

POLICE SERVICE OF NORTHERN IRELAND



Annual Financial Statements

Prepared by the Chief Constable on behalf of
the Northern Ireland Policing Board

For the year ended 31 March 2007

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ANNUAL REPORT

FOREWORD

Background information

The Police (Northern Ireland) Act 2000 and subsequent amendments in the Police (Northern Ireland) Act 2003, made specific provision about policing in Northern Ireland. Section 12(4) of the Act, as amended by Section 7 of the 2003 Act, refers specifically to the requirement for the Chief Constable to submit the statement of accounts to the Northern Ireland Policing Board (in regard to amounts put at disposal of the Chief Constable by the Policing Board) within such period after the end of the financial year to which they relate as the Secretary of State may determine. This is to allow the Policing Board to meet their own specific requirements under Section 12(1)(a) of the Act.

Principal activities

The Police Service of Northern Ireland (PSNI) exists to provide effective, high quality and professional policing to all of the people living in Northern Ireland. It aims to do this by working closely with, and in, the whole community. The key themes, which continually drive forward the development of policing services, are partnership and co-operation, both with the community served and with other agencies in the private, public and voluntary sectors. All of this is done against a background of ongoing change and improvements and with a determination to make best use of finite resources, whether financial or human, to provide the best value services possible.

Accounts Direction

The Financial Statements have been prepared in a form directed by the Northern Ireland Office on behalf of the Secretary of State for Northern Ireland, and are in accordance with Section 12(3) of Part 2 to the Police (Northern Ireland) Act 2000 and subsequent amendments made by the Police (Northern Ireland) Act 2003.

Chief Officers

The Chief Officers who served throughout the year, except as noted, were as follows:

Chief Constable
Sir Hugh Orde

Deputy Chief Constable
Paul Leighton

Assistant Chief Constable Crime Operations
Peter Sheridan

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Assistant Chief Constable Operational Support
Roy Toner

Assistant Chief Constable Criminal Justice
Drew Harris

Assistant Chief Constable Urban Region
Duncan McCausland

Assistant Chief Constable Rural Region
Judith Gillespie

Assistant Chief Constable Crime Support
Alistair Finlay (Appointed in August 2006)

Director of Finance & Support Services
David Best

Director of Human Resources
Joe Stewart

Further details are provided in the Remuneration Report section on page 13.

Corporate Governance

Corporate Governance within PSNI is structured on a committee model, reporting to the Chief Constable's Forum (CCF) made up of all Chief Officers and chaired by the Chief Constable.

Each sub committee of the CCF consists of relevant Chief Officers and other members of the Senior Management Team. These committees provide a conduit through which major policy decisions are formulated and exercise responsibility for specific aspects of governance within the Police Service.

The key sub committees supporting the CCF are the:

- Information Management Steering Group
- Strategic Tasking Coordinating Group
- Finance, Personnel and Training Committee
- Organisational Development Committee
- Supplies, Estates and Transport Committee
- Audit and Risk Committee

The role of the Audit and Risk Committee is to advise the Chief Constable on the adequacy of internal control arrangements including risk management and governance. This committee includes two Non-Executive Members, one as Chair, with both Internal and External Audit invited to attend.

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Company directorships

Chief Officers held no company directorships or other significant interests which conflicted with their management responsibilities.

Fixed assets

Details of the movement in fixed assets are set out in notes 8 and 9 to the Financial Statements. There are no significant differences between the market values and book values of land and buildings to be disclosed.

Research and development

PSNI has no activities in the defined field of research and development.

Interest rate and currency risk

PSNI has no borrowings, relying primarily on Departmental grants for its cash requirements, and is therefore not exposed to liquidity risks. It also has no material deposits. As all significant assets and liabilities are determined in sterling, it is not exposed to material interest rate risk or currency risk.

