THE
COMPENSATION
Agency

ANNUAL REPORT
AND ACCOUNTS
2004-2005

INVESTOR IN PEOPLE

CHARTER MARK

THE COMPENSATION AGENCY

ANNUAL REPORT AND ACCOUNTS
2004-2005

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FOREWORD BY THE CHIEF EXECUTIVE

I am pleased to present the Compensation Agency's Annual Report covering the 2004-2005 financial year.

During 2004-2005, the Agency continued to work towards meeting its Aim and Objectives as set for it by Northern Ireland Office Ministers. In all, ten Key Performance Targets were formulated - eight covering specific aspects of processing claims for compensation (including the average unit costs of processing claims, the time taken to decide claims and reducing the number of undecided claims); one in respect of financial management and one in respect of Standards of Adjudication. The Agency also set a number of subsidiary targets to support and complement the achievement of the Key Performance Targets.

I am pleased to report that, at a time of considerable change, the Agency achieved six of its ten Key Performance Targets and the majority of the subsidiary targets detailed in the Business Plan. Further information on performance against Key Performance Targets is contained in this Annual Report.

During 2004-2005, the Agency continued to face significant organisational challenges: the reduction of the Tariff scheme backlog, the rundown of the 1988 Order caseload and the restructuring of several teams to mention a few. It is pleasing to note, however, that many of these challenges are the direct result of operational success. I would like to record my appreciation for the way in which the staff of the Agency have applied themselves to deal with these challenges. They are once again to be commended for the quality of their work and their commitment to delivering our fundamental service in support of victims. I must also record my thanks to those who acted on behalf of the Agency in the areas of legal, medical and loss adjusting services and to those colleagues in the Department who have supported and facilitated the work of the Agency.

ANNE McCLEARY
Chief Executive
29 June 2005

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WHO WE ARE AND WHAT WE DO

Organisational Responsibilities

Established as an executive agency within the Northern Ireland Office on 1 April 1992 the Compensation Agency administers the Secretary of State's functions for the provision of compensation under criminal injuries, criminal damage and Terrorism Act 2000 legislation.

The Agency operates from a single site in Belfast city centre. Contact details are as follows:

The Compensation Agency	Telephone:	028 90249944
Royston House	Fax:	028 90246956
34 Upper Queen Street	Email:	comp-agency@nics.gov.uk
BELFAST	Website:	www.compensationni.gov.uk
BT1 6FD		

The Chief Executive, Anne McCleary, is responsible for the effective operation of the Agency and for managing its financial and manpower resources and is directly accountable to the responsible Minister. The Chief Executive is also the Agency's Accounting Officer. During the year, the following members of staff occupied key managerial positions within the Agency:

Miss Anne McCleary *Chief Executive*

Mr Frank Brannigan *Head of Operations (to 22 March 2005)*

The Agency Strategy Group (ASG) provides advice and support to the Chief Executive in furtherance of the Agency's Aim and Objectives. The Strategy Group is comprised of the Chief Executive, the Head of Operations and the Heads of each of the functional Branches within the Agency. In addition, the Agency Co-ordination Group (ACG) comprising administrative and specialist staff meets on a monthly basis to review organisational performance across the entire Agency and to provide an internal reporting mechanism for the Agency. The Agency had an average of 120 staff in post over the year. Extensive use was also made of external professional advisers such as loss adjusters, motor engineers, barristers and medical consultants.

Each year the Compensation Agency publishes a Corporate and Business Plan. The Corporate Plan covers a three-year period (the in-coming year plus a further two years). It assesses the strategic issues likely to face the Agency within the next three years and identifies the strategies that are seen as fundamental to delivering excellence and value for money. The Business Plan relates to the current year. It draws on the strategies outlined in the Corporate Plan and provides details of the Key Performance Targets set by the Minister and subsidiary targets identified internally in the organisation.

WHO WE ARE AND WHAT WE DO

Legislative Arrangements

The Agency operates under the terms of a Framework Document that deals with the roles and responsibilities of the Agency and its relationships with Parliament, Ministers and the Department. This document also describes the Agency's planning and monitoring, personnel, finance and accounting arrangements.

During 2004-2005, the Agency was responsible for the administration of four statutory compensation schemes on behalf of the Secretary of State:

- The **criminal injuries** compensation scheme which provided compensation for pain, suffering, financial loss and loss of amenity to the victims of violent crime, including terrorist crime, in Northern Ireland for injuries suffered before 1 May 2002. The governing legislation was the Criminal Injuries (Compensation) (Northern Ireland) Order 1988.

- The **criminal injuries** compensation scheme **(Tariff)** which provides compensation for the innocent victims of violent crime, including terrorist crime, for injuries suffered from 1 May 2002. The governing legislation is the Criminal Injuries Compensation (Northern Ireland) Order 2002.

- The **criminal damage** compensation scheme which provides compensation for malicious damage to property in Northern Ireland caused by terrorism or unlawful assemblies of three or more people; and for malicious damage to agricultural property. The governing legislation is the Criminal Damage (Compensation) (Northern Ireland) Order 1977.

- Compensation to those who suffer **loss or damage** resulting from action taken under the Terrorism Act 2000.

Copies of the Framework Document and the guides to the criminal injuries, Tariff, criminal damage and Terrorism Act 2000 compensation schemes may be obtained from the Agency at the above address.

Types of Compensation

Although four schemes currently operate within the Agency, there are two main schemes for compensation. These cover damage to property and personal injury under the Tariff scheme. Except in exceptional circumstances, compensation cannot be claimed under the 1988 Order criminal injuries legislation.

Criminal damage awards are made to compensate for damage to property (including agricultural property) in Northern Ireland.

During 2004-2005, within the criminal damage scheme, the Agency received 928 claims for compensation and paid a total of £6.8m in compensation awards.

Personal injury awards made under the 2002 Tariff scheme are made to recognise personal pain and suffering, whether physical or mental. The amount awarded is based on a tariff of injuries and may contain other components such as:

- Loss of earnings (but not payable for the first 28 weeks of incapacity)
- Special expenses such as specialist equipment or specialist medical care
- Bereavement support - if your parent, child, husband, wife or partner has died as a result of a violent crime (currently £12,000 for all applicants)

Full details are provided in the Guide to the Northern Ireland Criminal Injuries Compensation Scheme 2002.

During 2004-2005, within the Tariff scheme, the Agency received 6,543 claims for compensation and paid a total of £8.3m in compensation awards.

The Tariff Scheme

Within the Tariff scheme there are three stages where a decision in relation to an application for compensation can be made - first decision, review and appeal.

<u>First Decision</u>

This year the two teams in the first decision casework section examined and investigated approximately 8,500 cases. To assess each case, information is required not only from the applicant but also from the police, medical authorities and other relevant organisations. A first decision caseworker will then apply the terms of the scheme. This rigorous process will culminate in a decision whether or not to pay an award and, if an award is to be made, the value of the award. The caseworker will then issue a letter of offer to the applicant.

Case Studies - First Decision

1. A man was elbowed in the face during a team sporting event by a member of the opposing team. He received a fractured cheekbone. The incident was recorded by the referee. Although the applicant initially reported the incident to the police he later made a statement that he no longer wished the police to investigate the matter as he did not wish to attend court. The police did not therefore interview the alleged offender and no prosecution was brought. Without the police enquiry the Agency could not be satisfied that a crime of violence had occurred and the claim was refused on the basis that the applicant failed to assist the police in their enquiries.
2. The applicant was attacked by 4-6 youths while walking home from the pub. He was struck on the head with a bottle, knocked to the ground and kicked before he managed to break free. At hospital he was treated for cuts to his cheek, nose, eyes and head. Although the police arrived at the hospital no statement was taken as the applicant, who was drunk at the time, was not sure if he wanted to make a statement. He subsequently made a statement although it gave the police no further useful information. A medical questionnaire and photographs were submitted. These were assessed as moderate scarring. Considering the injuries and other relevant factors the caseworker decided on the balance of probabilities that the incident happened as described by the applicant and £4,500 was awarded.

