THE NATIONAL HEALTH SERVICE LITIGATION AUTHORITY

Report and Accounts 2008

The National Health Service Litigation Authority

Report and Accounts 2008

Presented to Parliament pursuant to section 232 (Schedule 15 paragraph 3) of the National Health Service Act 2006

Ordered by the House of Commons to be printed 15 July 2008

HC 903 £13.90

Aims and objectives

When the NHS Litigation Authority was first created in 1995, our main functions were to administer schemes under which NHS bodies could pool their clinical negligence liabilities and to promote high standards of risk management in the NHS. Since then, our work has expanded to include schemes and risk management standards for non-clinical liabilities, the provision of an information service for the NHS on human rights case-law, dispute resolution between primary care practitioners and their local Primary Care Trusts, and advice and assistance to NHS bodies when handling equal pay claims.

Our aims and objectives are set out in our *Framework Document:*

- The Secretary of State's overall aims for the Authority in administering the schemes are to promote the highest possible standards of patient care and to minimise the suffering resulting from any adverse incidents which do nevertheless occur. In particular, the Authority will contribute to these aims by its efficient, effective and impartial administration of the schemes, and by advising the Secretary of State on any changes that may be needed in the light of experience in running the schemes and of changing circumstances.

In pursuit of this overriding aim, we seek to:

- " … maximise the resources available for patient care, by defending unjustified actions robustly, settling justified actions efficiently, and contributing to the incentives for reducing the number of negligent or preventable incidents …"
- " … ensure that, where liability has been established, patients have appropriate access to remedies including, where proper, financial compensation …"
- " … contribute to the improvement of the quality of patient care by providing incentives within the schemes for NHS bodies to improve cost effective clinical and non clinical risk management …"
- "… minimise the cost to the NHS of obtaining legal advice in relation to the *Human Rights Act 1998*, by providing NHS bodies with access to a centrally coordinated information service …"
- "… provide mechanisms for the proper, prompt and cost-effective resolution of disputes between NHS primary care organisations and the practitioners and organisations that provide or seek to provide services for patients …"
- "… advise and assist (NHS organisations in England) in connection with any matter arising out of or in connection with any equal pay litigation …"

Abbreviations used in this report

CNST – Clinical Negligence Scheme for Trusts
ELS – Existing Liabilities Scheme
Ex-RHA – Scheme covering liabilities against the former Regional Health Authorities
LTPS – Liabilities to Third Parties Scheme
PCTs – Primary Care Trusts
PES – Property Expenses Scheme
RPST – Risk Pooling Schemes for Trusts (collective term for LTPS and PES)

ISBN: 9780102953718

Contents

Professor Dame Joan Higgins Chair

Chair's report

It is a pleasure to write the introduction to the Annual Report for 2007/08. It has been one year since I took up my post as Chair of the Authority and a very interesting period in terms of both continuity and change. The Authority has continued to develop the important role it plays in relation to claims against the NHS, as well as supporting NHS trusts to manage risk. A number of high profile cases in the courts will have a major impact upon health and social care services as well as on the individual claimants involved and their families. We have worked closely and constructively with our legal colleagues to try to ensure fair outcomes.

When I took up my post on 1 April 2007, I was joined by three other new non-executive members of the Board. Together with the existing members, I think they have brought energy and commitment to the work of the Authority. The whole Board is keen to use the Authority's experience and information to prevent accidents happening in the NHS and to promote patient safety. A number of new initiatives have been started during 2007/08 which we hope will help NHS organisations to identify factors which could prevent harm.

The Authority is ambitious to play a positive and proactive role in risk management in the NHS and it has been piloting a series of new standards which are designed to minimize risk and to promote high quality services. We are very grateful to all the NHS staff and to patients' groups who have worked with us to develop meaningful and realistic measures.

I have been very conscious, during the year, of the high level of knowledge and skill possessed by the Authority's staff and those with whom we work, in the law and in risk management. I am very grateful to them personally and look forward to working with them, in the future, to provide even better support to the NHS and to patients and their families.

Professor Dame Joan Higgins
Chair

Steve Walker
Chief Executive

Chief Executive's Report

The business of the Authority is such that although some matters fall neatly into particular financial years, some are cyclically recurrent, and others roll from one year into the next like a serial.

An example of the latter might be last year's welcome to a substantially new Board of non-executive directors. Naturally it is for the Chair to assess the Board formally, but it would be remiss of me not to say that management and staff are delighted at the speed of integration and the level of contribution we have experienced from our new colleagues.

Also, last year, in respect of the indexation of Periodical Payments, I alluded to our efforts to persuade the Courts that the Damages Act 1996, as amended, expressed Parliament's intention that the Retail Prices Index (RPI) should be the index of choice, with an option for the Courts to vary that only in exceptional cases. Both at first instance and in the Court of Appeal that argument has not been sustained and the Courts have reserved the right to apply whichever index they considered to be more appropriate at the time of settlement. It is not proposed to pursue this matter further by taking it to the House of Lords.

In practice, as mentioned elsewhere in this report, the effect of adopting alternative indices is inflationary in respect of individual claims, and in the aggregate. In the short term, CNST, and therefore the NHS, benefits from certainty and cash flow, but the long term impact means that our provisions have been dramatically increased. The difficulties of calculating provisions can be understood when one considers that the currently chosen index, ASHE 6115, fluctuates against RPI over time, and the matter is further compounded by the fact that we cannot know in advance which, if any, cases will settle on the basis of Periodical Payments, either by election or by the order of the Court.

Against those difficulties for the NHS and for CNST, it should be remembered that this Authority is obliged, once liability has been established, to secure "appropriate access to remedies" for patients, and from a patient perspective, it will certainly appear that the Courts have been correct in their interpretation of Parliament's intentions.

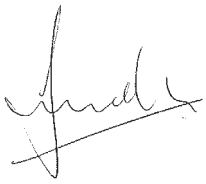
Most readers of this report will know how we calculate scheme contributions every year, one of our cyclical activities. Having determined how much we need for the following year, with significant input from our actuaries, we apply a range of variables specific to each member to arrive at the

contribution required from that member. For the third year in succession we have been able to set CNST contributions at approximately the same aggregate level. We hope that this stability has been of assistance to members who themselves have enormous financial pressures from year to year.

Every few years we are obliged to review the performance of our panels of legal advisers, and in 2007/08 we conducted an intensive tendering exercise for our clinical negligence panel, the outcome of which can be seen on page 30. Despite excellent proposals from two firms which have not previously featured, the unanimous conclusion, ultimately adopted by the Board, was that we remain loyal to 11 of the practices. I would like to personally thank those members of staff, and the non-executives, who contributed so much time and effort to this exhaustive and exhausting process.

We remain determined that our Risk Management Standards should continue to be relevant to front line staff and reflect best practice. Reviewing and revising them is a rolling event for the Authority. To this end, the development of revised standards has involved extensive consultation with healthcare organisations and various national bodies. Robust testing of the standards and assessment process has also been undertaken at a large number of volunteer pilot organisations. During 2007/08, a significant volume of NHS healthcare organisations was assessed against the relevant pilot standards, and final versions of these standards were released on 1 April 2008. Feedback to date indicates that the new approach has been well received by our Scheme members. Revision of the CNST maternity standards is also progressing well, with an initial consultation phase completed and pilot standards published in June 2008.

Finally, another annual occurrence, but no less important, nor less genuine for that, is my acknowledgement of the efforts of all of the Authority's staff, our non-executives, and our contractors towards everything we achieve. My sincere thanks to all concerned.



Steve Walker
Chief Executive

Tom Fothergill
Director of Finance

Director of Finance's report

Finances

The previous financial year has once again provided the Authority with a challenge in regard to making provisions for liabilities following a significant decision in the Courts. Throughout this report one of the most common topics is the decision in the Court of Appeal in regard to a group of cases commonly referred to as Thompstone.

Last year's report and accounts held reference to the potential impact of Thompstone by way of a Contingent Liability note and as is often the case a further year on has seen clarity begin to evolve. The decision of the Court at first instance and again in the Court of Appeal has essentially been to allow payments yet to be made to the claimant to be inflated at an index other than the normal Retail Prices Index (RPI). In these cases and indeed any future cases settled by way of a Periodic Payment Order claimants will be entitled to have their payments inflated by the Annual Survey of Hours and Earnings (ASHE) 6115 which is used to measure growth in wages of various groups of workers with the relevant group elected to be domiciliary carers.

Unfortunately ASHE, unlike, RPI is not readily available as a future forecast and so it is difficult to know at what rate such payments might grow thus, making an appropriate provision becomes more difficult. RPI is more straightforward from an accounting perspective because the Government has regularly offered an insight into its expectations into the future and so a recognised value has been used to build provisions for payments which will fall due to be paid in future financial years.

These accounts have therefore been amended to attempt to take account of the impact of ASHE as an inflator for all cases where a Periodic Payment Order seems appropriate and a detailed note has been inserted within the accounts on page 61 of this report.

Claims

Our schemes

The Authority administers four schemes to handle negligence claims against NHS bodies. Three cover clinical claims, while the fourth covers non-clinical incidents, such as accidental injury to visitors or staff. A fifth scheme provides "first party" insurance-type cover for NHS bodies' property and expenses.

The **Clinical Negligence Scheme for Trusts** (CNST) is a voluntary membership scheme, to which all NHS trusts, Foundation trusts and Primary Care Trusts (PCTs) in England currently belong. It covers all clinical claims where the allegedly negligent incident took place on or after 1 April 1995. The costs of meeting these claims are met through members' contributions on a "pay-as-you-go" basis.

The **Existing Liabilities Scheme** (ELS) is centrally funded by the Department of Health and covers clinical claims against NHS bodies where the incident took place before April 1995.

The **Ex-RHAs Scheme** is a relatively small scheme covering clinical claims made against the former Regional Health Authorities, which were abolished in 1996. Like the ELS it is centrally funded by the Department of Health. It differs from the Authority's other schemes in that the Authority is the legal defendant in any action.

The **Liabilities to Third Parties Scheme** (LTPS) and the **Property Expenses Scheme** (PES), known collectively as the **Risk Pooling Schemes for Trusts** (RPST), are two voluntary membership schemes covering non-clinical claims where the incident occurred on or after 1 April 1999. Costs are met through members' contributions.

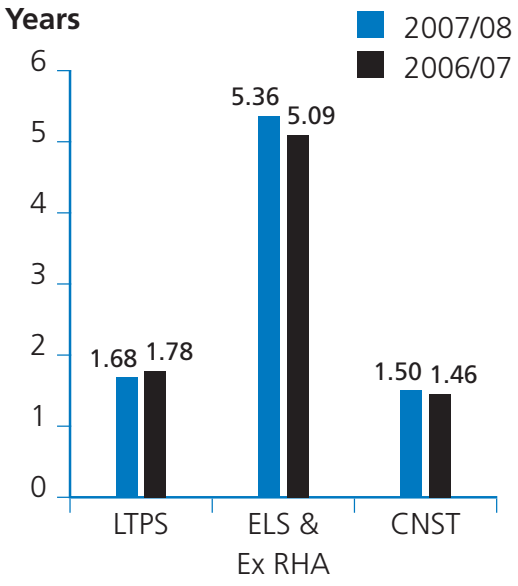
Avoiding litigation

Our remit when handling claims against NHS organisations, as set out in our *Framework Document*, is to "maximise the resources available for patient care, by defending unjustified actions robustly (and) settling justified actions efficiently". We aim to settle claims as promptly as possible and we encourage NHS bodies to offer patients explanations and apologies. We seek to avoid formal litigation as far as possible and our historical data show that only about 4% of our cases go to court, including settlements made on behalf of minors, which must be approved by a court.

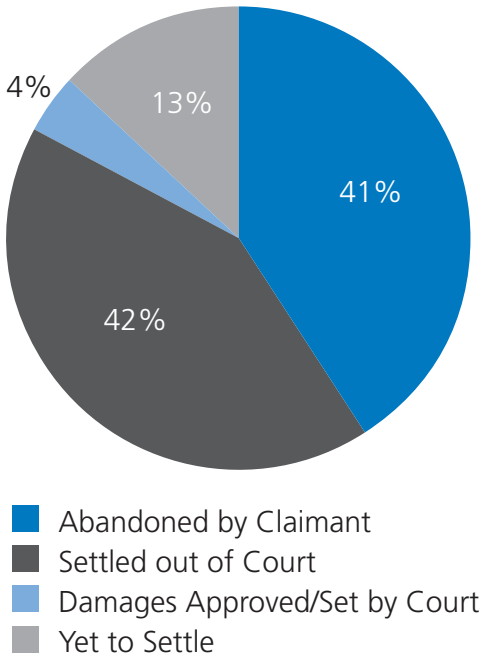
Period between notification and resolution of claims

The chart below shows the average time we have taken to deal with the claims we settled in the past two years, showing each of our schemes separately. We calculate this figure from the date when a claim is first notified to the NHS body concerned for ELS claims or to the Authority for our other schemes, until the date when damages are agreed or the claim is discontinued. There has been a slight increase in the average time taken to resolve claims in our clinical schemes, compared with 2006/07.

Period between notification and resolution of claims



Outcome of claims



Outcome of claims

Whenever possible and appropriate, the Authority attempts to settle claims without litigation. This chart provides a breakdown by outcome of the clinical negligence cases handled over the past ten years by the Authority, excluding the lower-value CNST claims which in the past were handled by trusts themselves.

