relating to land and property are treated as contingent liabilities due to the uncertainty over whether the land will need to be acquired. After the preferred route announcement is made and until the purchase they are treated as provisions. The valuation of these contingent liabilities or provisions is provided by the Valuation Office Agency using their professional expertise to make the relevant estimation. As with all land valuation this estimation takes into account factors such as the geographical location and land classification (urban/rural).

**e.** VAT provisions in relation to three separate HMRC investigations were recorded within the financial statements at the year end:

(i) Design Build Maintain and Operate (DBFO): HMRC identified discrepancies in relation to the recovery of VAT on DBFO schemes between the licenced bodies in each of the home nations. At the year-end the company had been requested to align its policy to that adopted by Transport Scotland. A provision of £42 million in relation to repayment of over-recovered VAT has been recorded in the financial statements. This is in line with an assessment received on 5 April 2019.

(ii) Hybrid schemes: HMRC have provided clarity over what VAT they believe is recoverable versus irrecoverable in relation to hybrid schemes, whereby only works on the existing road network and excluding work on structures is recoverable. At the year end an exercise was undertaken to calculate the over recovery of VAT based upon 10 schemes that HMRC had selected. This calculation uses ratios for each scheme relating to the amount of off-road and bridge work undertaken. A resulting provision of £34.3 million has been recorded within the accounts. This calculation contains various assumptions which are subject to ongoing discussions and as such there is some uncertainty remaining over the exact amount to be paid over.

(iii) National Road Telecommunication Service (NRTS): HMRC have ruled that expenditure in relation to NRTS is not recoverable for VAT purposes unless the expenditure relates specifically to smart motorway schemes and expressways and are anticipating recovery of all over-recovered VAT for the last four years. At the year end a high-level estimate of the impact of over-recovery of NRTS was produced. The resulting £18 million provision was calculated by filtering expenditure in relation to those suppliers which we know perform nonrecoverable activities in accordance with HMRC's thinking. The exact settlement amount remains outstanding as we await HMRC approval of the basis of calculation.

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

## 3. Operating income

Operating income principally arises from:

- recoveries from third parties in respect of claims for damage to the motorways and trunk roads
- third party contributions to road schemes
- fees and charges for work carried out on a full-cost basis to external customers in both the public and private sectors
- other income relating to income from short-term lettings, income from vehicle recoveries on the network, grant income and MOU income received from Government departments for the use of office space

| Operating income analysed by classification and activity is as follows: | Year to 31 March 2019 £000 | Year to 31 March 2018 £000 |
|---|---|---|
| Recoveries from third parties for damage to the SRN | 9,002 | 8,354 |
| Contribution to road schemes | 26,835 | 4,416 |
| Fees and charges to external customers | 17,698 | 28,488 |
| Other income | 15,200 | 15,623 |
| **Total operating income** | **68,735** | **56,881** |

The increase in 'Contribution to road schemes' of £22.4 million is due primarily to £20 million of income received for the M20 junction 10a scheme during the year. The project is creating a new junction and link roads 700 metres south east of junction 10, and is funded in partnership with the South Essex Local Enterprise Partnership with some additional contributions from developers. This increase is partly offset by a reduction in section 278 income in year, predominantly due to a reduction in work and therefore contributions for the A45 Rushden Lakes projects, shown within 'Fees and Charges to external customers'.

Further information and disclosure under HM Treasury *Managing Public Money* can be found at Annex 1 (ii) of the accounts.





## 4. Staff numbers and related costs

### 4.1 Staff costs

| | Year to 31 March 2019 | | | Year to 31 March 2018 |
|---|---|---|---|---|
| | Permanent staff £000 | Other £000 | Total £000 | Total £000 |
| Wages and salaries | 213,611 | 4,232 | 217,843 | 194,642 |
| Social security costs | 23,285 | - | 23,285 | 19,916 |
| Other pension costs | 30,107 | - | 30,107 | 28,028 |
| **Total gross costs** | **267,003** | **4,232** | **271,235** | **242,586** |
| Capitalised staff costs | (118,586) | (2,397) | (120,983) | (111,490) |
| Less recoveries in respect of outward secondments | (19) | - | (19) | (14) |
| **Total net costs** | **148,398** | **1,835** | **150,233** | **131,082** |

Permanent staff are those staff with a permanent employment contract with the company. Other staff are those employed on temporary or short-term contracts. Wages and salaries includes gross salaries, performance pay or bonuses, overtime, recruitment and retention allowances, ex-gratia payments and any other taxable allowances or payments as well as costs relating to agency, temporary and contract staff engaged by the company on a contract to undertake a project or task.

#### Pensions

The company makes contributions under the Civil Service Pension arrangements, its own Highways England Pension Plan, the Federated Pension Plan and the Severn River Crossing Pension Plan (see also note 2.18):

a. The Principal Civil Service Pension Scheme (PCSPS) – This is an unfunded multi-employer defined benefit scheme. The company is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2012. Details regarding the scheme can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions)

For 2018-19, employer contributions of £20.4 million (2017-18 £21.4 million) were payable to the PCSPS at one of four rates in the range 20.0% to 24.5% (2017-18 20.0% to 24.5%) of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2018-19 to be paid when the member retires and not the benefits paid during this year to existing pensioners.

Employer contributions of £0.2 million (2017-18 £0.2 million) were payable to one or more of the panel of five appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% (2017-18 8% to 14.75%). The company also matches employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £5,800 (2017-18 £4,200), 0.5% (2017-18 0.5%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £11,900 (2017-18 £12,200). Contributions prepaid at that date were £nil (2017-18 £nil).

b. The Highways England Pension Plan – This is a defined contribution Group Personal Pension Plan administered by a third-party provider. Highways England matches employee contributions to personal pension plans on a 2:1 basis, up to a maximum of 10% of gross salary. The default contributions are 5% (employee) and 10% (employer). In addition, life insurance cover is provided for members of the plan at an average cost of 0.55% of gross salary. This meets our statutory obligation to provide a workplace pension under current legislation.

As this is a defined contribution scheme, Highways England incurs no liability for future pension costs of members of the pension plan. For 2018-19, employer contributions of £8.7 million (2017-18 £5.9 million) were payable to the plan.

c. The Federated Pension Plan – Highways England section (FPP) – This is a master-trust defined benefit pension plan, administered by PAN Trustees. Employer contributions are set between 41.0% and 41.5% of pensionable earnings (dependent upon contractual employee contribution rates at the time of transfer).

Employer contributions of £0.2 million were paid to the FPP during 2018-19 (2017-18 £0.2 million). The contribution rates were set based on an actuarial valuation of the scheme at inception in July 2016.

d. Severn River Crossing Pension Plan – For 2018-19 the company has had a transitional arrangement for the staff transferred from Severn River Crossing plc. These staff contributed to an existing private pension scheme while arrangements were sought to bring them into one of the existing three plans. Employer contributions to the scheme during the year were £0.4 million.

### 4.2 Average number of persons employed

The average number of full time equivalent persons employed during the year was as follows:

| | Year to 31 March 2019 | | | Year to 31 March 2018 |
|---|---|---|---|---|
| | Permanent staff | Other | Total | Total |
| Traffic officer staff | 1,654 | 1 | 1,655 | 1,588 |
| Direct support to front-line projects and service delivery | 1,737 | 17 | 1,754 | 1,245 |
| Staff engaged on capital projects | 2,010 | 10 | 2,020 | 2,078 |
| **Average FTE persons employed** | **5,401** | **28** | **5,429** | **4,911** |

During the year ending 31 March 2019 the actual full time equivalents (FTE) increased from 5,282 to 5,517. The growth has focused on our key capability areas such as programme and project management, asset management and commercial roles.