Review

The review procedure is available to those applicants who feel dissatisfied with our initial decision. A member of staff, who is more senior than the first decision caseworker, is assigned to look at the case afresh. The Reviewing Officer may make further enquiries or ask for additional information. As a result of the review the initial decision may remain unchanged, or it may be more or less favourable to the applicant. The applicant will receive written notification of the review decision together with an explanation of the decision. If the applicant is not satisfied with the outcome of this decision he or she can request an appeal. This may be an oral hearing of the case by the Criminal Injuries Compensation Appeals Panel. This body is entirely independent of the Agency.

Case Study - Review

The applicant's husband was an illegal immigrant in Northern Ireland. He was murdered and the applicant submitted a claim in respect of bereavement award and funeral expenses. The Agency confirmed that the applicant was not precluded from an award because of her husband's residency status. However in considering the transcript from the murder trial the first decision caseworker and team leader concluded that the conduct of the deceased significantly contributed to his untimely death and an award was refused. The applicant requested a review and submitted further evidence from the police. This evidence highlighted the level of injury of the deceased compared with that of his attackers. The key issue became one of proportionality and the review caseworker concluded that the deceased's actions did not merit such a significant attack. Accordingly, an award was made with a 50% deduction.

Appeal

If an oral hearing has been granted by the Appeals Panel, the Agency's Presenting Officers will prepare and investigate the case anew. Reasons provided on the Appeal Request by the applicant will be taken into consideration. All documentary evidence will be gathered, examined and indexed and a summary of the issues to be decided by the Appeals Panel will be compiled. This summary will set out for the applicant and the Panel the basis for the Agency's decision(s) to date. It will also draw attention to the elements of the case most likely to be relevant to the appeal. It is useful to note that at an oral hearing the panel members will also be able to base their decision on spoken evidence and other additional information.

At the hearing, the Agency's case is presented by the Presenting Officer. He or she will outline the facts, explain any previous assessment of the claim, question the applicant or other witnesses and summarise the Agency's position. The Appeals Panel is independent of the Agency and the members will make the final decision on any appeal case.

Case Studies - Appeal

1. The applicant was hit on the side of the head by a glass, receiving a laceration to his ear. Photographs were received however first decision caseworkers rejected the application stating the injury left no visible disfigurement. At review, the photographs were assessed anew but the original decision was upheld. At appeal, the applicants scar was inspected directly by the panel and an award of £2,000 was made for minor visible disfigurement to the head.
2. The applicant received a fracture to her nose after being assaulted outside a nightclub. Due to a 5 day delay in reporting the incident to the police, the first decision caseworker rejected the claim. At review, the applicant's reason for delay, to seek medical attention as a priority, was rejected as her injuries would not have impeded her ability to report the incident to the police. At appeal, the panel decided that the applicant had delayed unreasonably in reporting to the police and rejected the appeal.
3. The applicant was assaulted by a group of men. As she had 10 penalty points relating to motoring convictions this reduced her award by 100%. Her claim was, therefore, rejected at both first decision and review stage. At appeal, the applicant stated that it had been several years since her last conviction and was able to orally explain the background surrounding her convictions. The panel decided that there were relevant mitigating circumstances and made a reduction of 25% to the value of her tariff award. She received £3,000 for a fractured orbit.

WHO WE ARE AND WHAT WE DO

Aim and Objectives

The Agency's business is defined in its Framework Document in terms of its Key Objectives (and associated Key Performance Indicators). From these Key Objectives, Key Performance Targets are derived. The Key Performance Targets, together with supporting subsidiary targets set by the Agency, are used to monitor and control the work of the Branches and Sections within the Agency. The tasks performed by individual staff cascade from these targets meaning that Forward Job Plans and training needs are defined in relation to the Agency's Business Plan.

Arising from the Agency's Framework Document, the **aim** of the Agency is:

> *To support victims of crime, and people who have suffered loss from action taken under the Terrorism Act 2000, by ensuring that they are appropriately compensated in accordance with the relevant statutory schemes.*

The financial performance and the quality of the Agency's service will be determined by the following key performance indicators in pursuit of its primary objectives namely:-

Objectives	**Measures**
To provide a responsive and effective service to all applicants in which claims are dealt with speedily, consistently and in accordance with the relevant legislation	• Time taken to notify applicant of a decision/decide claim • Compliance with legislation • Number of justified complaints/compliments received • Applicant satisfaction levels (including responses from legal representatives for non-Tariff claims)
To deliver the compensation schemes efficiently and cost effectively while seeking continuous improvements to the standards of service within the limits of the resources available.	• Average unit cost of deciding a claim • Time taken to notify applicant of a decision/decide claim • Achievement of recognised management awards

Key Performance Targets

For 2004-2005, most of the Key Performance Targets set by the Minister were expressed on a scheme-by-scheme basis supplemented by a number of over-arching targets covering all aspects of the Agency's operations. The performance against each Target for 2004-2005 was as follows:

Claims under the Criminal Injuries (Compensation) (Northern Ireland) Order 1988

Key Performance Target 1:

To reduce by 45% the number of claims in hand at 31 March 2004.

Target Reduction	Actual Reduction	Target Achieved
45% - 4,217 claims	51% - 4,766 claims	✔

Claims under the Criminal Damage (Compensation) (Northern Ireland) Order 1977

Key Performance Target 2:

To maintain the average time taken to reach decisions at 18 weeks for claims received from 1 April 2004.

Target Time Taken	Actual Time Taken	Target Achieved
18 weeks	18 weeks	✔

Key Performance Target 3:

To reduce by 85% the number of claims in hand at 31 March 2004 on which no decision had been reached.

Target Reduction	Actual Reduction	Target Achieved
85% - 477 claims	83% - 468 claims	✘

As a result of a review of both the criminal damage and Terrorism Act 2000 schemes and to increase efficiency the two teams involved in processing these claims were combined into a single unit during the year. This target was unfortunately missed by a slight margin due to this restructuring and subsequent training and cross-skilling of all personnel. This however has resulted in a multidisciplinary team better placed to handle these claims in the future.

Key Performance Target 4: **To process claims under the criminal damage and Terrorism Act 2000 schemes at the combined average unit cost of £310.**		
Target Unit Cost	**Actual Unit Cost**	**Target Achieved**
£310	**£489**	✘

Key Performance Target 4 is a composite Target covering both the criminal damage scheme and the Terrorism Act 2000 scheme. Although this Target covers two separate schemes, the work involved in processing these claims is carried out in a single organisational unit within the Agency. Consequently, the efficiency of this element of the Agency's operations is measured by reference to a combined unit cost figure.

Unit costs are derived from staff costs plus overheads divided by the number of claims processed. The non-achievement of the criminal damage / Terrorism Act 2000 unit cost target was affected by the continuing reduction in the number of claims received under both the criminal damage and Terrorism Act 2000 schemes (928 criminal damage claims and 160 Terrorism Act 2000 claims were received in 2004-2005 compared to 1,026 criminal damage claims and 1,633 Terrorism Act 2000 claims received in 2003-2004 and 1,675 criminal damage and 7,796 Terrorism Act 2000 claims received in 2002-2003). Whilst steps were taken to reduce staffing levels to match the greatly reduced workload, the merging of the two Branches in question necessitated additional training of staff in each of the schemes.

Furthermore, it was not possible, largely for contractual reasons, to reduce the related overheads including accommodation, computer and other costs; while at the same time retaining the ability to react to any unforeseen upsurge in the number of claims which might be received in the future. Nevertheless, after an accommodation review, it has been decided to try to transfer the lease of some of the Agency's accommodation and efforts are being made to ensure that an alternative tenant is found. If this is successful, it will be possible to relocate the staff working on these two schemes, and the overheads will be reduced. At the same time, staffing levels are continuously reviewed.