These data do not include claims settled by individual NHS bodies within their excess and open incidents investigated but not yet proceeded with as a claim. There are 4,656 inherited claims closed on our database with damages but with no status history which we have treated as having been settled out of court.

The category of cases "settled in court" includes both "litigated cases" (cases where key issues such as liability or damages are determined by a judge) and cases where a settlement has been negotiated out of court, but court approval is still required, typically in order to ensure a minor's interests are protected.

Volume of claims

The number of claims we receive has continued to remain remarkably steady over recent years. This year, there was an increase of less than 1% in the number of clinical claims reported, compared with a 4.8% reduction in the previous year, and an increase of 2.6% in the number of non-clinical claims compared with a 5.8% decrease in 2006/07. These tables set out the numbers of claims received under each of our five schemes in each of the past three years.

Volumes of claims

Year	Incidents under investigation	Claims where formal letter of claim has been received	Total
Clinical Negligence Scheme for Trusts			
2005/06	911	4,516	5,427
2006/07	714	4,566	5,280
2007/08	842	4,512	5,354
Existing Liabilities Scheme			
2005/06	109	161	270
2006/07	38	108	146
2007/08	35	80	115
Ex-Regional Health Authorities Scheme			
2005/06	0	0	0
2006/07	0	0	0
2007/08	0	1	1
Liabilities to Third Parties Scheme			
2005/06	10	3,409	3,419
2006/07	82	3,138	3,220
2007/08	44	3,277	3,321
Property Expenses Scheme			
2005/06	0	78	78
2006/07	0	73	73
2007/08	0	59	59

Claims outstanding at year end

The number of outstanding incidents and claims at the year-end continues to fall. There was a 4.4% reduction in the number of clinical claims between 31 March 2007 and 31 March 2008 and a 12% reduction in non-clinical claims over the same period. The tables below show the number of claims outstanding under each of the schemes at the end of the past three financial years.

Claims outstanding at year end

Year end	Incidents under investigation	Claims where formal letter of claim has been received	Total
Clinical Negligence Scheme for Trusts			
31 March 2006	1,625	8,822	10,447
31 March 2007	1,087	9,333	10,420
31 March 2008	1,137	9,052	10,189
Existing Liabilities Scheme			
31 March 2006	264	1,501	1,765
31 March 2007	190	1,342	1,532
31 March 2008	118	1,121	1,239
Ex-Regional Health Authorities Scheme			
31 March 2006	3	28	31
31 March 2007	1	19	20
31 March 2008	1	17	18
Liabilities to Third Parties Scheme			
31 March 2006	22	8,191	8,213
31 March 2007	88	7,497	7,585
31 March 2008	46	6,655	6,701
Property Expenses Scheme			
31 March 2006	0	206	206
31 March 2007	0	170	170
31 March 2008	0	114	114

Payments made	2005/06 £	2006/07 £	2007/08
CNST	384,390,000	424,351,000	456,301,303
ELS	168,203,000	153,246,000	171,562,421
Ex-RHA	7,716,000	1,794,000	5,461,575
Total	**560,309,000**	**579,391,000**	**633,325,299**
LTPS	26,692,000	29,697,000	24,985,721
PES	4,586,000	4,186,000	2,729,682
Total	**31,278,000**	**33,883,000**	**27,715,403**
Overall total	**£591,587,000**	**£613,274,000**	**£661,040,702**

The amounts shown include both damages paid to patients and the legal costs incurred on both sides where these are met by the Authority, but exclude our reserves. These figures do not represent the value of claims made during the year, as many of those claims will not have been settled at the year end and the figures in this section relate to payments made in relation to claims made in several years.

Legal costs

The costs incurred by claimant lawyers continue to be significantly higher than those incurred on our behalf by our panel solicitors, although we continue to seek to have claimants' costs capped where this is appropriate and the Authority remains concerned about the relatively high level of costs incurred in relation to clinical negligence claims on both sides. The following table sets out the ratios between the damages paid to claimants and the legal costs paid to defence and claimant lawyers. Again, these figures cannot be equated with the figures given above for the total amounts paid out by the Authority in 2007/08 because they relate only to claims closed during the year. This is because it is only possible to provide meaningful data on the ratio between costs and damages when a claim has been closed and all the related payments have been made.

Legal costs in relation to damages						
No of claims	Damages	Defence legal costs	Claimant legal costs	Total costs	Defence costs as % of damages	Claimant costs as % of damages
Clinical Negligence Scheme for Trusts claims closed in 2007/08						
6,212	£264,943,382	£43,309,237	£90,729,857	£134,039,094	16.35%	34.24%
Existing Liabilities Scheme claims closed in 2007/08						
467	£117,457,850	£13,207,343	£17,896,344	£31,103,687	11.24%	15.24%
All clinical negligence claims closed in 2007/08						
6,679	£382,401,232	£56,516,580	£108,626,201	£165,142,781	14.78%	28.41%

This table includes all details in relation to claims closed in these two schemes during 2007/08, irrespective of whether they closed with or without damages and costs being paid.

Periodical payments

Periodical payments are damages settlements which include payments made on a regular basis, usually throughout the claimant's life, in place of the traditional single lump sum to cover all future needs. The Authority continues to encourage the use of periodical payments when appropriate. At 31 March 2008, we were making periodical payments in 548 cases, compared with 471 at 31 March 2007, the provisions for which total £900,775,621 (£662,964,855). We consider that these payments are the fairest method of settling most, if not all, large personal injury claims, when future costs are so significant.

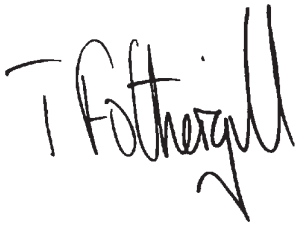
As mentioned above, the decision of the Court of Appeal in the Thompstone case has had a significant impact on these periodical payments.

The Authority, via its actuaries, has created a model to establish the extent of this impact on its open claims and any claims which have been incurred but not yet reported. The global value of this increase in provisions recorded in these accounts as at 31st March 2008 is £1.5billion. This increase is so substantial because the element of damages which relates to future care in clinical negligence claims tends to be a substantial proportion of the overall settlement and this proportion tends to grow larger as the overall value of the claim increases i.e. it has a larger proportional impact on the more expensive claims types since a large element of the agreed damages will relate specifically to the future care needs of the claimant. For example, a claim which might have a traditional lump sum value for damages of £4m will be made up of a number of elements but future care traditionally accounts for in excess of 45% of the award i.e. £1.8m of the damages will be to enable the claimant to purchase their future lifetime care needs and as a result of this judgement the agreed annual value at the inception of the periodical payment order (PPO) will now be inflated at, say, 4% per annum rather than 2.5% (assuming RPI

is 2.5%) thus a payment of £100,000 per annum for life would, using RPI, be costing the Authority approximately £185,000 per annum in 25 years' time whereas using ASHE 6115 at 4% per annum (assuming RPI at 2.5% and ASHE at 1.5% greater) the same initial payment will be costing approximately £266,000 in 25 years' time.

The Authority will, in subsequent years, need to review its actuarial models to recognise alterations in its assumptions due to actual data on the various indeces and also where the take up of PPOs is outside the forecasts assumed currently. Such variations will, when applied, inevitably alter the provisions of the Authority which, it should be remembered, are best estimates of the likely value of all claims against the NHS should they all be settled in full at the point of creating these accounts whereas the reality is that these cases will both materialize and be concluded at some point into the future. Note 9 on page 61 explains this further.

So from an accounting and legal perspective it has once again been an interesting year for the Authority and its staff, who as ever are due a note of thanks for their commitment and efforts on behalf of the Authority.



Tom Fothergill
Director of Finance

John Mead
Technical Claims Director

Important cases for the NHS in 2007/08

Thompstone v Tameside and Glossop Acute Services NHS Trust

This case, together with three similar NHS claims, was heard by the Court of Appeal in November 2007. In its judgment in January 2008, the court upheld rulings by all four trial judges that future damages for these seriously injured claimants should be linked to a sub-set of the Annual Survey of Hours and Earnings (ASHE) rather than to the Retail Prices Index (RPI), which had been standard practice until late 2006. Far from being an obscure legal or actuarial point, this decision is highly significant from the NHS perspective because historically, this ASHE measure has risen much faster than RPI. The consequence is that, should this pattern be repeated in future, damages payments will increase significantly and the bill to the NHS will be enormous.

Savage v South Essex Partnership NHS Foundation Trust

Mrs Savage was detained under s.3 of the Mental Health Act, 1983. She was treated for paranoid schizophrenia on an open ward. She absconded and jumped in front of a train, suffering fatal injuries. Her daughter brought a claim not in negligence, but rather under Article 2 of the European Convention on Human Rights (right to life). Following a preliminary issue trial on the proper test in law to establish a breach under Article 2, the High Court held that it was at least one of 'gross negligence', i.e. conduct such as to allow a charge of manslaughter to be brought. However, on 20 December 2007, the Court of Appeal overturned this ruling. It decided that the claimant must demonstrate that, at the material time, the trust knew or ought to have known of the existence of a real and immediate danger to the life of the patient and that it failed to take measures within the scope of its powers which, judged reasonably, might have been expected to avoid that risk. This decision raises the prospect of significantly increased numbers of Article 2 claims against the NHS. The House of Lords has given us permission to appeal.

A v Hoare

The House of Lords decided to alter the position on limitation in abuse claims in this judgment given on 30 January 2008. The lead case involved the so-called "lottery rapist", who only became financially worth suing more than six years after his attack. It had previously been the

law that civil claims involving assault could not normally succeed if they were made more than six years after the event. The House ruled that the courts should have discretion to extend limitation in such circumstances. Some guidance was given regarding factors which might affect the granting of discretion, e.g. when the complaint was first made, what investigations were pursued and whether a criminal conviction occurred. Whilst the House of Lords was keen to emphasize that its ruling did not by any means imply that all historical abuse claims would now succeed, the fact is that the NHS (amongst others), as employers of alleged abusers, is potentially more open to successful claims of this type than previously, on the principle of vicarious liability for the actions of its employees arising out of and in the course of their jobs.

Rothwell v Chemical and Insulating Co Ltd

Another decision of the House of Lords, this time on 17 October 2007, which held that those who develop pleural plaques on their lungs as a result of having been negligently exposed to asbestos dust have no valid claim in law. The reason for this is that such plaques are usually symptomless in themselves (although they might cause anxiety), and therefore do not produce an entitlement to compensation. Whilst this ruling will mainly affect industrial employers, it is also of significance for the NHS because some maintenance workers have developed such plaques, usually as a consequence of exposure to dust prior to the start of Authority's Liabilities to Third Parties Scheme. Such cases might not be covered by any indemnity arrangement, and therefore this judgment is helpful to NHS employers as well.

Yearworth and Others v North Bristol NHS Trust

This is believed to be the first case ever to come to court in the UK on the subject of damages for loss of frozen sperm. Liability was not at issue: Judge Griggs in Exeter County Court, in his judgment delivered on 12 March 2008, had to decide on the level of damages to be awarded. Each of the male claimants was a cancer patient who, because of the nature of his treatment, which was likely to put his fertility at risk, banked semen samples with the trust.

Unfortunately the storage equipment failed, thus ruining the samples. The judge decided that no personal injury had been suffered, and that there was no "property" in the sperm either. Further, there was no entitlement to an award based on the apprehension of not being able to father children (in fact, most claimants' fertility had eventually been restored). Overall, therefore, no damages were due. The claimants have indicated an intention to appeal, so this case may in due course receive further judicial consideration.

Equal pay

The Authority has continued to fulfil its remit from the Department of Health to manage equal pay claims on behalf of NHS organisations in England. Sign-up of organisations is now over 92%, compared with 75% as at 31 March 2007, and we are working hard on the remainder!

Following an initial reluctance to list test cases for hearing, the Employment Tribunal in Newcastle, from which all such claims in England and Wales are administered, is now in certain instances starting to agree with us that the only sensible way to manage such a huge body of litigation is by way of test actions. What will probably prove the most important case in this category has been listed for hearing in October and November 2008: *Hartley v Northumbria Healthcare NHS Trust and Others.* This will be the first to consider detailed arguments on behalf of the main non-union solicitor in this litigation that Agenda for Change (AfC), the NHS job-evaluation scheme, fails to comply with anti-discrimination legislation. The Secretary of State for Health and the trade unions who signed AfC are also sued. This case could well eventually reach the House of Lords (or Supreme Court, as it will have become by that time). Needless to say, a vigorous defence of AfC is being maintained.

Nevertheless, it must be stressed that both the Department of Health and the Authority fully support the concept of equal pay. This has, after all, been compulsory since the 1970 Act, and indeed many might consider it extraordinary that equality has not been achieved some 38 years later. Our main difficulty, in managing this litigation, is to determine in precisely what way the law affects NHS pay arrangements. Very few NHS equal pay claims have ever reached the higher courts.

However, certain NHS cases are now beginning to feature in the Employment Appeal Tribunal, and the Authority is funding the defence costs in several. Some of these will also effectively be test cases, without necessarily having been specifically designated. A few might also eventually proceed to the House of Lords. The task of establishing the law in NHS equal pay disputes is not a short-term undertaking.

We continue to participate in seminars across the country, organised mainly by strategic health authorities, with which we have excellent working relations. In turn, we arrange quarterly meetings for defence solicitors to ensure that all are aware of the national strategy.

The potential for further claims, perhaps in substantial numbers, remains high. Should the NHS ultimately lose any test issues, the financial consequences for the Service will be enormous. Trusts will have to pay any successful claims themselves: the Authority does not have a fund out of which to meet them, unlike those for clinical negligence and the other types of claim which we handle. However, it remains far too early to predict with any accuracy the final total cost of equal pay claims for the NHS.