## 5. Other expenses

| | Note | Year to 31 March 2019 £000 | Year to 31 March 2018 £000 Reclassified |
|---|---|---|---|
| Information Technology | | 37,814 | 37,841 |
| Research and development expenditure | | 8,471 | 3,146 |
| Rates and building costs | | 12,522 | 15,124 |
| Provisions provided for in year | 14 | 46,416 | 5,084 |
| Rent | | 6,949 | 9,507 |
| Travel and subsistence | | 4,884 | 4,523 |
| Traffic management vehicle costs | | 7,030 | 8,574 |
| Recruitment and training | | 5,862 | 5,480 |
| Consultancy | | 2,483 | 2,605 |
| Communication | | 3,948 | 2,969 |
| Stationery | | 1,162 | 960 |
| Other | | 8,573 | 18,155 |
| **Total** | | **146,114** | **113,968** |





a. Within the 2017-18 accounts professional fees were reported separately stating a figure of £528,000. These have been reclassified to ‘Other’ as the values are immaterial. In 2017-18, building maintenance was separately disclosed, but as the value is low this year this has been reclassified within ‘Rates and building costs’. In the year to 31 March 2018 building maintenance costs were £1.89 million.

b. Excluding VAT the auditor fee of the Comptroller and Auditor General for the year ending 31 March 2019 is £310,000 (2017-18 £320,000), and was in relation to the audit of the 2018-19 financial statements of Highways England £245,000 (2017-18 £255,000); and Dartford-Thurrock River Crossing Charging Scheme £65,000 (2017-18 £65,000). This amount is included in 'Other' above.

## 6. Taxation

| | Year to 31 March 2019 £000 | Year to 31 March 2018 £000 |
|---|---|---|
| a) Analysis of the tax charge | | |
| Current taxation | | |
| UK Corporation Tax | - | 89 |
| Adjustments in respect of prior years | 2 | 47 |
| | **2** | **136** |
| b) Factors affecting the tax charge for the period | | |
| The effective rate of tax for the period is equal to the standard rate of Corporation Tax in the UK of 19% (2017-18 19%) | | |
| The differences are explained below:<br>Net expenditure on ordinary activities | (2,389,725) | (2,737,792) |
| Net expenditure on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 19% (2017-18 19%) | (454,048) | (520,180) |
| Effect of:<br>Incomes and expenditure not subject to Corporation Tax | 458,048 | 520,269 |
| | **-** | **89** |

From a corporation tax perspective, the company is not trading with a view to a profit and the contributions received from DfT in relation to the company’s principal activity of managing the UK road network are not chargeable to Corporation Tax. The company’s tax liability for the year arises in respect of taxable profit attributable to capital disposals, rental income and interest income received.

At Summer Budget 2015, the Government announced legislation setting the Corporation Tax main rate (for all profits except ring-fenced profits) at 19% from 1 April 2017 and at 18% from the 1 April 2020. At Budget 2016, the Government announced a further reduction to the Corporation Tax main rate (for all profits except ring-fenced profits) for the year starting 1 April 2020, setting the rate at 17%.

Accounts

## 7. Property, plant and equipment

### 2018-19

| | SRN £000 | Assets under construction £000 | Land £000 | Buildings £000 | Dwellings £000 | Plant and machinery £000 | Information Technology £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|
| Cost or valuation | | | | | | | | |
| **At 1 April 2018** | **128,297,716** | **1,348,331** | **181,417** | **221,448** | **50,427** | **153,010** | **3,349** | **130,255,698** |
| Capital additions | 648,467 | 2,159,302 | - | - | - | - | - | 2,807,769 |
| Disposals | - | - | (30) | - | (361) | (279) | - | (670) |
| Revaluation | 4,169,759 | (1,251,108) | (3,530) | 6,777 | 6,466 | 1,738 | 25 | 2,930,127 |
| Derecognition | (72,354) | - | - | - | - | - | - | (72,354) |
| Impairment – charged to SOCNE | - | - | (161) | - | (363) | (24) | - | (548) |
| Transfers | 531,335 | (570,231) | 2,374 | - | - | 9,725 | 2,478 | (24,319) |
| Reclassifications to assets held for sale | - | 675 | 1,290 | (70) | (1,151) | - | - | 744 |
| **At 31 March 2019** | **133,574,923** | **1,686,969** | **181,360** | **228,155** | **55,018** | **164,170** | **5,852** | **135,896,447** |
| Depreciation and impairment | | | | | | | | |
| **At 1 April 2018** | **14,731,381** | **-** | **-** | **126,045** | **-** | **126,806** | **2,834** | **14,987,066** |
| Disposals | - | - | - | - | - | (279) | - | (279) |
| Charged in Period | 1,194,944 | - | - | (644) | - | 11,476 | 784 | 1,206,560 |
| Revaluation | (918,051) | - | - | 3,948 | - | 1,180 | 16 | (912,907) |
| Derecognition | (15,550) | - | - | - | - | - | - | (15,550) |
| **At 31 March 2019** | **14,992,724** | **-** | **-** | **129,349** | **-** | **139,183** | **3,634** | **15,264,890** |
| Net book value | | | | | | | | |
| **At 1 April 2018** | **113,566,335** | **1,348,331** | **181,417** | **95,403** | **50,427** | **26,204** | **515** | **115,268,632** |
| **At 31 March 2019** | **118,582,199** | **1,686,969** | **181,360** | **98,806** | **55,018** | **24,987** | **2,218** | **120,631,557** |





### 2017-18

| | SRN £000 | Assets under construction £000 | Land £000 | Buildings £000 | Dwellings £000 | Plant and machinery £000 | Information Technology £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|
| Cost or valuation | | | | | | | | |
| **Balance transferred in at 1 April 2017** | **126,223,692** | **1,024,028** | **181,415** | **169,276** | **61,283** | **147,684** | **3,349** | **127,810,727** |
| Capital additions | 737,035 | 1,600,584 | - | - | - | 1,510 | - | 2,339,129 |
| Disposals | - | - | (705) | - | (1,060) | - | - | (1,765) |
| Revaluation | 1,105,865 | (777,868) | 766 | 51,637 | - | 3,033 | - | 383,433 |
| Derecognition | (258,095) | (3,253) | - | - | - | - | - | (261,348) |
| Transfers | 489,219 | (495,160) | 3,364 | 535 | 1,259 | 783 | - | - |
| Reclassifications to assets held for sale | - | - | (3,423) | - | (11,055) | - | - | (14,478) |
| **At 31 March 2018** | **128,297,716** | **1,348,331** | **181,417** | **221,448** | **50,427** | **153,010** | **3,349** | **130,255,698** |
| Depreciation and impairment | | | | | | | | |
| **Balance transferred in at 1 April 2017** | **14,524,452** | **-** | **-** | **92,559** | **-** | **111,193** | **1,764** | **14,729,968** |
| Charged in year | 1,411,732 | - | - | 2,720 | - | 12,391 | 1,070 | 1,427,913 |
| Derecognition | (36,056) | - | - | - | - | - | - | (36,056) |
| Revaluation | (1,168,747) | - | - | 30,766 | - | 3,222 | - | (1,134,759) |
| **At 31 March 2018** | **14,731,381** | **-** | **-** | **126,045** | **-** | **126,806** | **2,834** | **14,987,066** |
| Net book value | | | | | | | | |
| **At 1 April 2017** | **111,699,240** | **1,024,028** | **181,415** | **76,717** | **61,283** | **36,491** | **1,585** | **113,080,759** |
| **At 31 March 2018** | **113,566,335** | **1,348,331** | **181,417** | **95,403** | **50,427** | **26,204** | **515** | **115,268,632** |

## 7.1 Strategic road network (SRN)

The SRN consists of roads, land, structures, and technology which form a single integrated network. The SRN is unique and a market value is not available, therefore it is valued using depreciated replacement cost.

| | Roads £000 | Land £000 | Structures £000 | Technology £000 | Total £000 |
|---|---|---|---|---|---|
| Cost | | | | | |
| **At 1 April 2018** | **72,887,181** | **12,861,791** | **39,287,543** | **3,261,201** | **128,297,716** |
| Capital additions | 438,736 | - | 209,732 | - | 648,468 |
| Revaluation | 2,670,268 | 153,444 | 1,594,019 | (247,973) | 4,169,758 |
| Disposal & Derecognition | - | - | (68,162) | (4,192) | (72,354) |
| Transfers | 425,473 | 13,119 | 4,775 | 87,968 | 531,335 |
| **At 31 March 2019** | **76,421,658** | **13,028,354** | **41,027,907** | **3,097,004** | **133,574,923** |
| Accumulated depreciation | | | | | |
| **At 1 April 2018** | 2,527,278 | - | 10,531,235 | 1,672,868 | 14,731,381 |
| Charged in year | 567,254 | - | 493,934 | 133,756 | 1,194,944 |
| Revaluation | (699,938) | - | 16,256 | (234,369) | (918,051) |
| Disposal & Derecognition | - | - | (14,092) | (1,458) | (15,550) |
| **At 31 March 2019** | **2,394,594** | **-** | **11,027,333** | **1,570,797** | **14,992,724** |
| Net book value | | | | | |
| **At 1 April 2018** | **70,359,903** | **12,861,791** | **28,756,308** | **1,588,333** | **113,566,335** |
| **At 31 March 2019** | **74,027,064** | **13,028,354** | **30,000,574** | **1,526,207** | **118,582,199** |

### Gross cost

#### a. Capital additions

The company has invested £648.5 million (2017-18 £737.0 million) during the year on capital renewal schemes. Renewal schemes replace the service potential of the SRN and expenditure is therefore deemed capital expenditure. Renewal schemes are usually small (less than £10 million) and usually completed within six to 18 months. The most significant addition during the year was the continuing work on the M5 Oldbury waterproofing of £72.4 million.