Post balance sheet events

On the 21 September 2007 a decision was made on the future of the remaining 680 Full Time Reserves officers. It has been decided to reduce the number of officers by 299 over a period of around 12 months from 1 April 2008. The remaining 381 officers are expected to leave by March 2011, when the Severance Scheme will end. The estimated costs of releasing all 680 Full Time Reserve officers are approximately £85 million.

The Annual Report and Accounts were authorised to be issued and laid in the Houses of Parliament on 8 October 2007. There are no other material post balance sheet events.

Future developments

The Northern Ireland Policing Board, in conjunction with the PSNI, published a Policing Plan covering the period 2007-2010 in March this year. The Policing Plan sets out performance indicators and targets by which the Service will be held to account.

The Plan was developed in consultation with the community. It places an emphasis on meeting the needs of the public and establishes a framework through which a professional and progressive policing service will be delivered.

The PSNI will work to reduce all crime, targeting in particular, those areas that worry people most, including anti-social behaviour, violent crime, domestic burglary and road policing.

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Key programmes and actions extending over the period of 2007-2010 will ensure that the Police Service remains on schedule and focused on the priorities of the people it serves.

A copy of the Policing Plan 2007-2010 can be viewed on the Policing Board's website (www.nipolicingboard.org.uk) or the PSNI website (www.psni.police.uk), as well as being available in a number of other formats.

Another challenge that remains is the need to continue to implement the programme of change. The new eight District Command Unit (DCU) structure will provide a flexibility and economies of scale which will allow us to improve services.

Fronting this change are the Chief Superintendents who have been appointed to command the eight new DCUs. They represent the future of district policing here and will lead the change process - developing, shaping and engaging with communities and their representatives in order to deliver professional and progressive policing.

Funding has become a major factor for the PSNI and the Service faces an increasing challenge in making best use of available financial resources, if policing is to be delivered effectively within budgetary constraints in the future.

The challenges ahead are significant, but they are challenges the PSNI have been preparing for and will meet with both commitment and determination.

Charitable donations

PSNI made no charitable or political donations during the year.

Disabled persons

PSNI is an equal opportunity employer and took full cognisance of the Northern Ireland Civil Service Code of Practice on the employment of people with disabilities.

Employee involvement

PSNI maintains regular communications and contact with managers and staff through meetings, team briefings, seminars, circulars, information bulletins and staff newsletters. It also has well established arrangements for formal consultation with recognised Trade Union representatives on all significant developments affecting staff.

Health and safety

PSNI is committed to providing for staff an environment that is as far as possible safe and free from risk to health. In line with this commitment, PSNI complied with the relevant legislation.

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Payment of suppliers

PSNI is committed to the prompt payment of bills for goods and services received in accordance with the Government's Better Payments Practice Code and British Standard BS 7890 "Achieving Good Payment Performance in Commercial Transactions". Unless otherwise stated in the contract, payment was due within 30 days of the receipt of the goods or services or presentation of a valid invoice or similar demand, whichever is later.

Despite the major transition to a new efinance payment system during the year, PSNI paid 95% of all invoices within 30 days (96% in 2005/06).

Pension liabilities

The pension liabilities of Police Officers are accounted for separately in the PSNI Police Pension Accounts. Pension benefits and liabilities for Police Staff are provided through the Principal Civil Service Pension Scheme (NI). (See further details in the Remuneration Report on page 13 and note 3 to the Financial Statements.)

Audit services

The accounts of the Police Service of Northern Ireland are required to be audited by the Comptroller and Auditor General who is responsible for laying the accounts before both Houses of Parliament at Westminster.

The audit fees for this year are £68,000 (2005/06: £66,000). This includes the audit fees in respect of the Police Pension Accounts, the Police Fund and the Police Property Fund.

So far as the Chief Constable is aware, there is no relevant audit information of which the Comptroller and Auditor General is unaware. The Chief Constable has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the Comptroller and Auditor General is aware of that information.