Claims under the Terrorism Act 2000

Key Performance Target 5: **To reach decisions on claims within 70 days for claims received from 1 April 2004.**		
Target Time Taken	**Actual Time Taken**	**Target Achieved**
70 days	**68 days**	✔

Key Performance Target 6: To reduce by 85% the number of claims in hand at 31 March 2004 on which no decision had been reached.		
Target Reduction	Actual Reduction	Target Achieved
90% - 290 claims	83% - 268 claims	✘

There were 322 undecided claims in hand on 31 March 2004, most of which were investigated under the new and lengthier procedures which the Agency introduced as a fraud prevention measure in May 2003. In a significant number of these cases, there were difficulties obtaining all the documentation (particularly proof of ownership) which the Agency required. In addition, due to the dramatic drop in the numbers of these claims the Terrorism Act 2000 and criminal damage Branches were merged in September 2004. This resulted in the diversion of staff resources to training of criminal damage staff in the new Terrorism Act 2000 procedures, and vice versa. This was a considerable drain on resources and, combined with the lengthier procedures, meant that this target was narrowly missed.

Claims under the Criminal Injuries Compensation (Northern Ireland) Order 2002 - Tariff

Key Performance Target 7: To decide 50% of all claims within twelve months in receiving the application.		
Target Decision Rate	Actual Decision Rate	Target Achieved
50%	37%	✘

The Agency adopted Target 7 directly from the Criminal Injuries Compensation Authority in Great Britain. The target is used to assess the speed with which we make a first decision on a claim. Only those claims which are decided in the financial year are included in the target calculation. The medium-term aim (by 2006-2007) is to decide 90% of all applications within twelve months.

The Tariff scheme was introduced in the belief that a modus operandi had been found which enabled the various health trusts and GP surgeries to provide medical reports in a consistent fashion. This transpired to be incorrect and considerable efforts had to be made to negotiate a protocol with each trust / GP surgery. This resulted in a delay in obtaining medical reports which led to a build up of undecided claims. The Agency adopted a number of measures to tackle this backlog, which included the decision to give priority to the older cases. Consequently, the target of deciding 50% of all claims within twelve months was set aside to enable the Agency to concentrate on older claims. In total, the Agency decided 8,504 claims during 2004-2005 and, of this total, 5,358 claims were over twelve months old and the backlog of older claims has been significantly reduced. The situation continues to be closely monitored and these issues will be reflected in the new targets for 2005-2006.

Key Performance Target 8: **To process claims under the Criminal Injuries Compensation (Northern Ireland) Order 2002 at an average unit cost of £280.**		
Target Unit Cost	**Actual Unit Cost**	**Target Achieved**
£280	**£275**	✔

<u>**Standards of Adjudication – All Schemes**</u>

Key Performance Target 9: **The Department's Internal Audit Branch to confirm that the Agency's standards of adjudication are appropriate and this is to be carried out by the random sampling of claims**		
Target	**Actual**	**Target Achieved**
Appropriate standards of adjudication employed by the Agency	**Standards of adjudication are appropriate**	✔

Financial Management

Key Performance Target 10: **To manage the Agency's workload in 2004-2005 within a running costs budget (to cover salaries and administrative expenditure) to financial limits agreed with the Department (including in-year adjustments).**		
Budget	**Actual**	**Target Achieved**
£4,159k	**£4,154k**	✔

The amount of £4,154,000 noted above differs from the total for Gross Administration Costs shown in the Operating Cost Statement. The total in the Operating Cost Statement includes internal notional charges of £170,000 levied by the Northern Ireland Office and £8,000 of charges from other public sector service providers. In keeping with Departmental policy, these internal charges are excluded from the Agency's Resource budgeting arrangements.

GETTING RESULTS: THE YEAR IN REVIEW

Internal Review

During 2004-2005, the Agency continued to operate within a very changeable environment with diminishing staff numbers in some areas, continual process improvements throughout all the schemes, team restructuring and accommodation moves all having an impact on performance.

Within the schemes:

The run-down in the level of claims for personal injury compensation under the 1988 Order continues to be managed in a proactive manner. Since the introduction of the 2002 Order (Tariff) on 1 May 2002, the Agency has reduced the number of 1988 Order claims to 4,803 (as at 31 March 2005). As the number of claims in hand has reduced, the number of staff in post to process these claims has also fallen. As a consequence of clearing claims, those that remain are more complex and consequently will take longer to process. It is worth noting, however, that the reduction in staff did not have an adverse impact on either the quantity or quality of work produced by the Branch and the Key Performance Target relating to claims for compensation under the 1988 Order was surpassed.

Significant progress was made in processing claims for compensation under the Tariff scheme (2002 Order). During 2004-2005, the Agency received 6,543 claims for compensation under the Tariff compensation scheme and made decisions on 8,504 claims. By concentrating on cases over twelve months old we have made significant inroads into the reduction of the backlog of these older cases by approximately 1,900 cases (18%) from the beginning of the year. The volume of decisions made has also increased by 3,200 claims (60%) from 2003-2004. The implementation of a number of process improvements, including the resolution of issues relating to the inconsistency of medical reports has contributed to the success of this Section.

Benefits gained from the success at the first decision stage however pose additional challenges for both the review and appeal stages of the Tariff scheme. The increased number of first decisions has led to an increased number of review requests with an inevitable increase in the number of appeals. It is interesting to note that the Agency received approximately 3,000 review requests in 2004-2005 which represents an 80% increase on requests received in 2003-2004. The Agency constantly reviews and improves its processes accordingly and it is pleasing to report that we processed 1,690 review requests in 2004-2005 almost quadrupling our rate of 2003-2004. This has resulted in the receipt of 499 appeals, an increase of 369 on the previous year, of which approximately half have been completed.

The efforts made during 2003-2004 to limit the potential for fraudulent claims received under the Terrorism Act 2000 continued to be effective in 2004-2005. In total, 160 claims for compensation were received under this Act of which approximately 40 related to claims arising from PSNI searches following the Northern Bank robbery in December 2004.

GETTING RESULTS: THE YEAR IN REVIEW

Within the Agency:

Review of the Schemes

A review of the compensation schemes administered by the Agency was carried out during 2004-2005. A number of recommendations have already been implemented and the Agency will continue to work towards the implementation of the remaining agreed recommendations

Quality

The Agency's commitment to service quality was recognised when it was awarded Charter Mark for the 4th time during 2004-2005. We intend to continue this recognition in the future by means of yearly reviews. The first of these annual assessments will take place in March 2006.

Training

The Agency was first recognised as an Investor in People in 1999 and proposes to seek reassessment in spring 2006. During 2004-2005, the training and development of all staff continued to be a high business priority for the Agency with regular analysis of training needs and a comprehensive Training Plan produced.

Accommodation

The diminishing numbers of staff within the Agency highlighted the need to review our accommodation requirements. Currently we have an excess of office space and a project plan has been drawn up to determine how we might reduce this overhead.

GETTING RESULTS: THE YEAR IN REVIEW

External Influences

At was noted in previous years' Annual Reports, there have been noteworthy changes in the number of claims for compensation received under each of the compensation schemes administered by the Agency. This year saw a continuation of that trend. Table 1, below, highlights the volume of claims received by the Agency for each scheme over the past five years with 2001-2002 being the last full year of operation of the 1988 Order criminal injuries compensation scheme.

Table 1 - Number of Claims for Compensation Received by Scheme

	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Criminal Injuries (2002)	0	0	8,102	7,997	6,543
Criminal Injuries (1988)	13,939	14,363	2,416	275	166
Criminal Damage	2,043	1,844	1,675	1,026	928
Terrorism Act 2000	4,542	6,338	7,796	1,633	160
TOTAL	**20,524**	**22,545**	**19,989**	**10,931**	**7,797**

The shift of criminal injuries claims from the 1988 Order to the 2002 Order is now firmly embedded and has been accompanied by a significant fall in the volume of claims under criminal injuries compensation legislation. Between 2001-2002 and 2004-2005, the number of criminal injuries claims has fallen by 7,654 claims representing over 53% of the 2001-2002 total.