#### b. Revaluation

The SRN was revalued upwards by £5.1 billion (2017-18: £2.3 billion upwards revaluation). This comprises:

- Positive ROCOS indexation for the year, together with smaller remeasurement factors and location adjustments reflecting the differing costs of construction within different regions resulted in a combined £4.7 billion upwards revaluation (2017-18 £2.4 billion upwards)
- There has also been an increase in the land indices of 1.5% which resulted in an upward revaluation of land amounting to £0.2 billion (2017-18 £0.4 billion upward)
- Further to the quinquennial revaluation of structures (QQR) in 2017-18, a condition measure, as described in 2.21, has been implemented during the year. The impact of this has been to increase net valuation by £0.2 billion
- The QQR of technology was also undertaken during the year. This revalued the cost of technology assets downwards by £0.2 billion. There was a corresponding downward revaluation of depreciation
- There is a further £0.2 billion increase due to dimensional variances. Dimensional data from the company's asset management systems is used to inform the valuation of individual roads and structures. Dimensional variances arise as a result of remeasuring the length, width and height of the road and structures using more up to date technology than previously used





The table below covers the net movement on remeasurement of both the SRN and non-SRN elements of the company's property, plant and equipment.

| Net gain on remeasurement of property, plant and equipment recognised in other comprehensive expenditure | SRN £000 | AUC £000 | Other £000 | Total £000 |
|---|---|---|---|---|
| Revaluation – indexation | 4,847,588 | - | 6,332 | 4,853,920 |
| Revaluation – value reduction | - | (1,251,108) | - | (1,251,108) |
| Revaluation – dimensional variance | 240,222 | - | - | 240,222 |
| | **5,087,810** | **(1,251,108)** | **6,332** | **3,843,034** |

#### c. Derecognition and disposals

Derecognition for the year from the SRN asset was £56.8 million (2017-18 £222.0 million). This year, there were no detrunking events – transfer of roads to local authorities for nil consideration – which in 2017-18 accounted for £192.6 million of the total derecognition. Residual derecognitions relate primarily to structures and communications technology removed from the SRN, often as a result of the upgrades caused by the smart motorways programme. For 2018-19, derecognition also includes assets removed as part of the A1 Leeming to Barton scheme which opened during the year.

The SoCNE presents the overall loss from derecognition and disposals; a net profit of £2.8 million was made on the sale of non-SRN assets (2017-18 £1.0 million).

#### d. Depreciation charge

The depreciation charge over the year to 31 March 2019 was £1.2 billion (2017-18 £1.4 billion). This consists of:

1. Depreciation – The decrease in the economic value of the road surface was £567.3 million (2017-18 £765.6 million), made up of:

- renewals spend of £438.7 million (2017-18 £523.7 million) is used as the basis of an initial depreciation charge, based on the assumption that the network is maintained in a roughly steady state
- analysis of road condition surveys provides evidence on the actual condition of the network which allows for more precise depreciation of the road surface. For the year ending 31 March 2019 surveys have reduced the depreciation charge by £128.5 million (2017-18 charge of £241.9 million)

2. Structures depreciation – The SRN structures depreciation charge for the year was £493.9 million (2017-18 £522.8 million) which consists of:

- £284.2 million (2017-18 £309.4 million) for the depreciation of the structures element of the SRN in line with the policy in note 2.5
- £209.7 million (2017-18 £213.4 million) to reflect more accurately the deterioration associated with those cyclically renewable elements, using the in-year spend on current renewals work on the basis that the network is maintained in a roughly steady state

3. Technology depreciation – £133.8 million (2017-18 £123.2 million) depreciation charge for the economic decrease in value of technology on the SRN in line with the policy in note 2.5.

## 7.2 Assets under construction (AUC)

Capital expenditure in relation to partly built improvements in the SRN is classified as AUC.

#### a. Capital additions

During the year, the company invested £2.2 billion (2017-18 £1.6 billion) in a number of ongoing road schemes. This included £499 million for smart motorway schemes, £437 million for complex schemes, £185 million for RIS2 schemes and £130 million for RIS1 schemes.

During the year, the company spent money on preparing a number of renewal schemes for later works. These renewal schemes are classified as capital renewal 'pipeline schemes' as the start of works date will not take place until after 31 March 2019. Pipeline scheme expenditure is reported as AUC and not as an addition to in-year SRN valuation.

### b. AUC transfers

The company transferred £531.3 million (2017-18 £489.2 million) of completed roads, structures and technology equipment from AUC to the SRN at replacement cost during the year. Transfers of £39.0 million (2017-18 £5.9 million) were made to non-network assets.

### c. Valuation adjustments

As described in note 2.5.1, AUC capital additions are recognised at actual cost, but the value of projects is revised annually with the aim of approximating depreciated replacement costs. The company uses a standard revaluation percentage for construction projects lasting more than one year based upon projects constructed over the previous ten years. For the year the valuation adjustment was £1.3 billion (2017-18 £777.9 million).

## 7.3 Other property, plant and equipment

### a. Land

Land consists of surplus land and land reserved for current and future road schemes. As at 31 March 2019, this includes: commercial land of £35.8 million (2017-18 £38.0 million); motorway service areas land of £74.4 million (2017-18 £78.2 million); and motorway maintenance compounds land of £27.2 million (2017-18 £27.4 million).

### b. Buildings

As at 31 March 2019 the net value of buildings includes: motorway maintenance compounds of £49.5 million (2017-18 £58.3 million), Regional Control Centres of £20.0 million (2017-18 £21.1 million), and commercial buildings at Dartford of £6.1 million (2017-18 £11.3 million).

### c. Dwellings

As at 31 March 2019 the value of dwellings is £55.0 million (2017-18 £50.4 million). These are dwellings acquired under compulsory purchase orders as part of a scheme to enable construction.

This includes dwellings relating to the following schemes:

| | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| M42 junction 3 A7 widening | 9.5 | 6.7 |
| A6M Stockport North/South Bypass | 6.7 | 7.7 |
| A57/A6928 Mottram, Hollingworth & Tintwhistle | 6.4 | 5.3 |
| M4 junctions 4b to 8/9 widening | 4.8 | 4.3 |

## 8. Intangible assets

| | Year to 31 March 2019 £000 | Year to 31 March 2018 £000 |
|---|---|---|
| Cost or valuation | | |
| Opening balance | 87,404 | 87,132 |
| Additions | - | 272 |
| Transfer from AUC | 24,319 | - |
| **Closing balance** | **111,723** | **87,404** |
| Amortisation | | |
| Opening balance | 86,228 | 85,070 |
| Charged in year | 5,484 | 1,158 |
| **Closing balance** | **91,712** | **86,228** |
| **Net book value** | **20,011** | **1,176** |





Additions is made up of the Finance (£6.1 million) and HR (£6.3 million) systems, which were both updated during the year, as well as NRTS2 (£7.7 million) and the licence for Office 365 (£4.2 million). In addition, the company has a number of bespoke databases that are fully amortised but provide economic benefits.

The databases will be updated or replaced at a future date. The most significant in-house databases by cost value are: ESDAL (abnormal loads management software) valued at £10 million (2017-18 £10 million); and HAPMS (pavement management system) valued at £10 million (2017-18 £10 million).