Alison Bartholomew Risk Management Director

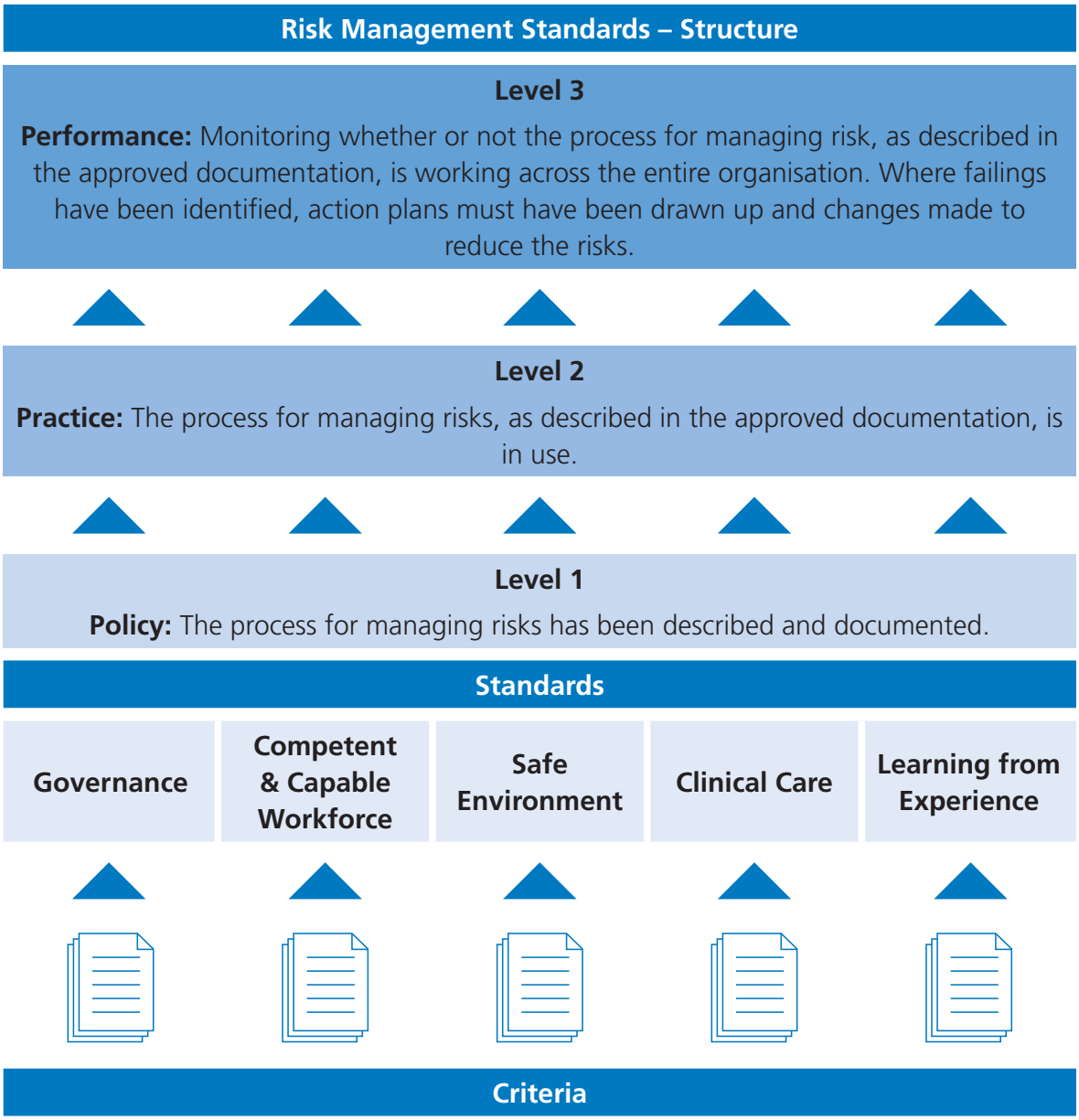
Risk management

There are new sets of standards for NHS acute, mental health and learning disability, ambulance and primary care trusts and independent sector providers of NHS care. Each set contains five individual standard areas with ten equally weighted criteria, or risk areas, in each standard. Every risk area is addressed at three distinct progressive levels – policy, practice, performance – and organisations are only assessed against the requirements of the level being assessed. The structure of the standards is illustrated below.

The Authority has a remit to encourage NHS trusts and independent sector providers of NHS care to improve their clinical and non-clinical risk management practices on a cost effective basis. This responsibility, which is aimed at improving the safety of NHS patients and staff, is met mainly through the provision of risk management standards, based on the identified causes of claims, against which all organisations are assessed. In addition, the Authority provides ongoing support and training to organisations to assist them in achieving the standards.

Standards, assessments and education

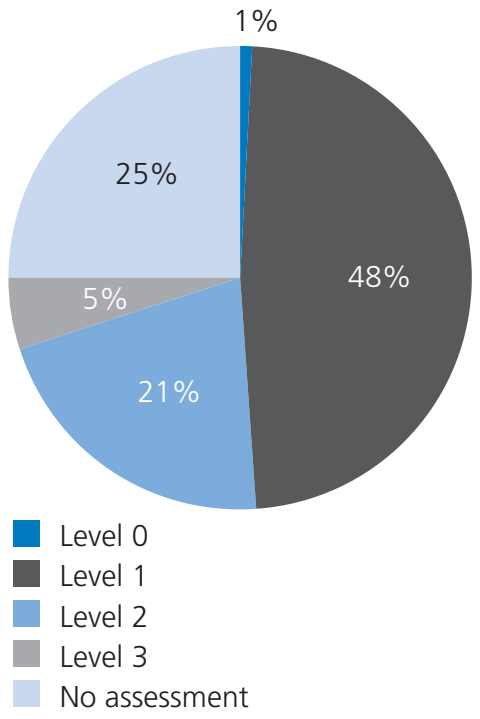
The five year rolling programme to develop and implement revised risk management standards and assessments continued throughout 2007/08 and remained on target at the end of year four. A single set of standards is being developed for each type of NHS trust and independent sector providers of NHS care, incorporating organisational, clinical and health & safety risks. Separate clinical standards are being retained for NHS trusts providing maternity services.



To achieve compliance, organisations are required to pass 40 out of 50 criteria with no fewer than seven passes in any standard. NHS trusts continue to receive increasing discounts, ranging from 10% - 30%, on their contributions to the Authority's schemes as they progress from level 0 to level 3. However, the discounts now relate to all three schemes and are applied from the quarter date following an assessment instead of the beginning of the following financial year.

April 2007 saw the formal introduction of our new Risk Management Standards for Acute Trusts, following a year of assessments against pilot standards. During September a series of workshops were held to assist acute trusts in achieving the standards. By the end of March 2008, 127 acute trusts (75%) had been assessed against the new standards and the outcomes are shown below.

Acute trusts at 31 March 2008



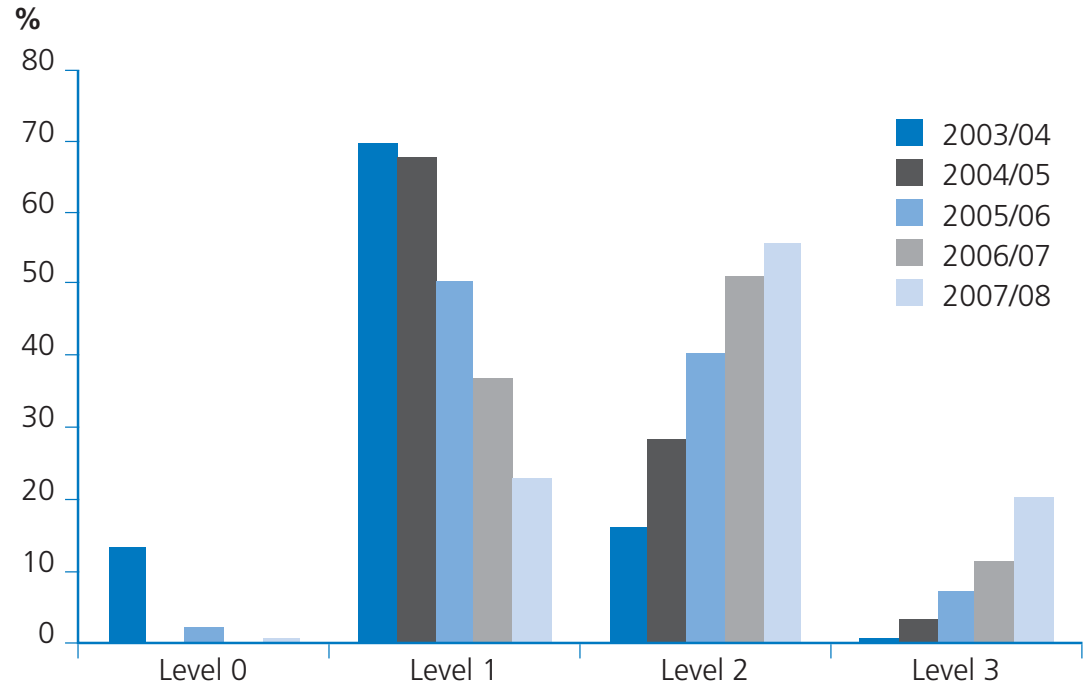
The standards against which independent sector providers of NHS care are assessed are the same as those for NHS acute trusts. To facilitate the roll out of the standards and assessments to the independent sector, most of the organisations which are required to be assessed were visited during 2007/08 to help prepare them for assessment during 2008/09.

Pilot versions of the new standards for mental health and learning disability, ambulance and primary care trusts were published in April 2007, closely followed by workshops on the new standards and assessment process. During the pilot year the normal assessment timetable was suspended and a total of 58 pilot assessments were conducted at volunteer organisations, with around 50% of these organisations demonstrating compliance with the standards. The lessons learned from this exercise, together with feedback from consultation with other bodies, were used to inform the final versions of the standards which were launched at a number of educational seminars held in Spring 2008.

An electronic evidence template has been produced to assist organisations in conducting a self-assessment against the standards and to accompany evidence submitted for an assessment, as well as enabling the assessor to record their scores and findings. Risk management handbooks containing guidance, reference sources and claims information in support of the standards are also available. In addition, eleven template documents have been developed and published to support the drafting of local policies to manage risks. Informal visits have been introduced in the years between assessments to provide focused support and guidance to organisations in relation to the standards and to monitor their progress against their assessment action plans.

The chart below shows the levels achieved by NHS trusts in the CNST maternity standards since these were introduced in 2003/04. At the end of 2007/08 76% (2006/07, 64%) had achieved level 2 or 3.

Comparison of levels achieved in the CNST maternity standards



The previous version of the CNST maternity standards was withdrawn on 31 March 2008. The standards are currently being updated to ensure their continued relevance as a framework for managing clinical risks. During 2007/08 extensive work took place on developing the revised CNST maternity standards, including meetings with a range of stakeholders. In addition, focus groups were held around the country during October and November to ensure maternity services could contribute to the revised standards too. Pilot standards were published in June 2008 to be followed by pilot assessments later in 2008/09, with formal assessments against the new standards commencing in April 2009. Meanwhile, the high value placed on our risk management standards was demonstrated when two-thirds of maternity services volunteered to take part in the pilot assessment exercise.

Details of the assessment level(s) achieved by each organisation in relation to the standards are made available via Factsheet 4 on our website, which is updated every month. In addition, copies of assessment reports are posted on the Authority's website. The Authority also provides assessment data on the Concordat activity scheduling site (concordat.org.uk/scheduling).

As indicated above, the Authority's risk management education programme for 2007/08 was designed to facilitate the introduction of the new standards and assessments. Delegate evaluation of the 40 learning and sharing events held during the year was very positive and encouraging.

Concordat

As a full signatory, the Authority has continued to comply with the objectives and practices of the *Concordat between bodies inspecting, regulating and auditing healthcare* which is a voluntary agreement designed to support improvements in healthcare whilst minimising the disruption and duplication of inspection. Information about the Concordat can be found on a dedicated website (concordat.org.uk). The Authority has continued to be a proactive signatory, making a significant contribution to the Concordat success measures. In particular, results and findings from the Authority's assessments are shared and used in a variety of ways by other bodies such as the Healthcare Commission. Conversely, elements of the Authority's assessments take assurance from work undertaken by other bodies including the Audit Commission.

Patient safety

By sharing its unique experience and knowledge, the Authority is able to make a positive contribution towards improving patient safety and continues to liaise and work closely with other bodies on this important issue. The Authority is committed to delivering the objectives of the Charter for the Safety of Patients and is a member of the Patient Safety Observatory.

Risk management services

Following a procurement exercise which took place in 2006/07, the Authority entered into a contract with Det Norske Veritas Ltd (DNV) to continue the development of risk management standards, conduct assessments, and provide education services for five years with effect from 1st April 2007. DNV is an independent foundation and global provider of services for managing risk with the corporate objective of safeguarding life, property and the environment. All the assessors and their managers transferred from the previous risk management services provider, enabling their experience and skills to be retained and enhanced by the existing DNV competencies. Overall, the transition went smoothly and the services delivered by DNV during the first year of the contract have been satisfactory.

Paul Burns
Head of Appeal Unit

Family Health Service appeals

The Authority's Family Health Services Appeal Unit, which is based in Harrogate, carries out "appellate and other functions" in connection with the decisions and functions of Primary Care Trusts (PCTs) on behalf of the Secretary of State for Health.