It would appear that the number of criminal damage claims has stabilised at approximately 1,000 new claims per annum. As with criminal injuries claims, this represents only half the number of new claims that were received by the Agency only three to four years previously. In December 2004, the Agency received a number of criminal damage claims allegedly arising from terrorist-related bombing incidents. These claims were almost exclusively received from businesses involved in the retail sector with their value provisionally estimated to be in excess of £6.0m. The Agency will continue to work closely with its professional advisors to ensure that the impact of such incidents on the retail sector is minimised.

There was a further substantial fall in the number of new claims under the compensation provisions of the Terrorism Act 2000 and the Agency now anticipates that future claims numbers for this type of claim will be broadly similar to the numbers received during 2004-2005. As noted in last year's Annual Report, the Northern Ireland Affairs Committee (in its review of the operations of the Agency) commented on the dramatic fall in claim numbers between 2002-2003 and 2003-2004 and concluded that there had been "blatant exploitation and abuse of the Terrorism Act compensation schemes" in the past while congratulating the Agency for "tackling the issue in a vigorous and effective manner". The Agency re-iterates its commitment to process all claims for compensation in an efficient and effective manner while ensuring that its internal procedures minimise the potential for inappropriate payments to be made.

SUMMARY OF KEY PERFORMANCE TARGETS: 2001-2002 to 2004-2005

KEY PERFORMANCE TARGETS		TARGETS, OUTTURNS AND ACHIEVEMENTS			
		2001-02	2002-03	2003-04	2004-05
To process Criminal Injury (1988) claims at an average cost of £x	Target Outturn	£290 £290	*Discontinued*	*Discontinued*	***Discontinued***
To reach a decision in Criminal Injury (1988) claims in an average time of x weeks	Target Outturn	45 45	*Discontinued*	*Discontinued*	***Discontinued***
To reduce the number of Criminal Injury claims in hand at due date by x%	Target Outturn	85% 86%	85% 86%	45% 54%	**45%** **51%**
To reach a decision in x% of Criminal Injury claims received after due date	Target Outturn	N/A N/A	40% 52%	50% 65%	***Discontinued***
To reach a decision in Criminal Damage claims in an average time of x weeks	Target Outturn	19 18	19 18	19 18	**18** **18**
To reduce the number of Criminal Damage claims in hand at due date by x%	Target Outturn	85% 86%	85% 86%	85% 86%	**85%** **83%**
To process Criminal Damage and Terrorism Act 2000 claims at an average cost of £x	Target Outturn	£140 £157	£140 £104	£140 £149	**£310** **£489**
To reach a decision in Terrorism Act 2000 claims in an average time of x days	Target Outturn	35 38	35 32	53 71	**70** **68**
To reduce the number of Terrorism Act 2000 claims in hand at due date by x%	Target Outturn	95% 97%	95% 97%	85% 96%	**90%** **83%**
To decide % of Tariff claims within 12 months of receiving the claims	Target Outturn	N/A	N/A	45% 48%	**50%** **37%**
To process Tariff claims at an average cost of £x	Target Outturn	N/A	N/A	£290 £247	**£280** **£275**
To ensure that the standards of assessment are fair, objective and in accordance with the legislation	Target Outturn	Yes Achieved	Yes Achieved	Yes Achieved	**Yes** **Achieved**
To manage the workload within the running costs budget allocated for salaries and administrative costs (including in-year adjustments)	Target Outturn	£3,477k £3,412k	£3,966k £3,913k	£4,132k £4,080k	**£4,159k** **£4,154k**
To achieve an improvement in the level of user satisfaction with services provided by the Agency (as reported biennially through independent survey)	Outturn	Not Achieved (65%)	N/A	N/A	**N/A**

The Key Performance Targets for 2005-2006 had not been agreed with the Department at the date of the Annual Report and Accounts.

ACCOUNTS

FOREWORD TO THE ACCOUNTS

The Compensation Agency presents its Accounts for the year ended 31 March 2005. These Accounts are prepared under a direction given by HM Treasury dated 16 February 2005 in accordance with Section 7 (2) of the Government Resources and Accounts Act 2000.

Background Information

The Agency was established as an executive agency within the Northern Ireland Office on 1 April 1992 under the "Next Steps" initiative. During the year, the Agency was responsible for the administration of four statutory compensation schemes operating in Northern Ireland, which are:

> The criminal injuries compensation scheme. This scheme, contained in the Criminal Injuries (Compensation) (Northern Ireland) Order 1988, provided compensation for the innocent victims of violent crime, including terrorist crime for injuries suffered before 1 May 2002.
>
> The criminal injuries compensation scheme (Tariff). This scheme, contained in The Criminal Injuries Compensation (Northern Ireland) Order 2002, provides compensation for the innocent victims of violent crime, including terrorist crime for injuries suffered from 1 May 2002.
>
> The criminal damage compensation scheme. This scheme, contained in the Criminal Damage (Compensation) (Northern Ireland) Order 1977, provides compensation for malicious damage to property caused by terrorism or unlawful assemblies of three or more persons and for malicious damage to agricultural property.
>
> Compensation to those who suffer loss or damage resulting from action taken under the Terrorism Act 2000.

A full report on the Agency's principal activities (including its performance against its Aim and Objectives) is given in the Annual Report on pages 3 to 16.

Post-Balance Sheet events

There are no events occurring after the year-end which might affect a reader's understanding of the Accounts.

Going Concern

The balance sheet at 31 March 2005 shows negative Taxpayers' Equity of £63,808,000. This reflects the inclusion of liabilities falling due in future years which are to be financed by drawings from the UK

Consolidated Fund. Such drawings will be from grants of Supply approved annually by Parliament, to meet the Net Cash Requirement of the Northern Ireland Office of which the Compensation Agency is part. Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund by the Northern Ireland Office other than required for the service of the specified year or retained in excess of that need.

In common with government departments, the future financing of the Compensation Agency's liabilities is accordingly to be met by future grants of Supply to the Northern Ireland Office and the application of future income, both to be approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Future Developments

A review of the compensation schemes administered by the Agency was concluded by the Department during 2004-2005. The review made a number of recommendations about the role and responsibilities of the Agency within the criminal justice system. The Department accepted the greater part of the review's recommendations with many of these implemented during 2004-2005.

Fixed Assets

The tangible fixed assets shown in Note 6 include additions of £510,000. Of this amount, the Agency funded asset additions of £381,000 from its own resources while asset additions of £129,000 were acquired as part of the implementation project for the Northern Ireland Office's "Flax" programme to upgrade the IT infrastructure across the entire Department.

All tangible fixed assets are owned by the Agency. The Agency does not own any land or buildings nor does it believe there is any material difference between the market and book value of its fixed assets.

The intangible fixed assets shown in Note 7 include additions of £84,000. All these assets were acquired as part of the implementation project for the Northern Ireland Office's Flax programme.

Net Operating Performance

The Minister required the Agency to manage its workload for 2004-2005 within a running costs budget (to cover salaries and administrative expenditure) to financial limits agreed with the Department (including in-year adjustments). As reported on page 12 and Note 21, the agreed limit was £4,159,000 and the Agency's expenditure was £4,154,000. This amount differs from the total for Gross Administration Costs shown in the Operating Cost Statement as the total in the Operating Cost Statement includes internal notional charges of £170,000 levied by the Northern Ireland Office (Note 3a) and £8,000 of charges from other public sector service providers. In keeping with Departmental policy, these charges are excluded from the Agency's Resource budgeting arrangements.

Pensions

Note 1.9 and Note 2.2 of the Notes to the Accounts provide details of the pensions liabilities of the Agency.

Senior Management Team

The Chief Executive is responsible for the day-to-day operation and performance of the Agency. During 2004-2005 the senior management team comprised:

Miss Anne McCleary	Chief Executive
Mr F W Brannigan	Head of Operations (to 22 March 2005)

The Chief Executive was appointed following open competition. The remuneration of the senior management team is shown in Note 2. All members of the senior management team are permanent civil servants. Their remuneration is determined in accordance with Civil Service pay agreements and the duration of their appointments are governed by Civil Service management agreements.

Disabled Persons

It is the Agency's policy to give equality of opportunity when considering applications from disabled persons. The Agency complies with all existing legislation in regard to its disabled employees.