## 9. Assets classified as held for sale

| | Land and buildings £000 | Dwellings £000 | Total £000 |
|---|---|---|---|
| **Balance at 1 April 2017** | **7,366** | **9,000** | **16,366** |
| Disposals | (1,844) | (5,721) | (7,565) |
| Impairment – charged to SoCNE | (214) | (1,174) | (1,388) |
| Reclassifications (to)/from property, plant and equipment | 3,423 | 11,055 | 14,478 |
| **At 31 March 2018** | **8,731** | **13,160** | **21,891** |
| **At 1 April 2018** | **8,731** | **13,160** | **21,891** |
| Disposals | (169) | (4,416) | (4,585) |
| Impairment – charged to SoCNE | (78) | (214) | (292) |
| Reclassifications (to)/from property, plant and equipment | (3,010) | 2,266 | (744) |
| **At 31 March 2019** | **5,474** | **10,796** | **16,270** |

Disposals in the year ended 31 March 2019 included the following sales:

- Lands adjacent to Bunns Lane, Mill Hill, Barnet, London
- Leases Hall, Northallerton, North Yorkshire
- Lone Pine, Hindhead, Hampshire
- Flimwell House Farm, Wadhurst, Kent County

## 10. Inventories

| | 31 March 2019 £000 | 31 March 2018 £000 |
|---|---|---|
| Communication/electrical equipment for the SRN | 34,626 | 25,719 |
| Salt | 11,831 | 10,448 |
| Other | 534 | 756 |
| **At 31 March 2019** | **46,991** | **36,923** |

The communication/electrical equipment inventory includes variable message signs which are extensively used in the ongoing roll-out of smart motorway schemes across the SRN.

The company's salt stock includes reserves held for the English Local Highways Authorities. This reserve is only for use as a last resort in the event of normal domestic salt supply channels being unable to meet the demands of Local Highways Authorities. The salt is stored to protect it from leaching from rainfall. However, over time salt deteriorates and therefore the company's policy is to remeasure the holding each year, to reflect any loss from deterioration.

## 11. Trade and other receivables

| | 31 March 2019 £000 | 31 March 2018 £000 |
|---|---|---|
| Amounts falling due within one year | | |
| Trade receivables | 8,351 | 19,701 |
| Deposits and advances | 16,400 | 18,453 |
| VAT | 134,538 | 147,849 |
| Prepayments and accrued income | 13,565 | 41,320 |
| Other receivables | 118 | 30 |
| | **172,972** | **227,353** |
| Amounts falling due after more than one year | | |
| Prepayments and accrued income | 11,854 | 9,155 |
| | **11,854** | **9,155** |
| **Total receivables** | **184,826** | **236,508** |

The decrease in receivables is predominantly linked to reductions in accrued income balances. At 31 March 2018 there was £21 million of Severn River Crossing concession payments settlements outstanding which have now been paid. In addition a further £8.9 million of income relating to the A5 – M1 Link has been received in year; this had previously been accrued.

## 12. Cash

| | 31 March 2019 £000 | 31 March 2018 £000 |
|---|---|---|
| **Balance at the start of the year** | **18,722** | **39,446** |
| Net change in cash | (2,327) | (20,724) |
| **Balance as at end of the year** | **16,395** | **18,722** |
| The following balances were held at: | | |
| Commercial banks | 291 | 1,700 |
| Government Banking Service | 16,104 | 17,022 |
| | **16,395** | **18,722** |

The company does not hold any cash equivalent balances.





## 13. Trade and other payables

| | Note | 31 March 2019 £000 | 31 March 2018 £000 |
|---|---|---|---|
| Amounts falling due within one year | | | |
| Taxation and social security | | 9,257 | 8,696 |
| Trade payables | | 48,005 | 38,716 |
| Accruals | | 554,942 | 587,041 |
| Deferred income | | 35,210 | 27,383 |
| Capital element under on-balance sheet PFI contracts | 18 | 82,935 | 73,713 |
| Other payables | | 43,492 | 74,641 |
| | | **773,841** | **810,190** |
| Amounts falling due after more than one year | | | |
| Capital element under on-balance sheet PFI contracts | 18 | 1,366,705 | 1,453,690 |
| Deferred income | | 37,119 | 28,386 |
| Retentions | | 419 | 722 |
| | | **1,404,243** | **1,482,798** |
| **Total payables** | | **2,178,084** | **2,292,988** |

£25.1 million of short-term and £19.1 million of long-term deferred income relates to S274/278 schemes accounted for under IFRS 15. Severn River Crossing balances, included in 'Other' payables have reduced by £33 million in year following the removal of tolling in December 2018. Balances of £6 million remain in relation to customer TAG accounts due to be refunded.

## 14. Provisions

| | Land and property acquisition £000 | Engineering and construction £000 | Early retirement pension £000 | Other £000 | Total £000 |
|---|---|---|---|---|---|
| **At 1 April 2017** | **152,279** | **232** | **157** | **6,500** | **159,168** |
| Provided in the year | 80,875 | 165 | - | 6,110 | 87,150 |
| Provisions not required written back | (18,026) | - | (8) | (81) | (18,115) |
| Provisions utilised in the year | (60,138) | (397) | (52) | (1,453) | (62,040) |
| **At 31 March 2018** | **154,990** | **-** | **97** | **11,076** | **166,163** |
| **At 1 April 2018** | **154,990** | **-** | **97** | **11,076** | **166,163** |
| Provided in the year | 178,009 | 100,303 | - | 9,088 | 287,400 |
| Provisions not required written back | (48,233) | (2,381) | - | (6,684) | (57,298) |
| Provisions utilised in the year | (51,747) | - | (42) | (2,518) | ( 54,307) |
| **At 31 March 2019** | **233,019** | **97,922** | **55** | **10,962** | **341,958** |
| Analysis of expected timing of flows | | | | | |
| Not later than one year | 90,114 | 97,922 | 35 | 10,220 | 198,291 |
| Later than one year and not later than five years | 142,905 | - | 20 | 374 | 143,299 |
| Later than five years | - | - | - | 368 | 368 |
| | **233,019** | **97,922** | **55** | **10,962** | **341,958** |

Accounts

**Provisions provided in year and not written back reconciles as follows:**

| | 31 March 2019 £000 | 31 March 2018 £000 |
|---|---|---|
| Provisions provided in year | 287,400 | 87,150 |
| Less provisions written back | (57,298) | (18,115) |
| **Net provisions expenditure** | **230,102** | **69,035** |
| Split as follows | | |
| Resource expenditure | 45,443 | 6,281 |
| Capital expenditure | 184,659 | 62,754 |
| | **230,102** | **69,035** |
| Provision for doubtful debt | 1,062 | 297 |
| Provision for slow-moving stock | - | (1,494) |
| Other provisions provided for in year | 45,354 | 6,281 |
| **Total provision charge to the SoCNE** | **46,416** | **5,084** |

### Land and property acquisition

Land and property acquisition provisions relate principally to the estimated cost of planning blight, discretionary and compulsory acquisition of property and compensation for property owners arising from physical construction of a road scheme. It may take several years from the announcement of a scheme to completion of the road and final settlement of all liabilities. The large increase in this provision relates mainly to the complex schemes that are being progressed such as Lower Thames Crossing and A303 Amesbury to Berwick Down.

### Engineering and construction

£94.3 million of the engineering and construction provision relates to the amount of VAT that was over-recovered. This relates to an outstanding HMRC ruling on specific tax regulations governing our ability to reclaim VAT on work that is either outside of the boundary of the current network and on structures.

### Other

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 Highways England for compensation. A provision is made which estimates the value of claims received as at 31 March 2019 that will require settlement by Highways England.

Other liabilities also include pension liabilities which relate to former staff that left employment before the formal retirement age of 60. Highways England is responsible for making payments to the pension plan until their retirement age.





## 15. Financial instruments

IFRS 7 requires minimum disclosures about the nature and extent of credit risk, liquidity risk and market risk that the company faces in undertaking its activities. Due to the largely non-trading nature of its activities and the way in which Government entities are financed, the company is not exposed to the degree of financial risk faced by many business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which IFRS 7 mainly applies. The company has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the company in undertaking its activities. Nevertheless, the company's Board of Directors has overall responsibility for the establishment and oversight of the company's risk management framework. The core operations of the company are resourced largely from funds voted by Parliament and so has limited dependency on revenues from customers. This substantially reduces many financial risks.