While the total number of determinations from cases entering the appeal or dispute resolution process decreased to 625 from 831 in the previous year, the trend towards more complexity in the issues being raised and arguments advanced continued. The Unit's capacity to be flexible and to target appropriate resources has maintained good performance figures, with the average time taken to issue decisions being in line with those of recent years. Additional statistics relating to the Unit's work are available on our website, nhsla.com/fhsau.

The Unit also provides services to the tribunal Family Health Services Appeal Authority (FHSAA), which is a separate independent body with its own annual report, published at fhsaa.org.uk.

Dental dispute resolution

This was the second year of the new dispute resolution procedures following the introduction of the new dental contract in April 2006. While a number of applications were withdrawn during the Authority's dispute resolution process, determinations continued to refer to pre-contract or agreement dispute applications, which accounted for 74 of the 115 cases closed during the year. One case scheduled for a hearing was cancelled following local resolution. Otherwise, all determinations were made on the papers and, not including periods pending further local dispute resolution, 96% were made within the Authority's target of 15 weeks from receipt of the application.

Five determinations under the new procedures have been subject to an application to the court for judicial review. The Authority was the defendant in three cases with the claimants naming the PCT in the others. Of the three applications directly challenging the Authority, one was withdrawn, one had permission refused by the court and the third was the subject of a quashing order, which was offered by the Authority.

As the interested party, the PCT had agreed the consent order put forward by the Authority, although the claimant decided to pursue the matter. The court accepted the Authority's argument about the basis on which the claimant was entitled to payments under its contract, although it

was not persuaded that the other relief sought by the claimant should proceed to a full hearing. The Authority's determination was over-turned on the very narrow error in law that the Authority had not had regard to certain data in the Claimant's extensive Dispute Resolution bundle. In accepting this error in law, the court ordered that the PCT should re-specify the number of units of dental activity for which it would pay the claimant in each financial year.

Medical dispute resolution

In this, the fourth year of the current GP contract, the number of case closures of dispute resolution applications varied little from the previous year at 96, although there was a shift in numbers between General Medical Services (GMS) (66 cases compared with 38 the previous year) and the Personal Medical Services (PMS) (30 cases compared with 65 the previous year).

The increase in GMS cases was due to disputes about premises valuation. While a greater number of these were determined than in recent years, the large percentage of withdrawn applications were as a result of the contractor and PCT agreeing to enter local resolution. The remaining issues disputed with the Authority gave rise to a mix of cases with no particular theme dominating the year. However an increasing number of cases related to matters that had been on-going at local level, or not identified at local level, for an extended period, which added to the complexity in identifying the relevant factors.

The average time taken to decide appeals in 2007/08 was 10 weeks for cases decided on the papers and 22 weeks (GMS) or 20 weeks (PMS) for cases where an oral hearing was required. The table below sets out the outcome of those cases

One determination was challenged in the court, but the claimant was refused permission to proceed.

	Disputes deemed withdrawn or not valid appeal	Disputes determined on the papers (allowed in full or in part)	Disputes determined following a hearing (allowed in full or in part)
GMS	31	24 (5)	11 (7)
PMS	6	20 (7)	4 (2)

Pharmaceutical regulations

There was a significant increase in new appeals under the pharmaceutical regulations towards the end of the year, which may have been due to the anticipated introduction of fees for applications from April 2008. While the Authority's Pharmacy Appeals Committee continued to determine the majority on the papers, a panel was appointed to hear oral representations in 86 cases before then reporting back to the committee.

Over 90% of cases were completed within indicative period, with average time taken to decide appeals remaining similar to recent years: four weeks for cases summarily dismissed, 11 weeks for cases decided on the papers and 22 weeks for cases decided after an oral hearing. A three year comparison of the numbers of appeals received and closed is shown below.

Year	2005/06	2006/07	2007/08
Appeals received:	300	307	362
Appeals closed:	290	295	337

Six claimants initiated proceedings for judicial review of the Authority's decisions. One was refused permission to proceed and two others were withdrawn. Three unrelated applications by the same claimant were heard in January 2008.

The court recognised the apparently conflicting authorities in England and Scotland in relation to the "necessary or desirable" test, (the various value judgments that the decision-maker is required to make) and determined that reasonable choice is only one factor to be taken into account: "Even where there is limited or even no choice, it is still open to a decision-maker to find that, taking all the relevant factors into account, the provision of pharmaceutical services in the neighbourhood is adequate."

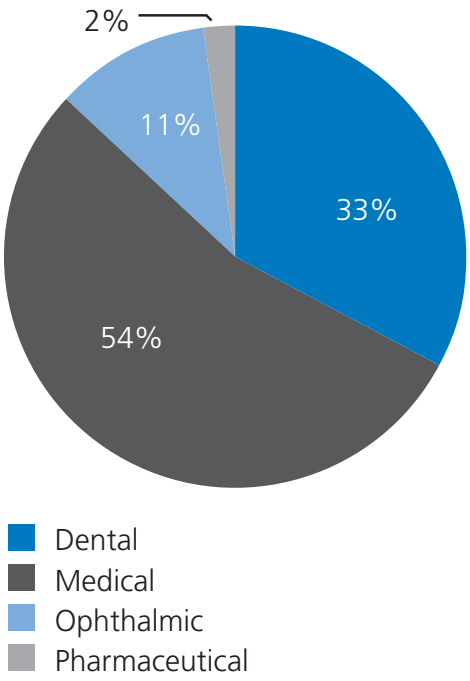
This broadly confirms the approach being taken by the Authority's Pharmacy Appeals Committee. The court upheld two of the determinations, but not the third. The Authority is seeking permission to pursue the matter to the Court of Appeal in relation to this claim, whilst the claimant is seeking permission to pursue the matters in which he was unsuccessful too.

Fitness to practise: PCT notifications and checks

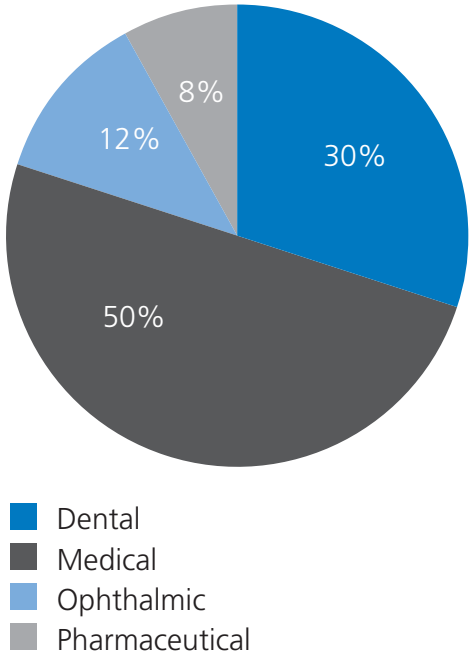
During 2007/08, the Authority was notified that 11 dental, 63 medical and one ophthalmic practitioners had been suspended; 99 remained in force at 31st March 2008. Following decisions of the FHSAA, and its predecessor NHS Tribunal, there are currently 59 (47 medical, 9 dental, 3 ophthalmic) practitioners who have been nationally disqualified from practising in NHS primary care. A PCT is also notified of such a disqualification when seeking fitness to practise information.

445 notifications about primary care practitioners, other than suspensions, were also received in 2007/08: 311 concerned removals from lists; 27 contingent removal; 17 refusals to include practitioners in lists; and 90 conditional inclusions. The following chart breaks down these notifications by profession:

2007/08 Notifications by Profession (other than suspension)



Restriction Checks by Profession 2007/08



The Authority holds a central database for England of fitness to practise decisions notified to it by primary care organisations throughout the United Kingdom. The Authority is developing a proposal to provide a secure on-line checking facility, which is due to be commissioned in the coming year. During 2007/08, PCTs made 11,073 requests for checks, broken down by profession as follows:

David Bell
Director of Human Resources

Our people

As at 31 March 2008, the Authority employed 147 people (138 whole time equivalents) of whom 122 (113 wte) were directly involved in handling claims or appeals. The remainder were principally involved with risk management and our standards and in providing support services.

Uncertainty about our long-term location continued to cause anxiety to the people who deliver the high quality services for which the Authority is justly renowned across the NHS in England.

Learning and development

The Authority has always placed a high emphasis on developing its people to ensure they have the skills they need to deliver our services to the NHS, on which our reputation depends. This has been underlined during the year with increasing use of the Knowledge and Skills Framework. Just over half our employees had a formal review meeting in the year and 64% had an online personal development plan to support their learning and development. The Authority is committed to providing a programme of updates for our claim handlers, in partnership with our panel solicitors, on the key developments affecting our work to ensure that their expertise is maintained and developed. A significant programme to develop many of our managers was completed in the year and, with support from the Train to Gain initiative, a group of employees from across the organisation completed a challenging IT qualification.

The Board has underlined this with commitments to look at the benefits of achieving the Investors in People model of business development and to meeting the government's Skills Pledge, supporting all our employees to achieve at least a full level-2 qualification – equivalent to five good passes at GCSE.

Equality and diversity

Our Equality Scheme reached the end of its first year and as scheduled some areas of our activities were reviewed. The Scheme sets out our commitment to equality on the grounds of race, sex, disability, sexual orientation, religious or other belief and age, not only for employees but also across our services and interactions with external parties. Continuing to maintain and develop our good practice in equality and diversity remains a priority for the Authority and our Scheme will be thoroughly reviewed in the coming year. Comments on its effectiveness and operation are invited from interested contributors.

The Authority had no active equal pay claims on 31 March 2008.

Good corporate citizen

The Authority takes its responsibilities as a corporate citizen seriously and has published its first action plan on its website in 2007-08, following a period of consultation with our employees, to support the long-term sustainability of its activities, whilst not compromising on the quality and standard of their delivery. Our work in this area is led by Professor Rory Shaw, a non-executive director.

Using the model developed by the Sustainable Development Commission for the NHS, the Authority is committed to embracing the principles of sustainable development in relation to:

- Employment and skills
- Transport
- Procurement
- Facilities management
- Community engagement
- New buildings

Some initiatives so far have included a switch to recycled copier paper, an increase in the amount of waste we recycle, increased use of double-sided printing, a project to reduce our use of paper files and a publicity campaign encouraging our employees to join the NHS organ donor register and to give blood. The Authority also sends its obsolete IT equipment to be reconditioned by Digital Links, making it available for use in the developing world and saving over four tonnes of waste from being put into landfill sites.

Human Rights Act Information Service

The Authority's quarterly Human Rights Act newsletter is now produced by 1 Crown Office Row, a set of barristers' chambers, on the Authority's behalf and is available on our website. Our database of human rights cases of particular interest to the NHS is available free of charge through our website.

Professional advisers

The Authority maintains two panels of solicitors, the first specialising in clinical claims and the second in non-clinical claims. Current membership is given below. The clinical panel was reviewed during 2007/08 and the non-clinical panel is due for review in 2008/09.

Clinical negligence claims: panel of solicitors

Barlow Lyde & Gilbert LLP
Beachcroft LLP
Bevan Brittan LLP
Brachers (until 31 March 2008)
Browne Jacobson LLP
Capsticks
Eversheds LLP
Hempsons
Hill Dickinson LLP
Kennedys
Ward Hadaway
Weightmans LLP

Non-clinical claims: panel of solicitors

Barlow Lyde & Gilbert LLP
Brachers
Browne Jacobson LLP
Eversheds LLP
Hill Dickinson LLP
Veitch Penny
Ward Hadaway
Watmores
Weightmans LLP

Actuaries

Lane, Clark & Peacock

Advisory groups

Professional Advisory Panel and Policy Advisory Group

These advisory groups, which exist to provide clinical advice and support in relation to the Authority's risk management standards and claims schemes, did not meet during 2007/08. The Authority is planning to review the involvement of its stake holders in 2008/09.

Board members

The Authority is led by a Board, made up of executive (employees) and non-executive members, chaired since 1 April 2007 by Professor Dame Joan Higgins. The non-executive directors are appointed by the NHS Appointments Commission. All executive directors have been appointed through open competition and in accordance with the Authority's recruitment and selection policies and Department of Health guidance. All current executive director posts are permanent appointments. Full details of directors' remuneration is given in the remuneration report on page 38.

Board

Professor Dame Joan Higgins DBE
BA (Hons), Diploma in Social Administration, PhD *Chair*

A social scientist by background; latterly Professor of Health Policy at the University of Manchester; a non-executive director of NHS organisations for over 26 years; formerly chair of Manchester Health Authority, Manchester FHSA and the Christie NHS Trust and Regional Chair of the NHS in the North West; also a member of the QC appointments panel and chair of the Patient Information Advisory Group in the Department of Health; awarded the DBE in 2007 for services to healthcare.

Stephen Walker CBE
MA, LLB (Hons), FCII, JP
Chief Executive

Formerly UK Claims Manager in the insurance industry; accredited mediator; member of the Chief Medical Officer's working parties which produced *Organisation with a Memory* and *Making Amends*; member of the Clinical Disputes Forum, the Clinical Negligence and Serious Injuries Committee of the Civil Justice Council, and the National Patient Safety Campaign.

Tom Fothergill
BA (Hons), CPFA
Director of Finance

A qualified accountant with previous NHS experience with a London based Mental Health & Community Services Trust and prior to that a wide range of financial experience gained whilst training and working in local government; having joined the Authority as Financial Controller in 1997, has overseen the development of that function and now additionally responsible for IT, Human Resources, our FHSAU function in Harrogate and the day to day management of the claims functions.