Equal Opportunities

In keeping with the Northern Ireland Office's Equal Opportunities Policy Statement, everyone in the Compensation Agency has the right to equality of opportunity and to a good and harmonious working environment and atmosphere in which all staff are encouraged to apply their diverse talents and in which no member of staff feels under threat or intimidated.

Payments to Suppliers

The Agency is committed to the prompt payment of bills for goods and services. Payments are normally made within the specified period; if none is specified then payment is usually made within 30 days from receipt of a properly vouched invoice.

ACCOUNTS

In the year ended 31 March 2005 the Agency paid 94% (2003-2004; 96%) of invoices not in dispute within 30 days or the agreed contractual terms. The Agency made no payment of interest under the Late Payment of Commercial Debts (Interest) Act 1988 during the year ended 31 March 2005.

Employee Involvement

The management team encourages widespread consultation and exchange of information at all levels within the Agency. This is effected through a system of monthly Agency Co-ordination Group meetings and team meetings, quarterly Chief Executive briefings for all staff and a policy of dialogue at all levels. Formal and informal consultation takes place with Trade Union representatives and a Whitley Council structure is in place.

Charitable Donations

There were no charitable donations in the year.

Auditors

The Agency's Accounts are audited by the Northern Ireland Audit Office on behalf of the Comptroller and Auditor General, whose certificate appears on pages 25 to 26 of the Accounts. The auditor is appointed under statute and reports to Parliament on the audit examination. The cost of the work performed by the Northern Ireland Audit Office for 2004-2005 was £10,709 (2003-2004; £11,000) and related solely to audit services. The auditor did not provide any other services to the Agency during 2004-2005.

Signed:

ANNE McCLEARY

Chief Executive

29 June 2005

ACCOUNTS

STATEMENT OF AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under Section 7(2) of the Government Resources and Accounts Act 2000 the Agency is required to prepare a statement of accounts for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held or disposed of during the year and the use of resources by the Agency during the year.

The accounts are prepared on an accruals basis so as to give a true and fair view of the income and expenditure, recognised gains and losses and cash flows of the Agency for the year ended 31 March 2005, and of the state of affairs as at that date.

In preparing the accounts the Agency is required to comply with the Resource Accounting Manual prepared by the Treasury, and in particular to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;

- state whether applicable accounting standards, as set out in the Resource Accounting Manual, have been followed, and disclose and explain any material departures in the accounts; and

- prepare the accounts on a going concern basis.

The Accounting Officer of the Northern Ireland Office has appointed the Chief Executive of the Compensation Agency as the Accounting Officer for the Agency. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Agency's assets, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in "Government Accounting".

ACCOUNTS

STATEMENT ON INTERNAL CONTROL

1 Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Compensation Agency policies, aim and objectives, whilst safeguarding the public funds and Agency assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The Department monitors the Agency's progress towards achievement of the policies, aims and objectives set for it by the Minister through a systematic process of quarterly performance review. These reviews enable the Department to provide the Agency with an informed, critical and independent view of the potential risks to the Agency.

2 The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Agency policies, aim and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Compensation Agency for the year ended 31 March 2005 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

3 Capacity to handle risk

Executive responsibility for the risk management process within the Agency continues to rest with the Head of Operations. As the Agency's second-most senior manager, the Head of Operations is strategically placed to ensure that risk management remains visible and focused. During the latter stages of 2004-2005 I assumed personal responsibility for risk management in advance of the impending retirement of the then Head of Operations on 22 March 2005. It is expected that the current Head of Operations will once again assume responsibility for risk management after suitable training. As well as senior management commitment to risk management, all members of staff, through their individual roles within the Agency, have responsibility for managing the risks associated with those roles.

At a strategic level, the Agency Strategy Group (comprised of the Agency's senior managers) continued to provide support and advice to me, as Chief Executive, across all aspects of the Agency's activities.

One of the specific roles of the Strategy group is to ensure that risk management is embedded into the corporate planning and decision-making processes of the Agency. Under the Terms of Reference for the Agency Strategy Group, risk management is a standing agenda item at all meetings of the Group. The Group met regularly throughout 2004-2005 using the Agency's risk matrix to help to identify and quantify all risks facing the Agency.

During 2004-2005, further advances were made in recording, disseminating and reviewing the risks that were identified in the Agency's risk matrix. The new Head of Operations will actively pursue this issue in the months ahead.

4 The risk and control framework

The Agency maintained a conservative risk appetite throughout 2004-2005. The risk profile continued to be heavily influenced by financial risks (e.g. the prevention of fraudulent claims for compensation and expenditure control mechanisms). The control framework in respect of these risks is well-developed and is deeply embedded. One of the most fundamental of these controls is the system of budgetary delegations that is enforced both through managerial and IT system controls. The Agency is aware of the need to further develop and broaden its awareness of risk management beyond the financial realm.

The Agency's Fraud Policy was updated during 2004-2005 via the introduction of a revision to the Departmental Fraud Policy statement. This revision was communicated to all Agency staff on 30 June 2004.

5 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 by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Agency Strategy Group acts as the main decision-making forum for the Agency. In fulfilling this management board role, the Group also provides a corporate challenge function to the system of internal control.

The Agency's Audit Committee comprises the Chief Executive, the Head of Operations, the Head of Finance and IT and the Agency's internal auditors. The external auditors are routinely invited to all meetings of the Audit Committee. At the most recent Audit Committee meeting (held on 14 February 2005), the Agency agreed to utilise the expertise of an independent board member (in a role somewhat analogous to a Non-Executive Director). Plans for the recruitment of this additional member of the management team were on-going at the year end. It is intended that this person will be a member of the Audit Committee and, subject to their approval, may chair this Committee. As in other years, the Agency agrees an audit plan with the internal auditors. The subject area for the audit is specifically chosen to ensure that new or emerging controls are fully tested or to ensure that existing controls continue to operate in an effective manner.

6 Significant internal control problems

There were no significant internal control problems identified during the year.

Signed:

ANNE McCLEARY

Chief Executive

29 June 2005

ACCOUNTS

THE COMPENSATION AGENCY

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements on pages 27 to 48 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 30 to 32.

Respective responsibilities of the Agency, the Chief Executive and Auditor

As described on page 21 the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 22 to 24 reflects the Agency's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Compensation Agency at 31 March 2005 and of the net operating costs, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and

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

I have no observations to make on these financial statements.

John Bourn	**National Audit Office**
Comptroller and	**157-197 Buckingham Palace Road**
Auditor General	**Victoria**
5 July 2005	**London SW1W 9SP**

THE COMPENSATION AGENCY

OPERATING COST STATEMENT
FOR THE YEAR ENDED 31 MARCH 2005

	Notes	Year Ended 31 March 2005 £'000	Year Ended 31 March 2004 £'000
Administration Costs			
Staff costs	2	2,722	2,786
Other administration costs	3	1,610	1,466
Gross Administration Costs		**4,332**	**4,252**
Operating income	5	0	(1)
Net Administration Costs		**4,332**	**4,251**
Programme Costs			
Expenditure	4	22,543	24,694
Less: Income	5	(486)	(666)
Net Programme Costs		**22,057**	**24,028**
Net Operating Cost		**26,389**	**28,279**

The net cost of operations arises solely from continuing operations.

STATEMENT OF RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2005

	Note	Year Ended 31 March 2005 £'000	Year Ended 31 March 2004 £'000
Unrealised surplus on revaluation of fixed assets	13	16	17
		16	**17**

The Notes on pages 30 to 48 form part of these Accounts.