### 15.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the company's customers or counterparties fail to fulfil their contractual obligations to the company. Some of the company's customers and counterparties are other public sector organisations. No credit risk arises from these organisations since the receivables are backed by the Government. For those customers and counterparties that are not public sector organisations, the company has policies and procedures in place to ensure credit risk is kept to a minimum.

The carrying amount of financial assets represents the maximum credit risk exposure. Receivables are impaired on the basis of either ageing by receivable type or where a specific receivable is deemed to be recoverable or irrecoverable, based on the information available.

The following table provides an overview of the ageing profile of the financial assets comprising trade and other receivables.

| Ageing of financial assets | 31 March 2019 £000 | 31 March 2018 £000 |
|---|---|---|
| Neither past due nor impaired | 184,133 | 229,923 |
| Past due 1-30 days | 144 | 5,680 |
| Past due 31-60 days | 95 | 5 |
| Past due 61-90 days | 127 | 172 |
| Past due >90 days | 327 | 728 |
| | **184,826** | **236,508** |

### 15.2 Liquidity risk

Liquidity risk is the risk that the company is unable to meet its obligations when they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed condition. The company's policy is to determine its liquidity requirements by the use of short-term cash flow forecasts. These forecasts are supplemented by the Government's long-term funding commitment under the RIS.

The company believes that its contractual obligations, including those shown in commitments and contingencies in notes 16,17,18, and 19, can be met in the short-term from existing cash and other current assets, and the funding it receives annually that is voted by Parliament. The longer term needs are met from the funding commitment provided by the Government through the RIS.

| Contractual cash flows | 31 March 2019<br>Not later than 1 year<br>£000 | <br>Later than 1 year and not later than 5 years<br>£000 | <br>Later than 5 years<br>£000 | <br>Total<br>£000 | 31 March 2018<br>Total<br>£000 |
|---|---|---|---|---|---|
| Non-derivative financial liabilities | | | | | |
| Trade payables | 647,414 | - | - | 647,414 | 661,836 |
| Finance lease liabilities (PFIs) | 82,935 | 381,945 | 984,760 | 1,449,640 | 1,527,403 |
| Other non-interest bearing liabilities | 43,492 | 37,538 | - | 81,030 | 103,749 |
| | **773,841** | **419,483** | **984,760** | **2,178,084** | **2,292,988** |

### 15.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures where these are considered to materially impact the business and operations of the company.

#### 15.3.1 Interest rate risk

This is the risk that the company will suffer financial loss due to interest rate fluctuations. The company's financial assets and its financial liabilities carry nil or fixed rates of interest, therefore the company is not exposed to significant interest rate risk.

#### 15.3.2 Exchange rate risk

This is the risk that the company will suffer financial loss due to changes in exchange rates. The company undertakes a small number of foreign currency transactions primarily in Euro and is not exposed to significant exchange risk. Given the quantum of transactions in foreign currency, the company has assessed that a strengthening or weakening of Euro will not have any significant impact on the financial statements.

#### 15.3.3 Fair values

For PFI obligations not carried at fair value, there is no active market for them, and it is not possible to make a reliable estimate of fair value. The company has no intention of disposing of these obligations. Accordingly, it has not disclosed a fair value for these obligations. For other financial assets and liabilities, the carrying value is a reasonable approximation of fair value.





## 16. Capital commitments

| | 31 March 2019<br>£000 | 31 March 2018<br>£000 |
|---|---|---|
| Contracted capital commitments not otherwise included in these accounts | | |
| Property, plant and equipment | **2,706,839** | **2,762,410** |

The company's capital commitments as at 31 March 2019 include the following significant project commitments:

- £656.1 million relating to the M4 junctions 3 to 12; upgrading the M4 to a smart motorway between junction 3 (Uxbridge) and junction 12 (west of Reading), linking Reading and Heathrow.
- £374.0 million relating to the A14 Cambridge to Huntingdon: a major upgrade to the A14 between the A1 and North Cambridge, which widens the road to three lanes, provides a new bypass around Huntingdon, creates distributor roads for local traffic and remodels key junctions.
- £298.5 million relating to improving the 24 mile section of the M1 between junctions 13 to 16 by upgrading it to a smart motorway.
- £268.4 million relating to the improvement of the A1 north of Ellingham by providing overtaking opportunities, junction improvements and improved crossing facilities for pedestrians, cyclists and equestrians.
- £201.8 million relating to the upgrade of the M27 between junction 4 (M3 interchange) and junction 11 (Fareham) by turning the hard shoulder into a permanent running lane making a dual four-lane smart motorway.
- £195.0 million relating to M6 junctions 13 to 15; upgrading the stretch of the M6 between junction 13 at Stafford and junction 15 near Newcastle under Lyme and Stoke on Trent to make it a smart motorway.
- £101.5 million relating to M62 junctions 10 to 12; improving the 9.8 mile section of the M62 between junction 10 where it connects to the M6 to junction 12 where it connects to the M60 by upgrading it to an all lane running smart motorway.
- £98.6 million relating to M23 junctions 8 to 10; improving the stretch of the M23 near Gatwick, between junction 8 near Mertsham and junction 10 at Copthorne, by upgrading it to an all lane running smart motorway.
- £87.2 million relating to M6 junctions 2 to 4; improving the stretch of the M6 between junction 2 at Coventry and junction 4 near Coleshill by upgrading it to a smart motorway.
- £87.1 million relating to A19 Testos: improving the Testos junction in conjunction with Downhill Lane junction as a programme of works.

## 17. Commitments under leases

The company has the following minimum future lease commitments under non-cancellable operating leases:

| | 31 March 2019<br>£000 | 31 March 2018<br>£000 |
|---|---|---|
| Obligations under operating leases comprise | | |
| Not later than one year | 12,307 | 9,481 |
| Later than one year and no later than five years | 39,706 | 33,222 |
| Later than five years | 24,257 | 27,288 |
| | **76,270** | **69,991** |

## 18. Commitments under Private Finance Initiatives

The company has entered into the following on-balance sheet PFI contracts for the design, build, finance and operation of sections of the SRN.

The substance of the PFI contract under IFRIC 12 is that the company has a finance lease, with the asset being recognised as a non-current asset of the company. Payments under on-balance sheet PFI contracts comprise: a capital element; imputed finance lease charge; and service charge.

The total payments under on-balance sheet PFI contracts for which the company is committed are given in the tables below, analysed according to the year in which the commitment expires.

| PFI | Contract start date | Duration years | Initial capital value £m | Closing balance obligation £m | Service charge commitment £m |
|---|---|---|---|---|---|
| M40 Denham to Warwick | 06/01/1997 | 30 | 71.2 | 27.5 | 354.4 |
| A19 Dishforth to Tyne Tunnel DBFO | 24/02/1997 | 30 | 47.8 | 17.8 | 355.5 |
| A30/A35 Exeter to Bere Regis | 01/10/1996 | 30 | 135.1 | 51.1 | 15.9 |
| A1(M) Alconbury to Peterborough | 01/04/1996 | 30 | 192.3 | 62.3 | 100.2 |
| A419/A417 Swindon to Gloucester | 01/04/1996 | 30 | 104.6 | 38.3 | 67.9 |
| A50/A564 Stoke to Derby Link | 01/07/1996 | 30 | 37.3 | 13.6 | 63.6 |
| M1-A1 Yorkshire Link | 01/07/1996 | 30 | 395.4 | 145.0 | 27.6 |
| A69 Carlisle to Newcastle | 01/04/1996 | 30 | 19.6 | 7.2 | 76.6 |
| A1(M) Darrington to Dishforth | 07/05/2003 | 33 | 236.4 | 179.2 | 588.6 |
| A249 Iwade to Queenborough | 01/04/2004 | 30 | 92.8 | 67.3 | 109.3 |
| M25 London Orbital Motorway Contract | 01/05/2009 | 30 | 906.0 | 840.3 | 6,361.6 |
| **Total** | | | **2,238.5** | **1,449.6** | **8,121.2** |

During the year the M25 London Orbital Motorway contract was refinanced. We benefit from a gain share in this PFI contract, which will reduce future unitary payments by £149 million over the contract lifetime. This benefit will be taken prospectively, in line with the lower interest costs and capital repayments inherent in future unitary payments. This reduction in future commitments has been reflected in table 18.3 on page 169.