Chief Constable's Annual Report

A full certified copy of these Annual Financial Statements will be included on the PSNI's website (www.psni.police.uk) as an addendum to the Chief Constable's Annual Report 2006/07 which was published in June 2007. A brief overview of the cost of policing in 2006/07 was included in the Chief Constable's Annual Report which was posted to every household in Northern Ireland.

Police Pension Accounts, Police Fund and Police Property Fund

Financial Statements for the Police Pension Accounts, Police Fund and Police Property Fund are prepared separately.

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MANAGEMENT COMMENTARY

This Management Commentary focuses on matters that are relevant to all users of the financial statements. Although it is designed to be a self-standing document, much of the information contained in it is simply a summary of information provided in other documents and is therefore cross-referenced as appropriate.

The Management Commentary discusses the following main areas:

- Nature of the business
- Review of performance
- Risks and uncertainties
- Review of financial position and resources

Nature of the business

The Police (Northern Ireland) Act 2000 and subsequent amendments in the Police (Northern Ireland) Act 2003, made specific provision about policing in Northern Ireland.

The Police Service of Northern Ireland (PSNI) provides effective, efficient and professional policing to the people of Northern Ireland. It aims to achieve this by working closely with local communities. It is the role of the Police Service to work to reduce crime and the fear of crime and to work closely with the public to ensure a safer Northern Ireland for all.

The vision of the PSNI is to provide a service that everyone can be proud of because it delivers policing at its best. While delivering this, officers and staff adhere to the values of honesty and openness; fairness and courtesy; partnerships, performance, professionalism; and respect for the rights of all.

The Northern Ireland Policing Board is an independent public body established under the Police (Northern Ireland) Act 2000. The Policing Board is responsible for overseeing policing in Northern Ireland, for supporting the PSNI in its aim to deliver effective and efficient policing, and for holding the police to account, through the Chief Constable, for delivery of those aims.

Each year the PSNI and the Policing Board publish an annual Policing Plan in accordance with the Police (Northern Ireland) Act 2000. The annual Policing Plan is prepared by the Chief Constable, agreed by the Board and endorsed by the Secretary of State. It sets out specific annual performance targets and indicators for the PSNI and takes a strategic view of policing in Northern Ireland over the next three years.

A copy of the annual Policing Plan is available on the Policing Board's website (www.nipolicingboard.org.uk) or the PSNI website (www.psni.police.uk), as well as being available in a number of other formats.

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Review of performance

During the year the Policing Board monitors and reviews PSNI's progress in meeting the targets set out in the annual Policing Plan. This oversight is carried out in part during the Policing Board's public meetings where the Chief Constable provides a report on progress towards all targets. This process of accountability allows the Chief Constable to outline remedial actions being taken to address underperformance and to outline good practice which has resulted in improved performance.

After the end of the financial year the Chief Constable submits an Annual Report to the Policing Board. This report is published by the Chief Constable and sent to the Secretary of State who lays it before Parliament. A copy of the Chief Constable's Annual Report for 2006/07 is available on the PSNI website www.psnipolice.uk, as well as being available in a number of other formats

The Policing Board must also produce a report on the extent to which the targets set in the annual Policing Plan have been fulfilled and this information is set out in the Board's Annual Report and Statement of Accounts 2006/07, available online at www.nipolicingboard.org.uk.

In summary, the results show good police work for the year with PSNI achieving the majority of the targets in the 2006/07 annual Policing Plan. For those targets that were not achieved, PSNI will work alongside the Board and others to realise improvements in performance.

PSNI are making headway in tackling crime and police performance shows that policing is working in Northern Ireland and that communities are being made safer.