Brian Capstick
MA
Non-Executive Member

Founder and Senior Partner of a solicitors' firm until April 2007; founded a diploma in clinical risk management in 1993 and the Association of Litigation and Risk Managers (ALARM), in 1994; published extensively on patient safety topics; regular speaker at conferences; currently Director of the London office of the European Society for Quality in Healthcare, a charity.

Professor Rory Shaw
BSc, MD, MBA, FRCP
Non-Executive Member

Chief Medical Officer and Joint Director of Clinical Standards at Royal Berkshire Hospital NHS Foundation Trust; previously, Medical Director and Clinical Director for Business Development at Hammersmith Hospitals NHS Trust; major interest in clinical quality and patient safety; the founding Chairman of the National Patient Safety Agency in 2001; clinical and academic area is respiratory medicine in which he has published extensively on tuberculosis, asthma and lung fibrosis.

Patricia A Steel OBE
BA, MIHT
Non-Executive Member

Formerly Secretary (Chief Executive) of the Institution of Highways and Transportation, Director of London Regional Transport and Vice Chairman of an integrated London NHS trust; currently a non-legal member of the Transport Tribunal.

Nina Wrightson OBE
Dip SH, LLB (Hons), CFIOSH
Non-Executive Member

Latterly Risk Management Director for Northern Foods plc; past President of the Institution of Occupational Safety and Health; currently Chairman of the British Safety Council, a non-executive Director of Yorkshire Ambulance Trust and a Panel Chair for the Judicial Appointments Commission.

There were six Board meetings in 2007/08; attendance was as follows:

Board member	Meetings attended
Joan Higgins	6
Brian Capstick	5
Tom Fothergill	6
Rory Shaw	6
Patricia Steel	5
Steve Walker	6
Nina Wrightson	5

Management commentary

Statutory background

The NHS Litigation Authority was set up by the *National Health Service Act 1977* (as amended) and Regulations made under that Act. The statutory duties of the NHS Litigation Authority were set out in the *National Health Service Act 1977* (which was superseded by the 2006 Act) and refer to a requirement to remain within revenue and capital resource limits.

These financial statements have been prepared according to an Accounts Direction issued by the Secretary of State with the approval of HM Treasury.

Main functions of the Authority

The Authority is a Special Health Authority and its primary function is to manage, on behalf of member trusts, claims arising from clinical negligence incidents post 1 April 1995 (the Clinical Negligence Scheme for Trusts or CNST). In addition, the Authority is responsible for managing clinical negligence claims against the NHS for incidents pre 1 April 1995 (the Existing Liabilities Scheme or ELS), clinical negligence claims against the former Regional Health Authorities (the ex-RHA Scheme) and the non clinical risks of member trusts with the exception of motor vehicle claims. The Authority is also responsible for promoting high standards of risk management throughout the NHS and certain appellate functions on behalf of the Department of Health.

Review of activities and performance against targets

During the year, the Authority's net Operating Costs amounted to £2,642.36m, which represents a reported increase of £1,950.89m on the figure for the previous year which is mainly due to the increase in provision associated with the Thompstone judgement reported within the accounts under note 9.

The Authority's net Operating Costs are required to be managed within a Revenue Resource Limit (RRL) agreed with the Department of Health. For 2007/08 the agreed RRL was £2,645.49m; thus an under spend of £3.13m is reported.

The Authority is required to pay its creditors in accordance with the Better Payment Practice Code. The target is to pay creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of relevant bills, 73.1%, representing 59.6% by value, were paid within the 30 day target.

The Authority is required to manage lwithin its cash limits as agreed with the Department of Health. For 2007/08 the Authority had a revenue cash limit of £248.737m which was utilised during the year thus reporting a break even position. Capital limits for the year were £280,000 with reported outturn at £271,000 showing an under spend of £9,000.

The balance sheet as at 31 March 2008 shows net liabilities of £11.95billion. This includes an in year increase in excess of £1.5billion due to the impact of the judgement in a Court of Appeal hearing in Thompstone which is explained in note 9 on page 61. In formulating a view regarding the likely impact of Thompstone the Authority has had to make a number of estimations about the future for example we have assumed that the new index will grow at approximately 1.5% over the rate of inflation and that of those cases where a Periodical Payment Order might seem appropriate three quarters will

settle in that way. These two assumptions alone would have a substantive impact on the provisions of the Authority should they prove to be inaccurate but given that neither are within the control of the Authority we can only maintain close scrutiny of them, along with other factors, and may need to subsequently alter our assumptions and therefore our provisions.

The global valuation recorded in the balance sheet recognises provisions that will crystallize in future years and will be funded by future contribution payments or departmental funding. This future income is calculated to fund annual outgoings, and in the case of the departmental funding is subject to parliamentary control. There is no reason to believe that this future funding, future parliamentary authority, and the contribution payments from members will not be forthcoming. It has therefore been considered appropriate to adopt a going concern basis for the preparation of these accounts. In addition, the NHS *(Residual Liabilities)* Act 1996 requires the Secretary of State to exercise his statutory powers to deal with the reported liabilities of this Special Health Authority if it ceases to exist.

These provisions are recorded using Financial Reporting Standard 12 (FRS 12) to give readers a clear indication of the likely value of these claims were they all made and settled today. They relate predominately to clinical negligence claims which have either already been made or which are considered to have been incurred via treatment delivered by the NHS but yet to be reported as claims and it should be noted that inevitably these claims will take time to progress to settlement.

It is often misreported that these provisions represent the value of damage to patients caused by the NHS in any given period whereas they are an accumulated value of all known and potential claims which will be processed in future financial periods going forward a number of years including their associated legal costs.

The Operating Cost Statement quotes a value of £28.2m for "unwinding of discounts". This sum relates to the maturing of provisions recorded in accordance with FRS 12. As the claims of the Authority near the expected date of settlement, the discounts previously applied to them to take account of the "time value of money" are slowly unwound and thus the provisions within the accounts are increased each year until maturity when the full value of the claim is recorded as a provision.

Another key balance sheet movement is the increase in cash balances held at the year end (£124.9m compared to £82.2m in 2006/07). Essentially this cash position relates to contributions collected for the Clinical Negligence Scheme for Trusts (CNST) which were not utilised in 2007/08. All of the contribution schemes managed by the Authority are on a 'pay as you go' basis thereby minimising the impact on cash available for patient care in any given financial period although, inevitably, managing such schemes requires the Authority to take into account possible variations to planned expenditure for example where a case is concluded earlier than originally forecast by collecting sufficient contributions to cover eventualities which have an adverse impact on cash flow. During 2007/08 this situation was, to some extent, exacerbated by the Thompstone case as claimants seemed keen to await the outcome of that claim before agreeing settlement. These claims, typically of high value, then cause

an accumulation of cash within the reserves of the Authority which we were unable to process by the close of the financial year.

The Authority has, to recognise this accumulation of cash, reduced contributions for 2008/09, by making rebates to members and thus plans to collect some £70m less than originally anticipated in the 2008/09 financial year.

Key Performance Indicators (KPIs)

In addition to the above statutory financial targets, the Authority has agreed KPIs with the Department of Health, which are used to measure performance against business objectives in year.

For the claims functions these include ratios of defence and claimant legal costs to damages paid: we attempt to settle claims with minimum payments to third parties. There are also targets in relation to the shelf life of claims, the period the matter is open and managed by the Authority. Performance in the year on all our KPIs was satisfactory. However, due to the adversarial nature of the claims against the NHS, the Authority does not publish the details as that might prevent the appropriate management of claims and allow opponents to use them as a bargaining tool in negotiations. There are other indicative statistics reported in the claims section of this Report and Accounts.

KPIs agreed with the Department of Health also exist in relation to the average time taken to settle family health services appeals from the date of notification to the date of settlement; performance during 2007/08 is shown below:

Regulations/Directions	Target time to settle (weeks)	% within target		Average time taken to settle (weeks)	
		2007/08	2006/07	2007/08	2006/07
Pharmacy Regulations					
Summary	4	17%	100%	4	2
On the papers	15	98%	98%	11	12
Oral hearing	26	96%	91%	22	23
Performer lists regulations	15	100%	100%	5	9
GP regulations					
On the papers	15	100%	100%	10	11
Oral hearing	26	73%	100%	21	23
Dental regulations					
On the papers	15	96%	90%	10	13
GP registrar					
Salaries	4	100%	100%	1	1
Representations	15	85%	100%	12	9

Government Reviews

The Authority remains committed to its participation in the Government's efficiency reviews, including Lyons (relocating Government posts out of the South East), the Arm's Length Bodies (ALB) Review (streamlining services and maximising efficiency within ALBs) and Gershon (corporate services efficiency in the public sector).

So far all targets set for the Authority have been achieved with the exception of the Lyons target on which discussions continue.

The coming year

During 2008/09 the Authority has committed to six major objectives in support of our principal functions:

- Maintaining business continuity in relation to the uncertainty about the long-term location of our offices
- A review of our operations to ensure that the organisation remains fit for its purpose
- Improving our engagement with our key stake holders
- Maintaining our financial balance
- Responding to requests for new work from the Department of Health if appropriate
- Exploring new ways in which our claims data might be used to improve patient safety

There will also be a review of our panel of solicitors in non-clinical claims and of our Equality Scheme.

Other statutory disclosures

A register of interests is maintained by the Authority which details company directorships and other significant interests held by Board members. There are no interests logged on the register which have any bearing on the activities of the Authority. Access to the register is available by contacting the Chief Executive's PA at Napier House.

Audit Committee

The Authority's Audit Committee ensures that an effective system of internal control covering all risks is maintained. The committee's duties include consideration of any matters concerning the external auditors, together with the adequacy of the Authority's internal audit arrangements. The committee's non-executive members in 2007/08 were Patricia Steel (Chairman), Brian Capstick and Nina Wrightson. The committee met four times in 2007/08 and attendance was as follows:

Non-executive director	Meetings attended
Patricia Steel	4
Brian Capstick	2
Nina Wrightson	4

Risk Management Committee

The Risk Management Committee reports directly to the Board and is responsible for ensuring that all areas of risk to the Authority are managed appropriately. The terms of reference for the committee were revised early in the year to incorporate a wider membership to better represent the whole Authority, and it is now chaired by the Risk Management Director with Professor Rory Shaw, Non-Executive Director as a member. There was a good level of attendance by members at the four committee meetings held in 2007/08.

Consultation with employees

The Authority consults with its employees on issues relating to information provision and consultation on health, safety and welfare at work by means of a Joint Negotiating Committee in partnership with Unison, which met on eight occasions during 2007/08.

Equality and diversity

The Authority is committed to ensuring that all employees and job applicants are treated fairly and openly and are not subject to unfair or illegal discrimination or bias. The Authority has integrated equality and diversity into its employment policies and embeds these values into its work.

The Authority has an Equality Scheme.

Comments and complaints

The Authority received two complaints in 2007/08 (1 in 2006/07), excluding correspondence about the management of particular claims files.

Freedom of information

The Authority handled 141 requests for information under the *Freedom of Information Act 2000* in 2007/08, of which 96.5% received substantive responses within the 20 days prescribed by the Act and 100% were dealt with within 30 days.

Pension liabilities

The Authority's employees are covered by the provisions of the NHS Pension Scheme, details of which are given in notes 1.7 of the accounts. Pension liabilities in respect of Board members are given in the Remuneration Report.

Audit services

The Comptroller and Auditor General has provided the Authority's external audit services at a cost of £85,000 for the current year. No non-audit work was undertaken.

The Authority has confirmed that there is no relevant information of which the auditors are unaware. The Accounting Officer has taken all the steps he ought to take to ensure that they are aware of relevant audit information and the Accounting Officer has taken all the steps he ought to establish that the entity's auditors are aware of the information.

Remuneration report

The Authority has a Remuneration and Terms of Service Committee, made up of all the non-executive directors of the Authority, which considers pay and benefits for employees not covered by the national Agenda for Change arrangements, and makes recommendations to the Department of Health based on the Department's *Pay Framework for Very Senior Managers in Strategic and Special Health Authorities, Primary Care Trusts and Ambulance Trusts.*

The Committee met five times during the year. Attendance was as follows:

Non-executive director	Meetings attended
Joan Higgins	5
Brian Capstick	5
Rory Shaw	4
Patricia Steel	5
Nina Wrightson	3

All executive directors have indefinite contracts; there are no fixed term or rolling contracts. Below are the contractual, salary and pension details of those senior managers who had control over the major activities of the Authority during 2007/08. The information in these two tables is subject to audit.