### 18.1 Imputed finance lease charges under on-balance sheet PFI contracts comprise:

| | 31 March 2019 £000 | 31 March 2018 £000 |
|---|---|---|
| Not later than one year | 184,970 | 187,686 |
| Later than one year and not later than five years | 734,446 | 750,745 |
| Later than five years | 1,618,194 | 2,045,752 |
| | **2,537,610** | **2,984,183** |
| Less interest element | (1,087,970) | (1,456,780) |
| | **1,449,640** | **1,527,403** |





### 18.2 Capital element under on-balance sheet PFI contracts comprise:

| | 31 March 2019 £000 | 31 March 2018 £000 |
|---|---|---|
| Not later than one year | 82,935 | 73,713 |
| Later than one year and not later than five years | 381,945 | 345,927 |
| Later than five years | 984,760 | 1,107,763 |
| | **1,449,640** | **1,527,403** |

The total amount charged in the SoCNE in respect of the repayment of the capital element of the PFI transactions for the year to 31 March 2019 was £77.8 million (2017-18 £74.0 million).

### 18.3 Interest elements under on-balance sheet PFI contracts comprise:

| | 31 March 2019 £000 | 31 March 2018 £000 |
|---|---|---|
| Interest commitments | | |
| Not later than one year | 102,035 | 113,973 |
| Later than one year and not later than five years | 352,500 | 404,818 |
| Later than five years | 633,435 | 937,989 |
| | **1,087,970** | **1,456,780** |

The total amount charged in the SoCNE in respect of interest for on-balance sheet PFI transactions for the year to 31 March 2019 was £109.0 million (2017-18 £118.5 million).

### 18.4 Details of the minimum PFI service charge to SoCNE:

| | 31 March 2019 £000 | 31 March 2018 £000 |
|---|---|---|
| Not later than one year | 330,768 | 300,417 |
| Later than one year and not later than five years | 1,537,621 | 1,411,896 |
| Later than five years | 6,252,897 | 5,908,268 |
| | **8,121,286** | **7,620,581** |

The total amount charged in the SoCNE in respect of the service element of on-balance sheet PFI transactions for the year to 31 March 2019 was £277.0 million (2017-18 £323.7 million).

## 19. Contingent liabilities and assets

### 19.1 Contingent liabilities disclosed under IAS 37

| | 31 March 2019 £000 | 31 March 2018 £000 |
|---|---|---|
| The company has the following quantifiable contingent liabilities: | | |
| Land and property acquisition | 1,137,934 | 663,590 |
| Engineering and construction services | - | 3,000 |
| Other | 24,793 | 15,184 |
| | **1,162,727** | **681,774** |

### 19.1.1 Land and property acquisition

Contingent liabilities relating to land and property acquisitions arise from the following sources:

#### Acquisition and blight

The construction of any major road construction scheme invariably requires the acquisition of property. The Highways Act 1980 gives the Secretary of State for Transport the power to make compulsory purchases. Possible purchases for schemes in the major projects programme are included as contingent liabilities until the point when a preferred route announcement is made and a reliable estimate is available.

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

#### Compensation for loss after construction

Home owners can apply for compensation for lost value under Part 1 of The Land Compensation 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 company 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 SoFP date, the company is involved in a number of property cases that have been referred to the Lands Tribunal for resolution or are otherwise in dispute. The company 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.

### 19.1.2 Other

Other contingent liabilities include partial claims from third parties who have suffered damage or injury as a result of the SRN being damaged, and a number of arbitration cases in respect of contractual claims for engineering and construction services. These claims are estimated based on prior years' experience.

The Historic Estate assets which are held by the Secretary of State for Transport, together with any related contingent liabilities, are included in the DfT's accounts.

### 19.2 Contingent assets

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

In these circumstances, the company will incorporate a 'claw back' clause into the terms of the sale, under which it is able to reclaim a percentage of any increase in value arising from a grant of planning permission, for a given term after the sale has been agreed. As it is not known for some years after the initial disposal whether any further income will arise, the company has an unquantified contingent asset relating to future values.

The company also has a contingent asset with Midland Expressway Ltd (MEL) in relation to refinancing and developments of the M6 toll road. MEL has an obligation to contribute up to a maximum of £70.0 million towards a road enhancement project which would provide a link between the M54 to the M6 Toll. The commitment amount is indexed according to the Road and Construction Tender Index from May 2006.





## 20. Related party transactions

The company is an arm's length body of the DfT. The DfT is regarded as a controlling related party. The company's primary source of funding is through the DfT based on approved expenditure that is voted on by Parliament. The total amount of funding received from the DfT for the year ended 31 March 2018 amounted to £3.8 billion (2017-18 £3.5 billion). During the year the company had a number of other transactions with the DfT, amounting to £0.8 million (2017-18 £190.6 million).

In addition, the company had transactions with other Government departments and agencies, in particular HM Revenue and Customs – £78.0 million (2017-18 £60.3 million) – and a number of Local Authorities.

Colin Matthews, the company's Chairman, was also appointed as the Chairman of EDF Energy Holdings Limited in November 2017. During the year the company had transactions with EDF Energy totalling £22.7 million (2017-18 £25.2 million).

## 21. Equity shares

| | 31 March 2019 £ | 31 March 2018 £ |
|---|---|---|
| Authorised | | |
| 10 Ordinary shares at £1 each | 10 | 10 |
| Allotted, called up and fully paid | | |
| 10 Ordinary shares at £1 each | 10 | 10 |

## 22. Third party assets

The company performs some work on the SRN funded by another party, such as a developer, where a development may have an impact on the SRN. Under Section 278 of the Highways Act 1980, the company receives payment in advance of works. The amounts received are paid into interest-bearing escrow accounts at Lloyds Bank. Monies are drawn down from the escrow accounts by the company as work progresses.

These bank accounts are not company assets and therefore are not included in the company's SoFP.

| | 31 March 2019 £000 | 31 March 2018 £000 |
|---|---|---|
| Lloyds Bank escrow accounts | 748 | 748 |
| | **748** | **748** |

## 23. Events after the reporting year

There have been no events since the 31 March 2019 and the date the accounts were authorised for issue which would affect the understanding of these accounts.

International Accounting Standards require Highways England to disclose the date on which the accounts are authorised for issue.

The Accounting Officer has authorised these accounts to be issued on the date they were certified by the Comptroller and Auditor General.

## Annex 1

Highways England Company Limited Government Financial Reporting Manual (FReM) disclosures for the year ending 31 March 2019:

### (i) Civil service and other compensation schemes – exit packages

Compulsory Redundancy departures relate to Severn River Crossing employees. The amount paid to each individual was a statutory amount, payment in lieu of notice, an enhanced payment (an additional four weeks pay) in accordance with the terms and conditions of the Severn River Crossing contracts, and an attendance payment for staff who achieved the requisite attendance percentage prior to their redundancy. The enhanced payment amount and attendance payments are a departure from the Civil Service Compensation Scheme terms but were subject to appropriate Her Majesty's Treasury approval. The total attendance payments paid to staff who were made redundant in year was £44,989.10. Other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where Highways England has agreed early retirements, the additional costs are met by the company and not by the Civil Service pension scheme. Ill health retirement costs are met by the pension scheme and are not included in the table below.

| | Year to 31 March 2019 | | Year to 31 March 2018 | |
|---|---|---|---|---|
| | **Number of compulsory redundancies** | **Number of other departures** | **Number of compulsory redundancies** | **Number of other departures** |
| <£10,000 | 49 | 1 | - | - |
| £10,000 - £25,000 | 38 | 1 | - | - |
| £25,000 - £50,000 | 1 | 3 | - | - |
| £50,000 - £100,000 | - | - | - | - |
| £100,000 - £150,000 | - | 1 | - | - |
| £150,000 - £200,000 | - | - | - | - |
| £200,000 plus | - | - | - | - |
| **Total number of packages** | **88** | **6** | **-** | **-** |
| **Total resource cost (£)** | **949,108** | **253,250** | **-** | **-** |





### (ii) Operating income

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

| | Year to 31 March 2019 | | | Year to 31 March 2018 | | |
|---|---|---|---|---|---|---|
| | **Income £000** | **Full cost £000** | **Surplus/ (deficit) £000** | **Income £000** | **Full cost £000** | **Surplus/ (deficit) £000** |
| Recoveries from third parties for damage to the SRN | 9,002 | 9,002 | - | 8,354 | 8,359 | (5) |
| Fees and charges for third party schemes | 17,728 | 17,728 | - | 28,488 | 28,488 | - |
| National vehicle recovery | 5,750 | 6,672 | (922) | 4,980 | 7,270 | (2,290) |
| Rental income from properties | 3,507 | 4,017 | (510) | 3,479 | 3,616 | (137) |
| Other income | 30,241 | 30,241 | - | 8,987 | 8,987 | - |
| | **66,228** | **67,660** | **(1,432)** | **54,288** | **56,720** | **(2,432)** |

#### Disclosure under HM Treasury Managing Public Money

The financial objective for each of these services is full recovery of the service costs in accordance with HM Treasury *Managing Public Money.* In some instances this objective has not been achieved. In particular, full recovery for damage to the SRN has not been possible due to value for money considerations, and for national vehicle recovery full recovery is not possible due to issues around level of information available and ability to enforce repayment.