THE COMPENSATION AGENCY

BALANCE SHEET
AS AT 31 MARCH 2005

	Notes	£'000	2005 £'000	2004 £'000
Fixed Assets				
Tangible assets	6		1,288	1,088
Intangible	7		151	88
			1,439	**1,176**
Current Assets				
Debtors	9	97		88
Creditors (amounts falling due within one year)	10 & 11	(3,295)		(2,017)
Net Current Liabilities			**(3,198)**	**(1,929)**
Total Assets less Current Liabilities			**(1,759)**	**(753)**
Provisions for Liabilities and Charges	12		(62,049)	(87,632)
			(63,808)	**(88,385)**
Taxpayers' Equity				
General fund	17		(63,847)	(88,408)
Revaluation reserve	13		39	23
			(63,808)	**(88,385)**

Signed:

ANNE McCLEARY
Chief Executive
29 June 2005

The Notes on pages 30 to 48 form part of these Accounts.

THE COMPENSATION AGENCY

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2005

	Notes	2005 £'000	2004 £'000
Net cash outflow from operating activities	18	(54,182)	(63,639)
Capital expenditure and financial investment	18	(381)	(18)
Receipts due to the Consolidated Fund		0	0
Payments of amounts due to the Consolidated Fund		0	0
Financing	18	53,300	63,700
(Decrease)/Increase in cash	10	**(1,263)**	**43**

The Notes on pages 30 to 48 form part of these Accounts.

NOTES TO THE ACCOUNTS

1 STATEMENT OF ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the Accounts Direction issued by HM Treasury on 16 February 2005. This Direction requires the Compensation Agency to prepare accounts that comply with the accounting principles and disclosure requirements of the Resource Accounting Manual issued by HM Treasury.

The accounting policies adopted comply with UK GAAP and have been applied consistently in dealing with items considered material in relation to the financial statements. The particular accounting policies adopted by the Compensation Agency are described below.

1.1 Accounting Convention

The accounts have been prepared in accordance with the historical cost convention, modified to include the revaluation of fixed assets, at their value to the business by reference to their current cost.

1.2 Tangible Fixed Assets

The Agency's tangible fixed assets comprise Information Technology and Furniture and Fittings, which are revalued monthly using appropriate indices compiled by the Office for National Statistics. The threshold for capitalisation as a fixed asset is normally £1,000. However, in keeping with the Departmental policy on fixed assets, personal computers are capitalised even where their purchase cost is less than £1,000. In addition, the Agency adopts a grouping policy for certain items that meet the definition of a fixed asset but with individual values less than £1,000. Grouped assets are only recognised in the Accounts when the individual items within the group are similar in nature and use. Office furniture is included as a grouped asset within Furniture and Fittings.

Where appropriate, surpluses and deficits on revaluation are taken to the Revaluation Reserve and permanent reductions in the value of tangible fixed assets are charged to the Operating Cost Statement.

1.3 Intangible Fixed Assets

The Agency recognises software licences as intangible fixed assets. Purchases of software licences are capitalised as intangible fixed assets where the purchase cost of an individual licence exceeds £1,000. Licences for general office productivity applications are included within the purchase cost of a PC and capitalised as a tangible fixed asset. Software licences are adjusted to their current value each year. In the main, the software licences used by the Agency are open-ended i.e. they do not expire after a given period. Therefore, they are written off over the expected useful lives of the software to which they relate.

1.4 Depreciation

Depreciation is provided on all fixed assets at rates calculated to write off the cost (less any estimated residual value) of each asset over its expected useful life as detailed below.

Information Technology	5 - 16 years
Furniture and Fittings	5 - 16 years
Software Licences	5 - 10 years

Fixed assets are depreciated, on a straight-line basis, from the month in which they were acquired. All assets have been revalued by reference to indices produced by the Office for National Statistics or HM Treasury.

1.5 Stocks and Work In Progress

Stocks consist only of consumable items and are therefore expensed in the year of purchase.

1.6 Operating Income

Operating income is income that relates directly to the operating activities of the Compensation Agency. It comprises Administrative income received in respect of staff attendance at Court (typically for civil, non-compensation related cases) and Programme income. The Secretary of State has powers to recover compensation and costs from offenders of crimes in respect of which criminal compensation has been paid (See Note 20). Recovery is not normally sought from the earnings or assets of an offender. However, recovery is sought from an offender who subsequently becomes entitled to State compensation and any amounts so recovered are included as Programme Income.

1.7 Administration and Programme Expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the cost of running the Compensation Agency as defined in the Resource Accounting Manual. Programme costs reflect non-administration costs, including payments of compensation and other disbursements by the Compensation Agency that are related to claims for compensation.

1.8 Capital Charge

A charge, reflecting the cost of capital used by the Compensation Agency, is included in operating costs. The charge is calculated at the Treasury's discount rate of 3.5% in real terms on the average of all assets less liabilities. In line with the Resource Accounting Manual, liabilities attract a negative charge.

1.9 Pensions

Past and present employees are covered by the provisions of the Civil Service Pension Schemes which are described in Notes 2.2 and 2.3. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Scheme (NI) (PCSPS (NI)) and the Principal Civil Service Pension Scheme (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS (NI) or the PCSPS. In respect of the defined contribution elements of the schemes, the Agency recognises the contributions payable for the year

1.10 VAT

VAT is not recoverable by the Agency. Where applicable, sums in the accounts are inclusive of VAT.

1.11 Provisions

The Agency provides for obligations arising from claims for compensation that were received by the Agency on or before the Balance Sheet date. The amounts so provided are based on the Agency's best estimate of the expenditure needed to settle these obligations. Where the effect of the time value of money is significant, the estimated cash flows are discounted using the Treasury discount rate of 3.5%.

1.12 Prior Period Adjustments

There were no adjustments made in the prior period. However, the Agency has included an analysis (at Note 4 and Note 12) of the impact on the Operating Costs Statement of a write-back of amounts previously provided in respect of compensation claims. This write-back to the Operating Costs Statement arose as a result of the Agency refining its systems for estimating the likely future liabilities arising from such claims. None of the changes represent an adjusting item as defined by FRS3 but the Agency considers that these expanded Notes are necessary to allow for a more informed comparison of the Agency's performance between 2003-2004 and 2004-2005.

2 STAFF NUMBERS AND COSTS

2.1 The average number of staff employed by the Agency during the year was:

Number of Employees	**2004/05**	**2003/04**
Staff permanently employed by the Agency	119	131
Others engaged on the objectives of the Agency (contract staff)	1	0
Total	**120**	**131**

2.2 The costs incurred were:

	2004/05 £'000			**2003/04 £'000**
	Permanent	**Other**	**Total**	**Permanent**
Salaries and Wages	2,290	20	2,310	2,348
Social Security Costs	143	0	143	160
Pension Costs	260	0	269	278
Total	**2,702**	**20**	**2,722**	**2,786**

The Principal Civil Service Pension Scheme (PCSPS) and the Principal Civil Service Pension Scheme (NI) (PCSPS (NI)) are unfunded defined benefit schemes which produce their own Resource Accounts but the Compensation Agency is unable to identify its share of the underlying assets and liabilities. The most up to date actuarial valuation of both schemes was carried out as at 31 March 1999 and an interim estimate of the PCSPS (NI) scheme liability is available as at 31 March 2002.

For 2004-2005, employer's contribution of £269,000 were payable to the PCSPS and the PCSPS (NI) (2003-2004; £278,000) at one of three rates in the range 12 to 16 per cent of pensionable pay based on salary bands. The 2005-2006 rates are in the range 16.2 to 24.6 per cent of pensionable pay for the PCSPS and 16.5 to 23.5 per cent of pensionable pay for the PCSPS (NI), based on the revalorised salary bands.

Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. No employees exercised this option so employer contributions were not paid during 2004-2005. There were no contributions due or prepaid to partnership pension providers at the Balance Sheet date.

During 2004-2005, no members of staff retired early on ill-health grounds.

2.3 For 2004-2005 the salary and other allowances of the Chief Executive and the other most senior member of the management team were as follows:

Name	Col 1 Salary (see below) £000	Col 2 Real increase in pension and related lump sum at age 60 £000	Col 3 Total accrued pension at age 60 and related lump sum £000	Col 4 CETV at 31/03/2004 £000	Col 5 CETV at 31/03/2005 £000	Col 6 Real increase in CETV after adjustment for inflation and changes in market investment factors £000
Miss A McCleary *Chief Executive*	60-65	0-2.5 2.5-5.0 lump sum	10-15 35-40 lump sum	142	162	11
Mr F Brannigan *Head of Operations (to 22 March 2005)*	45-50	0-2.5 0-2.5 lump sum	20-25 65-70 lump sum	Retired on 22 March 2005		

2.3.1 Salary

Salaries include gross salaries, allowances and performance bonuses payable.