Salaries and allowances

Name and title	2007-08			2006-07		
	Salary £000	Other Remuneration £000	Benefits in kind £00	Salary £000	Other Remuneration £000	Benefits in kind £00
Professor Dame Joan Higgins DBE *Chair* *Started 1st April 2007*	35 - 40	N/A	N/A	N/A	N/A	N/A
Stephen Walker CBE *Chief Executive*	165 - 170	15 - 20	60*	150 - 155	20 – 25	60
Tom Fothergill *Director of Finance*	130 - 135	15 - 20	65*	115 - 120	20 – 25	65
Brian Capstick *Non-Executive Member* *Started 1st April 2007*	5 - 10	N/A	N/A	N/A	N/A	N/A
Professor Rory Shaw *Non-Executive Member* *Started 1st April 2007*	5 - 10	N/A	N/A	N/A	N/A	N/A
Patricia A Steel OBE *Non-Executive Member*	10 - 15	N/A	N/A	10 - 15	N/A	N/A
Nina Wrightson OBE *Non-Executive Member* *Started 1st April 2007*	5 - 10	N/A	N/A	N/A	N/A	N/A

*Benefits in kind relate solely to lease cars

Pension Benefits

Name and title	Real increase in pension at age 60 £000	Real increase in pension lump sum at age 60 £000	Total accrued pension at age 60 at 31 March 2008 £000	Lump sum at age 60 related to accrued pension at 31 March 2008 £000	Cash Equivalent Transfer Value at 31 March 2008 £000	Cash Equivalent Transfer Value at 31 March 2007 £000	Real increase in Cash Equivalent Transfer Value £000	Employer's contribution to stakeholder pension £00
Stephen Walker CBE *Chief Executive*	0 – 2.5	5 – 7.5	50 - 55	160 - 165	0**	0**	N/A	158
Tom Fothergill *Director of Finance*	0 – 2.5	5 – 7.5	20 - 25	65 - 70	266	234	26	158

** When an employee reaches the eligible retirement age, the CETV becomes £0 since the pension benefits can no longer be transferred.

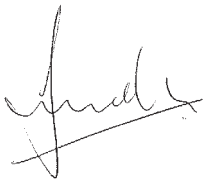
As non-executive members do not receive pensionable remuneration, there are no entries in respect of pensions for non-executive members.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and the other pension details include the value of any pension benefits in another scheme or arrangement which the individual has transferred to the NHS pension scheme. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real Increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another scheme or arrangement) and uses common market valuation factors for the start and end of the period.



Chief Executive and Accounting Officer
18 June 2008

Statement of Accounting Officer's responsibilities

Under the National Health Service Act 2006, the Secretary of State has directed the NHS Litigation Authority to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Authority and of its net resource outturn, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The Accounting Officer of the Department of Health has designated the Chief Executive as Accounting Officer of the Authority. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Authority's assets, are set out in the Accounting Officers' Memorandum issued by the Department of Health.

To the best of my knowledge and belief, I have properly discharged the responsibilities set out in my letter of appointment as Accounting Officer.

Statement on internal control

Scope of responsibility

The Secretary of State has appointed the Chief Executive as the Authority's Accounting Officer. As Accounting Officer, and Chief Executive of this Authority, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Authority's policies, aims and objectives. I also have responsibility for safeguarding the public funds and the organisation's assets and information for which I am personally responsible as set out in the Accounting Officer Memorandum.

As Chief Executive, I have operational responsibility for the delivery of all aspects of governance and the provision, oversight and effective working of the systems of internal control, in particular the risk management process, the Authority's claims database and financial system. The Executive supported by the Audit and Risk Management Committees makes recommendations to the Board on matters related to governance. Operational responsibility for the Authority's governance systems is delegated to the Director of Finance who is also the link between the Audit Committee, Risk Management Committee and the Board. The Risk Management Team is responsible for the co-ordination of risk management activity within the Authority. The lead responsibility within that Team is vested in the Risk Management Director.

'Governance and Assurance' including risk are fully integrated within our overall business-planning process. Planning and risk processes are co-ordinated through the Strategic Management Team, of which I am the Chair, and which reports to the Board. The Risk Management Team facilitates the spread of good practice through its knowledge and learning from experience via liaison with key managers and other staff within the Authority and regular reviews of risk policy. Close working and networking arrangements exist with Internal Auditors, Department of Health and other agencies to ensure that the Authority draws on experience in the wider NHS.

Corporate performance is reported to the Board on a regular basis. Variations from anticipated performance will usually be accompanied by reports from either the Audit or the Risk Management Committee giving the Board assurance on progress and relevant action to be taken.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks to the achievement of the organisation's policies, aims and objectives,
- evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The broad system of internal control has been in place in the NHS Litigation Authority for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts. Internal audit were able to provide significant assurance that there is generally a sound system of

internal control within the Authority. One audit report resulted in a 'limited assurance' opinion in year and management have accepted all of the recommendations made within it.

Capacity to Handle Risk

The Authority's approach to risk is explained in the Risk Management Strategy. It identifies the risk roles and responsibilities of staff at all levels. Training is provided on an ongoing basis to equip staff to carry out their designated responsibilities. In addition the approach to Governance (including risk) is featured in the induction process for all new staff.

The Authority's Assurance Framework brings together governance and quality and in effect maps a path from strategic objectives, through the corporate risks and on to the constituent mitigating activities (which are also the activities to deliver that strategic objective). Its purpose is to ensure that systems and information are available to provide the appropriate assurance on the appropriate things (i.e. that risks are being controlled and objectives are being achieved), to the appropriate stakeholders.

The Board receives assurance from the Audit and Risk Management Committees on the achievement of corporate objectives and mitigation of corporate risk. The Board is accountable for demonstrating:

- That key controls are in place to assist in securing and delivering objectives;
- That the controls systems, upon which reliance is placed, are effective;
- Any gaps in controls systems or assurances are addressed within an agreed corrective action plan.

The Risk and Control Framework

The risk process is effectively integrated into the planning process by which plans are made to deliver objectives through mitigating the risks to their achievement. Risks are identified and evaluated at appropriate levels within the organisation through a uniform system articulated in the Risk Management Strategy. The process is operated and reviewed by the Risk Management Committee, which is accountable to the Board.

It is the Authority's policy to involve stakeholders, as appropriate, in all areas of its activities, including informing and consulting on the management of any significant risks.

As an employer with staff entitled to membership of the NHS Pension Scheme control measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with. This includes ensuring that deductions from salary, employer contributions and payments in to the scheme are in accordance with Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in regulations.

The Authority is responsible for holding and maintaining data regarding its staff and also claimants against the NHS and maintains policies and systems, which are subject to regular review, in order to minimise the risk of any breaches in data security.

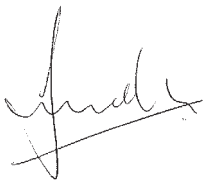
Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed in a number of ways. The head of internal audit provided significant assurance that there is generally a sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. Executive managers within the organisation who have responsibility for the development and maintenance of the system of internal control provide me with assurance. The Assurance Framework itself provides me with evidence that the effectiveness of controls that manage the risks to the organisation achieving its principal objectives have been reviewed.

My review is also informed by comments made by the external auditors in their management letters and other reports on aspects of the system of internal control. Our management of the final accounts process will enable us to demonstrate appropriate action has been taken regarding any recommendation made by the external auditors.

The Audit Committee and Risk Management Committee both meet regularly and report to the Board. The Internal Auditors are present at the Audit Committee meetings and have also specifically reported on Corporate Governance during 2007/08.

These arrangements aim to help the Authority maximise its understanding and utilisation of all available information about the quality and effectiveness of our systems to help us improve services and satisfy the increasing need for assurance about the effectiveness of systems of internal control. I have been advised by all of these sources on the implications of the result of my review of the effectiveness of the system of internal control. A plan to address weaknesses and ensure continuous improvement of the system is in place.



Chief Executive and Accounting Officer
18 June 2008

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the NHS Litigation Authority for the year ended 31 March 2008 under the National Health Service Act 2006. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Chief Executive as Accounting Officer is responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the National Health Service Act 2006 and directions made thereunder by the Secretary of State with the approval of HM Treasury and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 2006 and directions made thereunder by the Secretary of State with the approval of HM Treasury. I report to you whether, in my opinion, the information, which comprises the Management Commentary and the unaudited part of the Remuneration Report, included in the Annual Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the NHS Litigation Authority has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal control reflects the NHS Litigation Authority's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the NHS Litigation Authority's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the NHS Litigation Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Health Service Act 2006 and directions made thereunder by the Secretary of State with the approval of HM Treasury, of the state of the NHS Litigation Authority's affairs as at 31 March 2008 and of the net operating cost, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 2006 and directions made thereunder by the Secretary of State with the approval of HM Treasury; and
- information, which comprises the Management Commentary and the unaudited part of the Remuneration Report included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SWIW 9SS

Date 27 June 2008

Financial Accounts

Operating Cost Statement for the year ended 31 March 2008

	Notes	2007/08 £000	2006/07 £000
Programme costs			
Authority and claims administration	2.4	**13,695**	14,212
Unwinding of discounts	2.1	**28,232**	59,555
Other claims and associated costs	2.1	**3,468,467**	1,433,198
	2.4	**3,496,699**	1,492,753
Cost of capital	2.1, 2.4	**(373,458)**	(308,719)
Total programme costs	2.1	**3,136,936**	1,198,246
Operating income	4	**(494,573)**	(506,768)
Net operating cost		**2,642,363**	691,478
Net resource outturn	3.1	**2,642,363**	691,478

All income and expenditure is derived from continuing operations

Statement of Recognised Gains and Losses for the year ended 31 March 2008

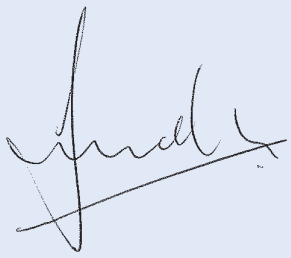
		2007/08 £000	2006/07 £000
Unrealised surplus/(deficit) on the indexation of fixed assets	5.2, 11.2	**2**	5
Recognised gains and (losses) for the financial year		**2**	5

The notes at pages 49 to 68 form part of these accounts.

Balance Sheet as at 31 March 2008

	Notes	31 March 2008 £000	31 March 2007 £000
Fixed assets:			
Intangible assets	5.1	**44**	49
Tangible assets	5.2	**900**	999
		944	1,048
Current assets:			
Debtors	6	**12,393**	27,717
Cash at bank and in hand	7	**124,995**	82,244
		137,388	109,961
Creditors: amounts falling due within one year	8	**(28,350)**	(70,234)
Net current assets/(liabilities)		**109,038**	39,727
Total assets less current liabilities		**109,982**	40,775
Provisions for liabilities and charges – known claims	9	**(4,299,117)**	(3,293,459)
Provisions for liabilities and charges – IBNR	9	**(7,761,000)**	(5,931,000)
		(11,950,136)	(9,183,684)
Taxpayers' equity			
General Fund	11.1	**1,383**	1,112
Revaluation Reserve	11.2	**55**	53
ELS Reserve	11.3	**(1,910,639)**	(1,414,538)
ExRHA Reserve	11.4	**(41,874)**	(27,794)
CNST Reserve	11.5	**(9,879,994)**	(7,627,109)
PES Reserve	11.6	**1,476**	2,886
LTPS Reserve	11.7	**(120,542)**	(118,294)
		(11,950,136)	(9,183,684)

The financial statements on pages 46 to 68 were approved by the Board on 18 June 2008 and signed by Stephen Walker.



Accounting Officer

Date: 18 June 2008

The notes at pages 49 to 68 form part of these accounts.

Cash Flow Statement for the year ended 31 March 2008

	Notes	2007/08 £000	2006/07 £000
Net cash (outflow) from operating activities	12	**(206,345)**	(109,180)
Capital expenditure and financial investment:			
(Payments) to acquire intangible fixed assets	5.1	**(15)**	(5)
(Payments) to acquire tangible fixed assets	5.2	**(256)**	(233)
Net cash (outflow) from investing activities		**(271)**	(238)
Net cash (outflow) before financing		**(206,616)**	(109,418)
Financing			
Net Parliamentary funding	11.1, 11.3, 11.4	**249,367**	105,792
Increase/(decrease) in cash in the period	7	**42,751**	(3,626)

The notes at pages 49 to 68 form part of these accounts.

Notes to the Accounts

1 Accounting policies

The financial statements have been prepared in accordance with the Government Financial Reporting Manual issued by HM Treasury. The particular accounting policies adopted by the Authority are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

1.1 Accounting conventions

This account is prepared under the historical cost convention, modified to account for the revaluation of tangible fixed assets where material, at their value to the business by reference to current cost. This is in accordance with directions issued by the Secretary of State for Health and approved by HM Treasury.

Acquisitions and Discontinued Operations

Activities are considered to be 'acquired' only if they are acquired from outside the public sector. Activities are considered to be 'discontinued' only if they cease entirely. They are not considered to be 'discontinued' if they transfer from one NHS body to another.

1.2 Income

Income is accounted for applying the accruals convention. A major source of funding for the Special Health Authority is Parliamentary grant from the Department of Health from Request for Resources 1 within an approved cash limit, which funds the ELS and Ex-RHA clinical negligence schemes. Parliamentary funding is recognised in the financial period in which it is received.

Operating income is that which relates directly to the operating activities of the Authority. It principally comprises annual contributions charged to member NHS bodies for likely claims payments in year. Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

1.3 Taxation

The Authority is not liable to pay corporation tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the most appropriate expenditure heading or capitalised if it relates to an asset.

1.4 Capital charges

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2007-2008 was 3.5% (2006-07 3.5%) on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General, (OPG), where the charge is nil.

The nature of the Authority requires the full recognition of liabilities under the various schemes but does not recognise the relevant future income receivable for these liabilities. Thus the Authority carries a substantial liability in the accounts. The application of the

principles of capital charging as set out in the Resource Accounting Manual produces a negative capital charge which is represented as a large credit to expenditure in note 2.1.

1.5 Fixed assets

a Capitalisation

All assets falling into the following categories are capitalised:

i Intangible assets where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000.

ii Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred.

iii Tangible assets which are capable of being used for more than one year, and they:

- individually have a cost equal to or greater than £5,000;
- collectively have a cost of at least £5,000 and an individual cost of more than £250, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or
- form part of the initial equipping and setting-up cost of a new building irrespective of their individual or collective cost.

b Valuation

Intangible fixed assets

Intangible fixed assets held for operational use are valued at historical cost. Surplus intangible assets are valued at the net recoverable amount.