#### Operating income analysed by activity is as follows:

| | 31 March 2019 £000 | 31 March 2018 £000 |
|---|---|---|
| Cost recoveries/rental income | 1,650 | 1,495 |
| Fees and charges to external customers | 17,728 | 28,488 |
| Rental income from properties | 3,507 | 3,479 |
| Recoveries from third parties for damage to the SRN | 9,002 | 8,354 |
| Interest receivable | 7 | 27 |
| National vehicle recovery | 5,750 | 4,980 |
| Other | 31,091 | 10,058 |
| **Income totals** | **68,735** | **56,881** |

## (iii) Losses and special payments (subject to audit)

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

### a. Losses statement

| | Year to 31 March 2019 | Year to 31 March 2018 |
|---|---|---|
| Total number of losses | | |
| Constructive losses | 2 | - |
| Bookkeeping/cash losses | - | 59 |
| Claims abandoned | 776 | 746 |
| Store losses | 274 | 949 |
| **Total** | **1,052** | **1,754** |
| | **31 March 2019 £000** | **31 March 2018 £000** |
| Total value of losses | | |
| Constructive losses | 4,947 | - |
| Bookkeeping/cash losses | - | 31 |
| Claims abandoned | 8,896 | 6,208 |
| Store losses | 2,249 | 4,147 |
| **Total** | **16,092** | **10,386** |

### Details of cases over £300,000

#### Constructive losses

There were two constructive losses during the year: £2.7 million relating to the A303 project and £2.2 million to the Lower Thames Crossing. These losses were a result of exploratory work done under a correct procurement procedure (PF2), but due to a policy change, became nugatory spend.

#### Bookkeeping/cash losses

These losses relate to accounting corrections and losses not considered viable or value for money to pursue.

No bookkeeping/cash losses occurred during 2018-19.

#### Claims abandoned

These losses largely relate to damage to the road network and traffic management clean-up costs, where the culprit is unknown and it is not viable to pursue the claim.

There was one abandoned claim greater than £300,000. This related to remedial third party work undertaken on M6 between junctions 3 to 4 after mining activity by RJB Mining (UK) at the Daw Mill Collier. The developer disputed the costs of the remedial work and the administration fee for the third party works which amounted to £568,893. The company is in liquidation and advice from the Government Legal Department is that all claims are time barred with no realistic prospect of recovery and therefore not considered value for money to pursue.

#### Store losses

These losses largely relate to theft or vandalism to SRN equipment where the culprit is unknown. This includes cables, fencing, barriers, communication equipment, signs or lighting.

There was one store loss with a value greater that £300,000. This related to the losses in the salt reserves across all the strategic stockpile locations during 2017-18. The value of the loss was £613,172.





### b. Special payments

| | Year to 31 March 2019 | Year to 31 March 2018 |
|---|---|---|
| Total number of special payments | | |
| **Ex-gratia payments/compensation** | **15** | **10** |
| | **Year to 31 March 2019 £000** | **Year to 31 March 2018 £000** |
| Total value of special payments | | |
| **Ex-gratia payments/compensation** | **1,676** | **37** |

### Details of cases over £300,000

There was one special payment with a value greater than £300,000. This related to a non-contractual payment of £1.5 million covering the acquisition of, and compensation for, a leasehold restaurant site on the A14 Cambridge to Huntingdon improvement scheme.

### Dart Charge losses

Highways England operates the Dartford-Thurrock River Crossing Charging Scheme on behalf of the Secretary of State for Transport. During 2017-18 an impairment loss of £42.0 million was reported; £5.5 million of the impairment relates to road user charge revenue and £36.5 million of the impairment relates to enforcement revenue. These losses are disclosed in the DfT accounts and further details are provided in the 2017-18 Dartford-Thurrock River Crossing Charging Scheme Accounts.

## (iv) Segmental reporting

**Year to 31 March 2019**

| | Resource Expenditure | Resource Income | Resource Total | Capital Expenditure | Capital Income* | Capital Total |
|---|---|---|---|---|---|---|
| Total by segment | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Asset renewals | - | - | - | 629,163 | - | 629,163 |
| Asset improvements | - | - | - | 1,748,274 | (35,416) | 1,712,858 |
| Traffic management | - | - | - | 44,870 | - | 44,870 |
| Other | - | - | - | 263,360 | - | 263,360 |
| Maintenance (B3) | 287,431 | (9,586) | 277,845 | - | - | - |
| Renewals (B4) | 10,746 | - | 10,746 | - | - | - |
| Operate: roads PFI (B5) | 384,385 | - | 384,385 | - | - | - |
| Operate: general (B1) | 99,754 | (18,345) | 81,409 | - | - | - |
| Operate: customer operations/ traffic management (B2) | 116,512 | (5,764) | 110,748 | - | - | - |
| Support general (C1) | 174,722 | (6,754) | 167,968 | - | - | - |
| Protocols (D) | 68,393 | (978) | 67,415 | - | - | - |
| | **1,141,943** | **(41,427)** | **1,100,516** | **2,685,667** | **(35,416)** | **2,650,251** |
| Unallocated costs: | | | | | | |
| Depreciation and impairment | 1,212,883 | - | 1,212,883 | - | - | - |
| New provisions (resource AME) | 45,813 | - | 45,813 | - | - | - |
| New provisions (capital AME) | - | - | - | 132,980 | - | 132,980 |
| Taxation | - | - | - | - | - | - |
| Other | 50,445 | - | 50,445 | 239 | 8,162 | 8,401 |
| **Total budget** | **2,451,084** | **(41,427)** | **2,409,657** | **2,818,886** | **(27,254)** | **2,791,632** |
| Budget to accounts reconciliation | | | | | | |
| Resource utilisation | - | (3,793) | (3,793) | - | - | - |
| Capital income in resource transfer | - | (27,254) | (27,254) | - | 27,254 | 27,254 |
| R&D capital transfer | 11,117 | - | 11,117 | (11,117) | - | (11,117) |
| **Segmental total per accounts** | **2,462,201** | **(72,474)** | **2,389,727** | **2,807,769** | **-** | **2,807,769** |

*Income which relates to capital projects is classified as capital for budgetary purposes. However under IFRS this is treated as operating income in the SoCNE.