2.3.2 Pension

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory "final salary" defined benefit schemes (**classic, premium** and **classic plus**). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, and **classic plus** are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of **premium** or joining a good quality “money purchase” stakeholder based arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium** and **classic plus**. Benefits in **classic** accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years’ pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). **Classic plus** is essentially a variation of **premium**, but with benefits in respect of service before 1 October 2002 calculated broadly as per **classic**.

The **partnership pension account** is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer’s basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement). No employer contributions to a partnership pension account (including risk benefit cover) were paid during 2004-2005.

Further details about the Civil Service pension arrangements can be found at the website **www.civilservice-pensions.gov.uk**

Columns 4 & 5 of the above table show the member’s cash equivalent transfer value (CETV) accrued at the beginning and end of the reporting period. Column 6 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 pension scheme or arrangement) and uses common market valuation factors for the start and end of the period

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member’s accrued benefits and any contingent spouse’s pension payable from the scheme. 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 from 2004-2005 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service scheme and for which the Scheme has received a transfer payment commensurate to the additional pension liabilities being assumed. They also included 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.

2.3.3 Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. None of the above received benefits in kind.

3 OTHER ADMINISTRATION COSTS

	Notes	2004/05 £'000	2003/04 £'000
Operating lease in respect of premises		206	206
Other accommodation costs		284	283
Operational computing expenses		267	207
Advisory services		47	51
Travel, subsistence and hospitality		20	30
Others		252	237
Notional costs	3a	197	201
Non-cash items	3b	337	251
Total		**1,610**	**1,466**

Certain chargeable services are provided without the transfer of cash. In addition, other costs are added to the accounts in order that they reflect the full economic cost of provision. Notional costs included under Other Administration Costs are:

Note 3a National costs	**2004/05 £'000**	**2003/04 £'000**
Services provided by Parent Department	170	172
Audit Fees	11	11
Services provided by Department of Finance & Personnel	16	18
Total	**197**	**201**

The services provided by the parent department represent the provision of Vote related financial services and Personnel and Training services.

The services provided by the Department of Finance and Personnel represent the provision of network management and operator services in respect of the Agency's use of the Government Telephone Network.

Note 3b Non-cash items	**2004/05 £'000**	**2003/04 £'000**
Depreciation	303	265
Permanent Diminution	16	18
Loss/(Gain) on Disposal	35	3
Cost of capital	(17)	(35)
Total	**337**	**251**

4 PROGRAMME COSTS

	2004/05 £'000	2003/04 £'000
Compensation		
Criminal Injury (1988 Order)	21,392	5,427
Criminal Injury (2002 Order)	(4,144)	16,053
Criminal Damage	5,700	5,594
Terrorism Act 2000	21	(4)
	22,969	27,070
Related Costs		
Legal Services	1,036	172
Court Expenses	77	17
Professional Advisors	178	134
Medical Services	1,003	797
Other Fees & Expenses	4	2
Agency Programme Costs	27	0
	2,325	1,122
Non-Cash Item		
Cost of Capital	(2,751)	(3,498)
Total	**22,543**	**24,694**

During 2004-2005, the Agency continued to refine the estimation techniques used to establish provisions for liabilities and charges arising from claims under each of the compensation schemes administered by the Agency. In particular, the Agency was better able to estimate the likely future liabilities arising from claims under the Criminal Injuries Compensation (Northern Ireland) Order 2002. As a result of this improvement in estimation techniques, the amount previously provided for these claims was found to be over-stated and a write-back of £4,144,000 to the Operating Cost Statement was necessary. Note 12 provides details of the movement on provisions over the year. In addition, the movement on provisions for claims under the Criminal Injuries Compensation (Northern Ireland) Order 2002 is also shown.

5 OPERATING INCOME

Income during the year was as follows:

	Note	2004/05 £'000	2003/04 £'000
Administrative Income		0	1
Programme Income - Compensation recovered	1.6	486	666
Total		**486**	**667**

6 TANGIBLE FIXED ASSETS

	Information Technology £'000	Furniture and Fittings £'000	Total £'000
Cost or Valuation			
At 1 April 2004	1,662	356	2,018
Additions	501	9	510
Disposals	(85)	(229)	(314)
Revaluation of Tangible Fixed Assets	26	24	50
Permanent Diminution in Value	(28)	0	(28)
At 31 March 2005	2,076	160	2,236
Accumulated Depreciation			
At 1 April 2004	685	245	930
Provided in Year	247	33	280
Disposals	(66)	(213)	(279)
Revaluation	10	19	29
Permanent Diminution in Value	(12)	0	(12)
At 31 March 2005	864	84	948
Net Book Value			
At 31 March 2005	**1,212**	**76**	**1,288**
At 31 March 2004	**977**	**111**	**1,088**

7 INTANGIBLE FIXED ASSETS

	Purchased Software Licences £'000
Cost or Valuation	
At 1 April 2004	149
Additions	84
Disposals	0
Revaluation of Intangible Fixed Assets	3
Permanent Diminution in Value	0
At 31 March 2005	236
Accumulated Amortisation	
At 1 April 2004	61
Provided in Year	23
Disposals	0
Revaluation	1
Permanent Diminution in Value	0
At 31 March 2005	85
Net Book Value	
At 31 March 2005	**151**
At 31 March 2004	**88**

8 MOVEMENTS IN WORKING CAPITAL OTHER THAN CASH

	2004/05 £'000	2003/04 £'000
(Increase)/Decrease in Debtors	(9)	1
Increase in Creditors	15	0
Total	**6**	**1**

9 DEBTORS

	2004/05 £'000	2003/04 £'000
Amounts falling due within one year		
Trade Debtors	7	8
Prepayments and accrued income	90	80
Total	**97**	**88**

10 CASH AT BANK AND IN HAND

	2004/05 £'000	2003/04 £'000
Balance at 1 April	(1,600)	(1,643)
Net cash inflow/(outflow)	(1,263)	43
Balance at 31 March	**(2,863)**	**(1,600)**
The balance at 31 March was held at:		
Commercial banks and cash in hand	**(2,863)**	**(1,600)**

11 CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004/05 £'000	2003/04 £'000
Amounts falling due within one year		
Bank Overdraft	2,863	1,600
Trade Creditors	241	300
Accruals and deferred income	191	117
Total	**3,295**	**2,017**

12 PROVISIONS FOR LIABILITIES AND CHARGES

At 31 March 2005, the Compensation Agency had the following liabilities relating to outstanding claims under the compensation schemes operated by the Agency:

	Compensation Claims	
	2004/05 £'000	2003/04 £'000
Balance at 1 April	87,632	119,948
Provided in the year	28,425	27,688
Unused amounts written back	(4,144)	(4)
Provisions utilised in the year	(49,864)	(60,000)
Balance at 31 March	**62,049**	**87,632**

Note: The provision for 2006-2007 and 2007-2008 has been discounted at the Treasury's discount rate of 3.5%.

Note 4 explains that there was an over-provision for claims under the 2002 Criminal Injuries Order at 31 March 2004. The impact of this over-provision on the Operating Cost Statement is shown in Note 4 and the following table highlights the movement on provision for these claims over the year.

	Criminal Injuries 2002 Order	
	2004/05 £'000	2003/04 £'000
Balance at 1 April	27,594	14,819
Provided in the year	0	16,053
Unused amounts written back	(4,144)	(0)
Provisions utilised in the year	(8,281)	(3,278)
Balance at 31 March	**15,169**	**27,594**

13 REVALUATION RESERVE

	Notes	2004/05 £'000	2003/04 £'000
Balance as at 1 April		23	6
Arising on revaluation during the year (net)	6 & 7	23	21
Realised element of revaluation reserve	6 & 7	(7)	(4)
Balance as at 31 March		**39**	**23**

14 CAPITAL COMMITMENTS

At 31 March 2005, the Agency had outstanding capital commitments of £174,000 (2003-2004; NIL) in respect of further developments to its IT systems.

