Our financial review

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

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

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

Our key financial successes in 2018-19 include:

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

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

This equates to **£10m** a day

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

Financial performance

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

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

Capital funding

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

Capital funding

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

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

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

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

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

Operational expenditure

Operational expenditure

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

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

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

New cost pressures in 2018-19 included:

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

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

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

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

Expenditure

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

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

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

	(£m)
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Asset renewal	674
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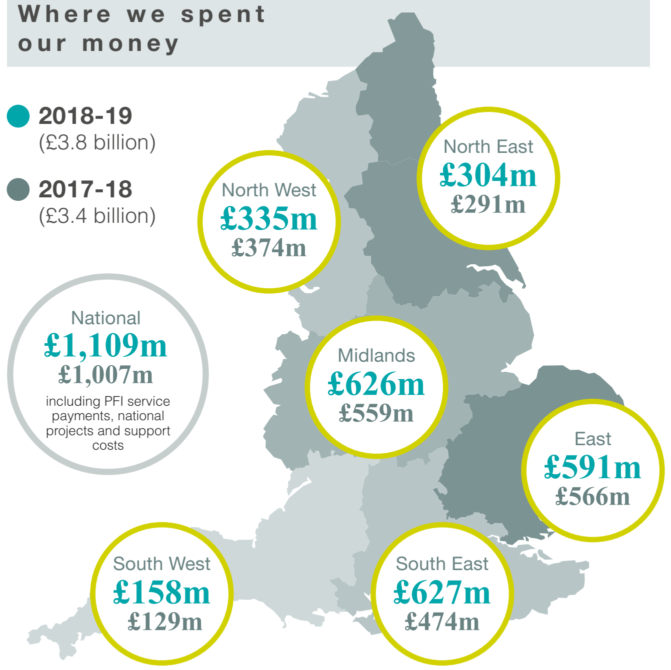
Operational maintenance	286
Other capital investment	263
Operation of the network	192
Corporate services	172
Protocols	67

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

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

Where we spent our money



Efficiency

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

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

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

The value of our network

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

SRN valuation

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

Supporting our supply chain

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

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

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

Protocols

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

Forecasting cash requirements

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