**Year to 31 March 2018**

| | Resource Expenditure | Resource Income | Resource Total | Capital Expenditure | Capital Income* | Capital Total |
|---|---|---|---|---|---|---|
| Total by segment | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Asset renewals | - | - | - | 766,629 | - | 766,629 |
| Asset improvements | - | - | - | 1,380,998 | (21,115) | 1,359,883 |
| Traffic management | - | - | - | 9,425 | - | 9,425 |
| Other | - | - | - | 183,052 | - | 183,052 |
| Maintenance (B3) | 271,034 | (10,221) | 260,813 | - | - | - |
| Renewals (B4) | 10,743 | - | 10,743 | - | - | - |
| Operate: roads PFI (B5) | 421,402 | - | 421,402 | - | - | - |
| Operate: general (B1) | 86,766 | (26,294) | 60,472 | - | - | - |
| Operate: customer operations/ traffic management (B2) | 113,633 | (4,964) | 108,669 | - | - | - |
| Support general (C1) | 169,900 | (7,943) | 161,957 | - | - | - |
| Protocols (D) | 57,804 | (8) | 57,796 | - | - | - |
| | **1,131,282** | **(49,430)** | **1,081,852** | **2,340,104** | **(21,115)** | **2,318,989** |
| Unallocated costs: | | | | | | |
| Depreciation and impairment | 1,430,459 | - | 1,430,459 | - | - | - |
| New provisions (resource AME) | 6,386 | - | 6,386 | - | - | - |
| New provisions (capital AME) | - | - | - | 3,492 | - | 3,492 |
| Taxation | | - | | | | |
| Other | 222,409 | - | 222,409 | 1,501 | 14,594 | 16,095 |
| **Total budget** | **2,790,536** | **(49,430)** | **2,741,106** | **2,345,097** | **(6,521)** | **2,338,576** |
| Budget to accounts reconciliation | | | | | | |
| Resource utilisation | - | (2,625) | (2,625) | - | - | - |
| Capital income in resource transfer | - | (6,521) | (6,521) | - | 6,521 | 6,521 |
| R&D capital transfer | 5,968 | - | 5,968 | (5,968) | - | ( 5,968) |
| **Segmental total per accounts** | **2,796,504** | **(58,576)** | **2,737,928** | **2,339,129** | **-** | **2,339,129** |

*Income which relates to capital projects is classified as capital for budgetary purposes. However under IFRS this is treated as operating income in the SoCNE.

### Segmental expenditure

- The operating segments are business activities that are regularly reviewed by the company's Board and senior management for decision-making purposes.
- Expenditure in the financial statements is split between capital and resource expenditure.
- Asset renewals are a programme of SRN renewals expenditure to ensure the infrastructure delivers according to the service potential, including a significant resurfacing programme.
- Asset improvements include an agreed programme of major improvements expenditure which contributes significantly to increasing capacity and removing bottlenecks.
- Maintenance expenditure relates to lump sum duties including winter maintenance, pot hole repairs, drainage clearing and grass cutting.
- Operating expenditure includes the costs of strengthening the company's SRN management function, maximising SRN availability and reducing the impact of incidents and recurrent congestion.
- Support expenditure includes the resources to help deliver the programme, including: staff costs; IT; and research and development.

## (v) Highways England off-payroll appointees, consultancy and temporary staff

1. As part of the review of tax arrangements of public sector appointees published by the Chief Secretary to the Treasury on 23 May 2012, departments have been asked to report on their off-payroll engagements and related tax arrangements for the periods and scope outlined by HM Treasury. This data is shown in the following tables.

**For all off-payroll engagements as of 31 March 2019, for more than £245 per day and that last for longer than six months**

| | |
|---|---|
| No. of existing engagements as of 31 March 2019 | 13 |
| **Of which** | |
| No. that have existed for less than one year at time of reporting | 5 |
| No. that have existed for between one and two years at time of reporting | 5 |
| No. that have existed for between two and three years at time of reporting | 2 |
| No. that have existed for between three and four years at time of reporting | 1 |
| No. that have existed for four or more years at time of reporting | - |

2. The company confirms that all existing off-payroll engagements, outlined above, have at some point been subject to a risk-based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that further evidence has been sought.

**For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019, for more than £245 per day and that lasted for longer than six months**

| | |
|---|---|
| No. of new engagements, or those that reached six months in duration, between 1 April 2018 and 31 March 2019 | 11 |
| **Of which** | |
| No. assessed as caught by IR35 | 11 |
| No. assessed as not caught by IR35 | - |
| No. engaged directly (via PSC contracted to department) and are on the departmental payroll | - |
| No. of engagements reassessed for consistency/assurance purposes during the year | - |
| No. of engagements that saw a change to IR35 status following a consistency review | - |





3. All contracts included contractual clauses giving the company and the DfT the right to request assurance. All engagements were ones where the DfT requested tax compliance evidence and there were no contracts where an individual was exempt from this requirement.

**For any off-payroll engagements of Board members, and/or, senior officials with significant financial responsibility, between 1 April 2018 and 31 March 2019**

| | |
|---|---|
| No. of off-payroll engagements of Board members, and/or, senior officials with significant financial responsibility, during the financial year | 1 |
| Total no. of individuals on payroll and off-payroll that have been deemed "board members, and/or senior officials with significant financial responsibility", during the financial year. This figure should include both on payroll and off-payroll engagements | - |

4. During the year the company employed a number of consultancy and temporary staff. Expenditure on consultancy and temporary staff is shown in the table below.

**Expenditure on consultancy and temporary staff**

| | Consultancy £m | Temporary staff £m | Total £m |
|---|---|---|---|
| Highways England | 2.5 | 4.2 | **6.7** |

Consultancy here is the provision of objective advice relating to strategy, structure, management or operations of an organisation, in pursuit of its purposes and objectives. Such advice will be provided outside the 'business-as-usual' environment when in-house skills are not available and will be time-limited. Consultancy may include the identification of options with recommendations, or assistance with (but not the delivery of) the implementation of solutions.

# Glossary

| Term | Definition |
|---|---|
| AFR | Accident Frequency Rate |
| All Lane Running | A type of road design where there is no dedicated hard shoulder. CCTV cameras and variable message signs are used to regulate speed and close lanes in the event of an incident or congestion. |
| AUC | Assets Under Construction |
| BIF | Business Information Framework |
| BIM | Building Information Modelling |
| C&AG | Comptroller and Auditor General. Highways England's appointed external auditor; external audit work is carried out by the NAO on behalf of the C&AG. |
| CAV | Connected and Autonomous Vehicles |
| CEDR | Conference of European Directors of Roads |
| CEO | Chief Executive Officer |
| CITE | Connected and Intelligent Transport Environment |
| Designated Funds | Ring-fenced funding for Highways England to address a range of issues over and above the traditional focus of road investment across five areas: environment; cycling, safety and integration; air quality; growth and housing; and innovation. |
| DfT | Department for Transport |
| DMRB | Design Manual for Roads and Bridges |
| ERP | Enterprise Resource Planning; a type of business management software. |
| Expressway | An upgrade for A-roads to provide motorway quality journeys to drivers. |
| FA | The Football Association |
| FWI | Fatal Weighted Injury |
| HGV | Heavy Goods Vehicle is the EU term for large road freight vehicles such as lorries and trucks |
| HS2 | High Speed Two. The UK's new high-speed rail network, currently under construction. |
| IFRIC | International Financial Reporting Interpretations Committee |
| IFRS | International Financial Reporting Standards |
| ISAs | International Standards on Auditing |
| KRF | Kent Resilience Forum |
| KSI | Killed and seriously injured |
| KPI | Key Performance Indicator |
| NDA | Nuclear Decommissioning Authority |
| NAO | National Audit Office. Highways England's appointed external auditor; external audit work is carried out by the NAO on behalf of the C&AG. |
| NIA | Noise Important Area. The areas in England where the 1% of the population most affected by noise levels from major roads is located. |
| NRTS | National Roads Telecommunications Service |
| ORR | Office of Rail and Road. The Highways England monitor, responsible for monitoring the costs, efficiency and performance of the Company. |
| Outturn | Actual financial results at the year-end. |
| PFI | Private Finance Initiative |
| REM | Rapid Engineering Model |
| RICS | Royal Institution of Chartered Surveyors |
| RIDDOR | Reporting of Injuries, Diseases and Dangerous Occurrences Regulations. |
| RIS1 | The first Road Investment Strategy. The £15 billion funding allocated to Highways England includes £11.4 billion relating to the first five-year road period (2015-20). The remaining funding has been committed to the first year of the next road period (2020-25). |
| RIS2 | The second Road Investment Strategy (2020-2025) |
| ROCOS | Road Construction Resource Cost Indices |
| Smart Motorway | Smart motorways use technology and active traffic management techniques to enable the hard shoulder to be converted into a running lane at the busiest times. |
| SMEs | Small and medium-sized enterprises |
| SoFP | Statement of Financial Position |
| SPV | Special Purpose Vehicle. A subsidiary company with an asset/liability structure and legal status that makes its obligations secure, even if the parent company goes bankrupt. |
| SRN | Strategic road network |
| Transport Focus | The independent watchdog responsible for gathering the views of SRN users and using these to shape policy and decision-making. |
| VAT | Value Added Tax |
| VR | Virtual Reality |
| Vulnerable Users | Non-motorised users of the network, including cyclists, pedestrians and equestrians. |



GLOSSARY





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