Accounts

Independent Auditor's report

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 ■ The Delegation of Functions (Strategic Highways Companies) (England) Regulations 2015 ■ 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 ■ 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.

Accounts

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.

Accounts

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.

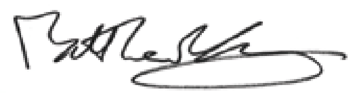
Matters on which I report by exception

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

Accounts

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

Accounts

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: ■ urban land indices from the Land Registry House price index. ■ 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.

Accounts

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: ■ a standard unit rate that is applied across the SRN for the relevant road type. ■ 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: ■ regional geographical location; and ■ 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. 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. 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

Accounts

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: 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: 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%.

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**

ACCOUNTS: FINANCIAL STATEMENTS

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.

	31 March 2019 £000	31 March 2018 £000
Ageing of financial assets		
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 Not later than 1 year £000	31 March 2019 Later than 1 year and not later than 5 years £000	31 March 2019 Later than 5 years £000	31 March 2019 Total £000	31 March 2018 Total £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 £000	31 March 2018 £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 £000	31 March 2018 £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**

Accounts

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.

Accounts