15 COMMITMENTS UNDER LEASES

The Agency's commitments under operating leases to pay rentals during the year ended 31 March 2005 are shown below, analysed according to the period in which the lease expires.

Obligations under operating leases comprise:	2004/05 £'000	2003/04 £'000
Land & Buildings		
Expiry within 1 year	0	0
Expiry within 2 to 5 years	0	0
Expiry thereafter	206	206
Total	**206**	**206**

16 CONTINGENT LIABILITIES

There were two contingent liabilities as at 31 March 2005 relating to claims against the Agency in respect of industrial injuries. Both cases are being defended by the Agency. As at the Balance Sheet date, the Agency was unable to quantify the possible liability resulting from any of these claims.

17 RECONCILIATION OF NET OPERATING COST TO CHANGES IN GENERAL FUND

	Notes	2004/05 £'000	2003/04 £'000
Net Operating Cost for the year		(26,389)	(28,279)
Net Parliamentary Funding		53,300	63,700
Notional / Non-cash:			
Cost of Capital	3 & 4	(2,768)	(3,533)
Auditor's Remuneration	3	11	11
Services of parent Department	3	170	172
Services of Department of Finance & Personnel	3	16	18
Funding in respect of functions transferred to Agency from Department		214	184
Realised element of Revaluation Reserve	13	7	4
Net increase in General Fund		**24,561**	**32,277**
General Fund as at 1 April		**(88,408)**	**(120,685)**
General Fund as at 31 March		**(63,847)**	**(88,408)**

During 2004-2005, the Agency received assets and services valued at £214,000 that were acquired as part of the implementation project for the Flax programme to update the Department's information technology infrastructure. The initial cost of these items was funded by the Department and the amount transferred to the Agency represents the current value of the assets and services as at the date of transfer.

18 ANALYSIS OF CASH FLOW FOR THE YEAR ENDED 31 MARCH 2005

Reconciliation of Operating Cost to Operating Cash Flows

	Notes	2004/05 £'000	2003/04 £'000
Net Operating Cost		(26,389)	(28,279)
Adjustments for non-cash transactions	18a	(2,217)	(3,046)
Adjustments for movements in working capital	8	6	1
Adjust for revenue items transferred to Agency		1	1
Adjust for increase in provision	12	28,425	27,688
Adjust for unused provisions written back	12	(4,144)	(4)
Adjust for provision utilised in year	12	(49,864)	(60,000)
Cash outflow from operating activities		**(54,182)**	**(63,639)**

Note 18a Adjustments for non-cash transactions	Notes	2004/05 £'000	2003/04 £'000
Notional costs	3a	197	201
Depreciation	3b	303	265
Permanent Diminution	3b	16	18
Loss/(Gain) on Disposal	3b	35	3
Cost of Capital – Admin	3b	(17)	(35)
Cost of Capital – Programme	4	(2,751)	(3,498)
Total Non-Cash Transactions		**(2,217)**	**(3,046)**

Analysis of Capital Expenditure and Financial Investment

	Notes	2004/05 £'000	2003/04 £'000
Purchase of Tangible Fixed Assets	6	(381)	(18)
Purchase of Intangible Fixed Assets	7	0	0
Proceeds of disposal of fixed assets		0	0
Net Cash Outflow from Capital Expenditure and Financial Investment		**(381)**	**(18)**

The capital expenditure of £381,000 noted above relates solely to the purchase of Fixed Assets from the Agency's own funds. The Foreword to the Accounts and Notes 6 and 7 describe the impact on the overall level of Fixed Assets held by the Agency of the transfer of assets acquired by the Department as part of the implementation project for the Flax programme to update the Department's information technology infrastructure.

Analysis of Financing

	Notes	2004/05 £'000	2003/04 £'000
From Consolidated Fund		53,300	63,700
Net financing		**53,300**	**63,700**
(Increase)/Decrease in cash	10	**1,263**	**(43)**
Net cash flows other than financing		**54,563**	**63,657**

19 RELATED PARTY TRANSACTIONS

The Northern Ireland Office is regarded as a related party. During the year, the Compensation Agency has had various material transactions with the Northern Ireland Office (including the Northern Ireland Prison Service, an Executive Agency of the Northern Ireland Office).

In addition the Compensation Agency has had various material transactions with other central Government bodies. Most of these transactions have been with:

The Valuation and Lands Agency (an Executive Agency of the Department of Finance and Personnel)

Construction Service (an Executive Agency of the Department of Finance and Personnel)

Business & Development Service (an Executive Agency of the Department of Finance and Personnel)

None of the key managerial staff or other related parties has undertaken any material transactions with the Compensation Agency during the year.

20 LOSSES STATEMENT

The Secretary of State has powers to recover compensation and costs from offenders of crimes in respect of which criminal compensation has been paid. Amounts not received are treated as a loss. There were 607 cases amounting to £8,501,778 where final compensation payments were made in 2004-2005 and offenders identified but it was not considered economic to pursue recovery.

During 2004-2005, final compensation payments were made in 5,013 cases (this includes the 607 cases mentioned above). The total amount of compensation paid in these cases was £43,531,511. This figure incorporates interim payments made in previous years.

21 KEY FINANCIAL TARGET

The Minister set the following key financial target for 2004-2005.

> "To manage the workload in 2004-2005 within a running costs budget (to cover salaries and administrative expenditure) to financial limits agreed with the Department (including in-year adjustments)".

The Agency met this target. The running costs budget (on a Resource basis) for 2004-2005 was £4,159,000 and actual resource outturn totalled £4,154,000 (2003-2004; £4,132,000 and £4,080,000). The outturn figure for 2004-2005 differs from the total of £4,332,000 for Gross Administration Costs in the Operating Costs Statement as the total in the Operating Cost Statement includes internal notional charges of £170,000 levied by the Northern Ireland Office (Note 3a) and £8,000 of charges from other public sector service providers. In keeping with Departmental policy, these charges are excluded from the Agency's Resource budgeting arrangements.

22 FINANCIAL INSTRUMENTS

The Compensation Agency is a non-trading entity whose operations are entirely financed by Government funding. Therefore, financial instruments play an insignificant role in creating or changing the risks that the Agency faces in undertaking its activities. The Agency neither borrows nor invests funds. All financial assets and liabilities arise from the day-to-day operations of the Agency.

As all of the Agency's revenue and capital requirements are financed from resources voted by Parliament, the Agency is not exposed to significant liquidity risks. Similarly, financial assets do not accrue interest and financial liabilities do not attract an interest charge. Therefore, the Agency is not exposed to interest rate risk.

The Agency had non-interest bearing financial liabilities of £2,863,000 as at 31 March 2005 (2003-2004; £1,600,000). The Agency had no foreign currency risk. The book value equalled the fair value of the Agency's financial liabilities as at 31 March 2005.

23 THIRD PARTY ASSETS

The Agency holds (as custodian or trustee) certain monetary assets belonging to third parties. These assets relate solely to bank balances held for minors under the Criminal Injuries Compensation (Northern Ireland) Order 2002. They are retained by the Agency until the minors attain the age of 18 and attract compound interest at variable rates that are dependent on the outstanding balance.

The assets held at the Balance Sheet date (which all relate to bank balances) were as follows:

	2004/05 £'000	Net Inflow/ Outflow £'000	2003/04 £'000
Monetary Assets	576	576	0

24 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	0	272
Balances with public corporations and trading funds	0	0
Balances with bodies external to government	97	160
As 31 March 2005	**97**	**432**
Balances with other central government bodies	0	331
Balances with public corporations and trading funds	8	0
Balances with bodies external to government	80	86
At 31 March 2004	**88**	**417**

25 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There were no events occurring after the Balance Sheet date that require disclosure.

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