The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Tangible fixed assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. On initial recognition they are measured at cost (for leased assets, fair value) including any costs such as installation directly attributable to bringing them into working condition. They are restated to current value each year. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

i Operational equipment, other than IT equipment which is considered to have nil inflation, is valued at net current replacement cost through annual uplift by the change in the value of the GDP deflator. Equipment surplus to requirements is valued at net recoverable amount.

ii All adjustments arising from indexation and five-yearly revaluations are taken to the Revaluation Reserve. All impairments resulting from price changes are charged to the Statement of Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

c Depreciation and amortisation

Depreciation is charged on each individual fixed asset as follows:

i Purchased computer software licences are amortised evenly over the shorter of the term of the licence and their useful economic lives.

ii Each equipment asset is depreciated evenly over the expected useful life:

	Years
Furniture and fittings	10
Information technology	5

1.6 Losses and special payments

Losses and special payments are items that Parliament would not have contemplated when it agreed funds for the health service or passed legislation. By their nature they are items that ideally should not arise. They are therefore subject to special control procedures compared with the generality of payments. They are divided into different categories, which govern the way each individual case is handled.

Losses and special payments are charged to the relevant functional headings in the operating cost statement on an accruals basis, including losses which would have been made good through insurance cover had the Authority not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure). However, note 15 is compiled directly from the losses and compensations register which is prepared on a cash basis.

1.7 Pension costs

Past and present employees are covered by the provisions of the NHS Pensions Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at www.pensions.nhsbsa.nhs.uk. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The Scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying Scheme assets and liabilities. Therefore, the Scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS Body of participating in the Scheme is taken as equal to the contributions payable to the Scheme for the accounting period.

The Scheme is subject to a full actuarial valuation every four years (until 2004, based on a five year valuation cycle), and an FRS17 accounting valuation every year. An outline of these follows:

a Full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates to be paid by employers and scheme members. The last such valuation, which determined current contribution rates was undertaken as at 31 March 2004 and covered the period from 1 April 1999 to that date.

The conclusion from the 2004 valuation was that the Scheme had accumulated a notional deficit of £3.3 billion against the notional assets as at 31 March 2004. However, after taking into account the changes in the benefit and contribution structure effective from 1 April 2008, the Scheme actuary reported that employer contributions could continue at the existing rate of 14% of pensionable pay. On advice from the Scheme actuary, scheme contributions may be varied from time to time to reflect changes in the scheme's liabilities. Up to 31 March 2008, the vast majority of employees paid contributions at the rate of 6% of pensionable pay. From 1 April 2008, employees contributions are on a tiered scale from 5% up to 8.5% of their pensionable pay depending on total earnings.

b FRS17 Accounting valuation

In accordance with FRS17, a valuation of the Scheme liability is carried out annually by the Scheme Actuary as at the balance sheet date by updating the results of the full actuarial valuation.

Between the full actuarial valuations at a two-year midpoint, a full and detailed member data-set is provided to the Scheme Actuary. At this point the assumptions regarding the composition of the Scheme membership are updated to allow the Scheme liability to be valued.

The valuation of the Scheme liability as at 31 March 2008, is based on detailed membership data as at 31 March 2006 (the latest midpoint) updated to 31 March 2008 with summary global member and accounting data.

The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions website. Copies can also be obtained from The Stationery Office.

Scheme provisions as at 31 March 2008

The Scheme is a "final salary" scheme. Annual pensions are normally based on 1/80th of the best of the last 3 years pensionable pay for each year of service. A lump sum normally equivalent to 3 years pension is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50% of the member's pension is normally payable to the surviving spouse.

Early payment of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or

infirmity. A death gratuity of twice final year's pensionable pay for death in service, and five times their annual pension for death after retirement, less pension already paid, subject to a maximum amount equal to twice the member's final year's pensionable pay less their retirement lump sum for those who die after retirement, is payable.

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to the income and expenditure account at the time the Authority commits itself to the retirement, regardless of the method of payment.

The Scheme provides the opportunity to members to increase their benefits through money purchase Additional Voluntary Contributions (AVCs) provided by an approved panel of life companies. Under the arrangement the employee/member can make contributions to enhance an employee's pension benefits. The benefits payable relate directly to the value of the investments made.

Scheme provisions from 1 April 2008

From 1 April 2008 changes have been made to the NHS Pension Scheme contribution rates and benefits. Further details of these changes can be found on the NHS Pensions website www.pensions.nhsbsa.nhs.uk

1.8 Leases

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives or primary lease term. Rentals under operating leases are charged on a straight line basis over the terms of the lease.

1.9 Provisions

The Authority provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms.

The ELS and Ex-RHA schemes are funded by the Department of Health, CNST, LTPS and PES from Trust contributions, and the accounts for the schemes are prepared in accordance with FRS 12. A provision for these schemes is calculated in accordance with FRS 12 by discounting the gross value of all claims received; this is disclosed in note 9.

The calculation is made using:

i probability factors. The probability of each claim having to be settled is assessed between 10% and 94%. This probability is applied to the gross value to give the probable cost of each claim; and

ii a discount factor calculated using the real discount rate of 2.2%, RPI of 3% and claims inflation (varying between schemes) of between 3% and 10%, is applied to the probable cost to take into account the likely time to settlement.

The difference between the gross value of claims and the amount of the provision calculated above is also discounted, taking into account the likely time to settlement, and is included in contingent liabilities as set out in note 13.

Existing Liabilities Scheme (ELS) and Ex-Regional Health Authorities (Ex-RHA) Scheme

Claims are included in the ELS provision on the basis that the incident ocurred on or before 31st March 1995. Qualifying claims under the Ex-RHA scheme are claims brought against the former Regional Health Authorities whose clinical negligence liabilities passed to the Authority with effect from 1st April 1996.

The NHS (Residual Liabilities) Act 1996 requires the Secretary of State to exercise his statutory powers to deal with the liabilities of a Special Health Authority, if it ceases to exist. This would include the liabilities assumed by the Authority in respect of these schemes.

Clinical Negligence Scheme for Trusts (CNST)

A provision for this scheme is calculated in accordance with FRS12 by discounting the gross value of all claims received relating to incidents which occurred on or before 31 March 2008 and after 1 April 1995. This is disclosed in note 9.

Claims are included in the provision on the basis that the CNST members have assessed:-

a the probable cost and time to settlement in accordance with scheme guidelines;

b that they are qualifying incidents; and

c that the Trust remains a member of the scheme.

As at 31st March 2002 all outstanding claims for incidents post 1st April 1995 became the direct responsibility of the Authority. This 'call in' of CNST claims effectively means that member trusts are no longer reponsible for accounting for claims made against them although they do remain the legal defendant.

The NHS (Residual Liabilities) Act 1996 requires the Secretary of State to exercise his statutory powers to deal with the liabilities of a Special Health Authority, if it ceases to exist. This would include the liabilities assumed by the Authority in respect of this scheme.

Property Expenses Scheme (PES) and Liability to Third Parties Scheme (LTPS)

In April 1999 the Authority introduced the PES and LTPS following the Secretary of State's decision that NHS Trusts should not insure with commercial companies for non clinical risks, other than motor vehicles and other defined areas (eg. PFI schemes).

The schemes are managed and funded via the same mechanisms as the CNST except that specific excesses exist for some types of claims. Thus the provision recorded in these accounts relates only to the Authority's proportion of each claim. The accounts for these schemes have been prepared in accordance with FRS 12.

Incidents Incurred but not reported (IBNR)

FRS 12 requires the inclusion of liabilities in respect of incidents which have been incurred but not reported to the Authority as at 31 March 2008 where the following can be reasonably forecast:

a that an adverse incident has occurred; and

b that a transfer of economic benefit will occur; and

c that a reasonable estimate of the likely value can be made.

The Authority uses its actuaries, Lane, Clark & Peacock, to assess the potential value of IBNRs against each of the schemes it operates. The actuaries review existing claims records, and using an appropriate model, calculate values in respect of IBNRs for all schemes. The provisions and contingent liabilities arising are shown in notes 9 and 13 respectively. The sums concerned are accounting estimates, and although determined on the basis of information currently available, the ultimate liabilities may vary as a result of subsequent developments.

2.1 Authority programme expenditure

	Notes	2007/08 £000	2007/08 £000	2006/07 £000
Non-executive members' remuneration	2.2		**76**	52
Other salaries and wages	2.2		**7,173**	7,870
Supplies and services – general			**7**	8
Establishment expenses			**827**	798
Hire and operating lease rental				
Land & Buildings			**736**	898
Lease Cars			**26**	28
Photocopiers			**89**	108
Transport and moveable plant			**8**	2
Premises and fixed plant			**913**	813
External contractors				
Actuary's advice			**262**	154
Risk Management			**2,512**	2,486
Other			**547**	364
Miscellaneous			**16**	18
Capital: Depreciation and amortisation	5.1, 5.2	**377**		401
Capital charges interest		**(373,458)**		(308,719)
(Profit)/loss on disposal	5.3	**0**		88
			(373,081)	(308,230)
Other finance costs – unwinding of discount	9		**28,232**	59,555
Auditor's remuneration: audit fees*			**85**	85
Internal audit fees			**41**	39
Increase in provision for known claims (excl. unwinding of discounts)	2.4		**1,638,467**	1,029,198
Increase in the provision for IBNR	2.4, 9		**1,830,000**	404,000
			3,136,936	1,198,246

* The Authority did not make any payments to Auditors for non audit work.

2.2 Staff numbers and related costs

	2007/08			2006/07
	Total	**Permanently employed staff**	**Other**	
	£000	**£000**	**£000**	£000
Salaries and wages	**6,051**	5,729	322	6,565
Social security costs	**489**	489		582
Employer contributions to NHS Pensions	**709**	709		775
	7,249	**6,927**	**322**	7,922

The average number of employees during the year was:

	Total	**Permanently employed staff**	**Other**	2006/07
	Number	**Number**	**Number**	Number
Total	151	143	8	153

Redundancy Costs
The cost to the Authority of redundancies in 2007/08 was £25,000 (2006/07: £10,800)

Expenditure on staff benefits
The amount spent on staff benefits during the year mainly on lease cars totalled £38,428 (2006/07: £40,850).

Retirements due to ill-health
During 2007/08 there was 1 (2006/07:1) early retirement from the Authority on the grounds of ill-health, at an additional cost of £123,152.36 (2006/07: £100,676.25). This information has been supplied by NHS Pensions.

2.3 Better Payment Practice Code – measure of compliance

	2007/08	
	Number	£000
Total non NHS bills paid	7,803	92,308
Total non NHS bills paid within target	5,703	55,004
Percentage of non NHS bills paid within target	73.1%	59.6%

	Number	£000
Total NHS bills paid	18	36
Total NHS bills paid within target	8	15
Percentage of NHS bills paid within target	44.4%	41.7%

The Better Payment Practice Code requires the Authority to aim to pay all valid invoices by the due date or within 30 days of receipt of goods or a valid invoice, whichever is later.

The Authority has adjusted its policy re calculating measure of compliance so that only genuine trade creditor invoices are included.

The Late Payment of Commercial Debts (Interest) Act 1998
No interest was paid under the legislation.

2.4 Allocation of Income and Expenditure to the schemes

	Ex-RHA	ELS	CNST	PES	LTPS	Equal Pay	FHSAU	Total	2006/07 Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Expenditure									
Authority and claims administration	33	893	7,441	177	3,527	361	1,263	13,695	14,212
Claims and associated costs									
Increase/(decrease) in provision for known claims	10,542	398,186	1,213,707	3,817	40,447	0	0	1,666,699	1,088,753
Increase/(decrease) in the Provision for IBNR	9,000	339,000	1,479,000	0	3,000	0	0	1,830,000	404,000
	19,542	737,186	2,692,707	3,817	43,447	0	0	3,496,699	1,492,753
Cost of capital	(3,092)	(97,891)	(257,251)	(1,546)	(13,678)	0	0	(373,458)	(308,719)
	16,483	640,188	2,442,897	2,448	33,296	361	1,263	3,136,936	1,198,246
Income									
Scheme, income	0	0	(447,263)	(2,584)	(44,726)	0	0	(494,573)	(506,768)
Net Operating Cost – (surplus)/ deficit	16,483	640,188	1,995,634	(136)	(11,430)	361	1,263	2,642,363	691,478

3.1 Reconciliation of net operating cost to net resource outturn

	2007/08 £000	2006/07 £000
Net operating cost	**2,642,363**	691,478
Net resource outturn	**2,642,363**	691,478
Revenue resource limit	**2,645,489**	700,901
Under spend against revenue resource limit	**3,126**	9,423

3.2 Reconciliation of gross capital expenditure to capital resource limit

	2007/08 £000	2006/07 £000
Gross capital expenditure	**271**	238
NBV of assets disposed	**0**	(89)
Net capital resource outturn	**271**	149
Capital resource limit	**280**	280
Under spend against limit	**9**	131

4 Operating income

Operating income, analysed by classification and activity, is as follows:

	Appropriated in aid £000	2006/07 £000
Programme income:		
CNST contributions	447,263	457,577
PES contributions	2,584	2,812
LTPS contributions	44,726	46,379
Total	**494,573**	**506,768**

5.1 Intangible fixed assets

	Software licences £000
Gross cost at 1 April 2007	472
Additions – purchased	15
Gross cost at 31 March 2008	**487**
Accumulated amortisation at 1 April 2007	423
Charged during the year	20
Accumulated amortisation at 31 March 2008	**443**
Net Book Value at 1 April 2007	49
Net Book Value 31 March 2008	**44**

5.2 Tangible fixed assets

	Information technology	Furniture & fittings	Total
	£000	**£000**	**£000**
Valuation at 1 April 2007	1,957	251	2,208
Additions – purchased	256	0	256
Indexation	0	4	4
Disposals	(32)	(36)	(68)
Valuation at 31 March 2008	**2,181**	**219**	**2,400**
Accumulated depreciation at 1 April 2007	1,044	165	1,209
Charged during the year	338	19	357
Indexation	0	2	2
Disposals	(32)	(36)	(68)
Accumulated depreciation at 31 March 2008	**1,350**	**150**	**1,500**
Net Book Value at 1 April 2007	913	86	999
Net Book Value at 31 March 2008	**831**	**69**	**900**

No assets are held under finance leases or hire purchase contracts and the Authority does not own any land or buildings.

Capital commitments: The Authority has no capital commitments at 31/03/08 (2006/07: 0).

5.3 Profit/(loss) on disposal of fixed assets

	2007/08	2006/07
	£000	£000
(Loss) on disposal of plant and equipment	**0**	(88)

6 Debtors

Amounts falling due within one year

	2007/08	2006/07
	£000	£000
NHS debtors	**7,505**	24,889
Accrued Income	**2,480**	0
Prepayments	**1,920**	1,897
Other debtors	**488**	931
	12,393	27,717

7 Analysis of changes in cash

	At 1 April 2007	**Change during the year**	**At 31 March 2008**
	£000	**£000**	**£000**
Cash at OPG	82,244	**42,751**	**124,995**

8 Creditors

Amounts falling due within one year

	2007/08	2006/07
	£000	£000
NHS creditors	**1,083**	4
Tax and social security	**0**	163
Accruals	**20,426**	69,982
Other creditors	**6,841**	85
	28,350	70,234

9 Provisions for liabilities and charges

	Ex RHA Scheme	ELS Scheme	CNST Scheme	PES Scheme	LTPS Scheme	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 April 2007	**(28,124)**	**(1,359,621)**	**(7,706,968)**	**(7,160)**	**(122,586)**	**(9,224,459)**
Discounting	40,786	504,916	308,872	0	(246)	**854,328**
Arising during the year	(53,222)	(987,469)	(1,847,963)	(5,338)	(61,931)	**(2,955,923)**
Utilised during the year	5,462	171,562	456,301	2,730	24,986	**661,041**
Reversed unused	2,357	106,494	331,017	1,521	21,739	**463,128**
Unwinding of discount	(463)	(22,127)	(5,633)	0	(9)	**(28,232)**
Movement in Net IBNR	(9,000)	(339,000)	(1,479,000)	0	(3,000)	**(1,830,000)**
At 31 March 2008	**(42,204)**	**(1,925,245)**	**(9,943,374)**	**(8,247)**	**(141,047)**	**(12,060,117)**
Expected timing of cash flows:						
Within 1 year	(4,862)	(275,265)	(1,022,458)	(8,247)	(66,037)	**(1,376,869)**
1-5 years	(8,310)	(585,836)	(3,140,367)	0	(58,010)	**(3,792,523)**
Over 5 years	(29,032)	(1,064,144)	(5,780,549)	0	(17,000)	**(6,890,725)**
	(42,204)	**(1,925,245)**	**(9,943,374)**	**(8,247)**	**(141,047)**	**(12,060,117)**

Damages for future care

During November 2007 the Court of Appeal heard a group of cases where the claimants had argued that an index, other than the traditional Retail Price Index (RPI), be used to inflate the annual payments made to the claimant under a Periodical Payments Order (PPO). The Authority has referred to this group of cases as 'Thompstone' and reported progress in a previous annual report and accounts.

The decision of the Court of Appeal was to uphold the original judgement and therefore allow an alternative index to be used to calculate the uplift for the part of the PPO which relates to the purchase of care. i.e. the Court agreed with the claimant that RPI should not apply to the portion of the annual payment which the claimant was expected to use to purchase future care which would normally take the form of employing specialised staff.

Essentially the Court accepted that these expenses are likely to naturally inflate at a rate higher than RPI since wages generally grow faster than RPI. The Court awarded the

claimants an index referred to as Annual Survey of Hours and Earnings (ASHE) 6115. This index is collected annually and is available across of number of sub headings which are linked to specific groups or types of workers and the Court felt that it offered a more appropriate link to the actual costs likely to be borne by claimants who were in receipt of damages via a PPO.

The decision of the Court potentially means that all cases which the Authority subsequently settles via a PPO, whether agreed between the parties or imposed by the Court, will now receive ASHE 6115 as the relevant index to inflate care costs.

The impact of the judgement in Thompstone has therefore to be reflected in the financial accounts of the Authority since there is a likelihood that future settlements will attract this revised index.

In order to calculate the potential impact on claims the Authority has had to assume a future value for the index since, unlike RPI, there is no current accepted forecast value (this is one of the reasons the Authority chose to oppose the original claims) and thus there is no way for the Authority, or indeed the claimant, to plan appropriately without making an assumption. The Authority has, with advice from its actuaries, opted to assume that over time the average differential between ASHE 6115 and RPI will be +1.5% i.e. that ASHE will be 1.5% higher than RPI.

Having established a value for ASHE compared to RPI the Authority has then assumed that a PPO will be the preferred settlement route, as compared to a traditional one off lump sum award, in 75% of the claims where part of the damages relates to future care i.e. where the agreed compensation includes an assumption that the claimant will have to buy care which is not freely available via the state and where the care is appropriate to deal with the damage caused by the original negligent treatment. We have not assumed a 100% take up rate for PPOs because (a) not all cases will require interaction with the Courts and thus PPOs may not be imposed upon the parties and (b) some claimants will be able to demonstrate, even when there is interaction with the Courts, that a PPO does not offer an appropriate route to settlement for e.g. where a family plan to emigrate.

10 Movements in working capital other than cash

	2007/08	2006/07
	£000	£000
Increase/(decrease) in debtors	**(15,324)**	19,640
(Increase)/decrease in creditors	**41,884**	(30,689)
	26,560	(11,049)

11 Movements on reserves

11.1 General Fund

	2007/08
	£000
Balance at 1 April 2007	**1,112**
Net operating costs for the year	(1,624)
Net Parliamentary funding	1,895
Balance at 31 March 2008	**1,383**

11.2 Revaluation reserve

	£000
Balance at 1 April 2007	**53**
Indexation of fixed assets	2
Balance at 31 March 2008	**55**

11.3 The movement on the ELS Reserve in the year comprised:

	2007/08
	£000
Balance at 1 April 2007	**(1,414,538)**
Transfer from Operating Cost Statement	(640,188)
Capital charge interest	(97,891)
Net Parliamentary funding	241,977
Balance at 31 March 2008	**(1,910,639)**

11.4 The movement on the ExRHA Reserve in the year comprised:

	2007/08
	£000
Balance at 1 April 2007	**(27,794)**
Transfer from Operating Cost Statement	(16,483)
Capital charge interest	(3,092)
Net Parliamentary funding	5,495
Balance at 31 March 2008	**(41,874)**

11.5 The movement on the CNST Reserve in the year comprised:

	2007/08 £000
Balance at 1 April 2007	**(7,627,109)**
Transfer from Operating Cost Statement	(1,995,634)
Capital charge interest	(257,251)
Balance at 31 March 2008	**(9,879,994)**

11.6 The movement on the PES Reserve in the year comprised:

	2007/08 £000
Balance at 1 April 2007	**2,886**
Transfer from Operating Cost Statement	136
Capital charge interest	(1,546)
Balance at 31 March 2008	**1,476**

11.7 The movement on the LTPS Reserve in the year comprised:

	2007/08 £000
Balance at 1 April 2007	**(118,294)**
Transfer from Operating Cost Statement	11,430
Capital charge interest	(13,678)
Balance at 31 March 2008	**(120,542)**

12 Reconciliation of operating cost to operating cash flows

	Notes	2007/08 £000	2006/07 £000
Net operating cost		**(2,642,363)**	(691,478)
Adjustments for non-cash transactions	2.1	**(373,081)**	(308,230)
Adjustments for movements in working capital other than cash	10	**(26,560)**	11,049
Increase in provisions	9	**2,835,658**	879,479
Net cash outflow from operating activities		**(206,345)**	**(109,180)**

13 Contingent liabilities

	Ex-RHA Scheme £000	ELS Scheme £000	CNST Scheme £000	PES Scheme £000	LTPS Scheme £000	Total £000
Contingent liability for claims 2007/08	**14,971**	**755,357**	**5,134,946**	**2,784**	**73,311**	**5,981,369**
Contingent liability for claims 2006/07	8,493	561,216	4,065,801	3,751	66,504	4,705,765

As can be seen in note 1.9 the Authority has made a provision in its accounts for the likely value of future claims payments.

The contingent liabilities note recognises possible additional claims payments to those already provided for. These are shown as a note to the accounts because a transfer of economic benefit is not deemed likely.

As at 31 March 2008, the Authority was defending a claim in the county court which may result in a payment being made in a future period.

14 Commitments under operating leases

Commitments under non-cancellable operating leases:

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

		2007/08	2006/07
Land and buildings		**£000**	£000
Operating leases which expire:	within 1 year	**0**	0
	between 1 and 5 years	**0**	0
	after 5 years	**736**	736
		736	736
Other leases			
Operating leases which expire:	within 1 year	**2**	2
	between 1 and 5 years	**113**	108
	after 5 years	**0**	0
		115	110

15 Losses and special payments

There was 1 special payment (Prior year: 1 case) totalling £10,000 (Prior year £25,000) approved during 2007/08.

16 Related parties

The Authority is a body corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a controlling related party. During the year the Authority has had a significant number of material transactions with the Department, and with other entities, to whom the Authority provides clinical and non clinical risk pooling services, for which the Department is regarded as the parent Department, i.e.:

	Charge to the Operating Cost Statement		
NHS Body	**Income**	**Expenditure**	**Provision**
	£'000	**£'000**	**£'000**
All English Strategic Health Authorities	101	0	1,019,871
All English NHS Trusts and PCTs	330,813	4,769	2,130,246
All English NHS Foundation Trusts	169,521	3,217	1,145,969
NHS Blood and Transplant	418	96	515
The National Patient Safety Agency	0	0	22
NHS Business Services Authority	235	22	543
NHS Appointments Commission	0	0	0
Health Protection Agency	176	0	1,220
NHS Institute	0	0	0
NHS Direct	151	0	615
NHS Professionals	0	0	9

The Authority also charged to the Operating Cost Statement a provision for those incidents that have been incurred but not yet reported in the sum of £1.830bn (2006/07 £404m).

In addition Professor R Shaw and Ms N Wrightson, non executive directors of the Authority are also employed by Royal Berkshire Hospital NHS Foundation Trust as the Chief Medical Officer and Joint Director of Clinical Standards and a non-executive Director of Yorkshire Ambulance Service NHS Trust respectively.

17 Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the way Special Health Authorities are financed, the Authority is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Authority has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the Authority in undertaking its activities.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from all disclosures.

Liquidity risk
The Authority's net operating costs are financed from resources voted annually by Parliament and scheme contributions from member NHS Trusts. The Authority finances its capital expenditure from funds made available from Government under an agreed capital resource limit. The Authority is not, therefore, exposed to significant liquidity risks.

Interest-rate risk
None of the Authority's financial assets and liabilities carry fixed rates of interest. The Authority is not, therefore, exposed to significant interest-rate risk.

Foreign Currency risk
The Authority has negligible foreign currency expenditure.

Fair Values
Fair Values are not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury real discount rate of 2.2%, adjusted for claims inflation and the Retail Price Index.

18 Intra-government balances

	Debtors Amounts falling due within one year £000	Creditors Amounts falling due within one year £000
Balances with other central government bodies	411	0
Balances with NHS Trusts	5,652	824
Balances with public corporations and trading funds	1,853	259
Intra-government balances	7,916	1,083
Balances with bodies external to government	4,477	27,267
At 31 March 2008	**12,393**	**28,350**
Balances with other central government bodies	856	163
Balances with NHS Trusts	17,229	4
Balances with public corporations and trading funds	7,660	0
Balances with bodies external to government	1,972	70,067
At 31 March 2007	**27,717**	**70,234**

There are no debtors or creditors falling due after more than one year.

19 Post Balance Sheet Events

These financial statements were authorised for issue on 27 June 2008 by the Accounting Officer.

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office
ID 5797845 07/08

Printed on Paper containing 75% recycled fibre content minimum.

Napier House
24 High Holborn
London WC1V 6AZ
Telephone 020 7430 8700
Fax 020 7405 4286
DX 169 London

30 Victoria Avenue
Harrogate HG1 5PR
Telephone 01423 530280
Fax 01423 522034
DX 11964 Harrogate

nhsla.com

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, Telephone Fax & E-Mail
TSO
PO Box 29, Norwich, NR3 1GN
Telephone orders/General enquiries 0870 600 5522
Order through the Parliamentary Hotline Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
E-mail: customer.services@tso.co.uk
Textphone: 0870 240 3701

TSO Shops
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401
71 Lothian Road, Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop
12 Bridge Street, Parliament Square,
London SW1A 2JX

TSO@Blackwell and other Accredited Agents

ISBN 978-0-10-295371-8