Overall, crime fell by almost 2% on the previous year. This has been achieved by continuing to develop new policing techniques and by receiving increased support and assistance from communities. In a number of categories there were marked decreases in the number of crimes being committed. Burglary offences fell by 19%, theft offences reduced by 5.8% and fraud and forgery offences were down by 12%. There was also a decrease of 8.8% in the number of vehicle crimes recorded and robbery showed an overall decrease of 9.7%

However, the 2006/07 crime statistics also showed an increase of 2.4% in the number of violent crimes recorded. Offences against the person rose by 2.9% and sexual offences rose by 5.4%. Offences of criminal damage also rose by 4.4%. Police on the ground have been tackling this through a range of crime prevention projects and through initiatives such as the growing number of neighbourhood watch schemes.

The drive to make Northern Ireland's roads safer is reflected in an overall improving trend in road safety with fewer deaths and injuries. In part, this is due to the PSNI's strategy on road safety and policing, which seeks to educate drivers and encourage them to modify their behaviour and drive more safely. This was backed up by robust and ongoing enforcement.

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In the year ahead, PSNI plan to tackle those areas which continue to worry people most, including anti-social behaviour, violent crime, domestic burglary and road policing. More detail is available in the annual Policing Plan 2007-2010.

PSNI will continue to work in partnership with all communities in order to reduce all crime and the fear of crime.

Risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the PSNI's long term performance. These risks are managed as part of the PSNI's risk and control framework.

The key risk priorities, detailed in the Corporate Risk Register, facing the organisation during 2006/07 were in the generic areas of funding, procurement, human resourcing, change management and operational policing issues.

Review of financial position and resources

Results for the year

The Income and Expenditure Account is set out on page 26 and shows a deficit for the year of £1,014,335k including £187,000k for an exceptional item in respect of the transfer of Injury Awards from the Police Pension Accounts (see notes 6 and 13).

An amount of £1,001,711k was transferred from reserves after crediting £12,624k in respect of the notional cost of capital.

The total cost of policing

From a budget outturn perspective, as reported in the Chief Constable's Annual Report 2006/07 and subject to audit, the available total revenue funding for 2006/07 relating to the main police grant was £749.4m. Total expenditure during 2006/07 was £743.3m, resulting in a revenue surplus of £6.1m, 0.8% of the total available grant. Actual capital expenditure during 2006/07 relating to the main police grant was £35.6m and within available funding.

Expenditure continues to be managed within available funding, supported by the on-going success of devolved budgets to District Command Units and Headquarter Departments.

Reported Patten Voluntary Severance expenditure was £32.2m. Full Time Reserve Compulsory Severance expenditure was £23.8m, while Patten Non Severance expenditure was £21.3m during 2006/07. This money was used to implement the programme of change in the following areas: external recruitment of police officers and police staff, improving the appearance of police stations, implementation of the information technology strategy;

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employment of staff under the civilianisation programme to perform duties previously carried out by police officers and early work on progressing the new Police Training College.

Further details and accompanying pie charts on the cost of policing can be found in the Chief Constable's Annual Report 2006/07.

Future outlook

As already indicated, Funding is becoming an increasingly major factor for the PSNI and the Service faces a significant challenge in making best use of the available financial resources, if policing is to be delivered effectively within budgetary constraints in the future.

Environmental matters

PSNI continue to develop an Environmental Sustainability policy in relation to the development and maintenance of the Police Estate. This focuses on achieving Government targets in relation to reduction of carbon footprints, annual reduction in energy consumption and utilisation of renewable energy sources.

PSNI also continue to implement Combined Heat and Power projects at appropriate sites and a range of utility reduction measures are being rolled out throughout the Estate resulting in energy cost savings of approximately £900k for the 2006/07 financial year (against the base year of 1998/99), allowing for unit cost increases in utility costs and weather correction.

Employees

PSNI places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the organisation. This is achieved through formal and informal meetings, regular briefings, information bulletins and staff newsletters.

Employee representatives are consulted regularly on a wide range of matters affecting current and future interests.

PSNI has a policy of equal opportunities which applies in relation to recruitment of all new employees and to the management of existing personnel. We offer all of our staff training relevant to their roles and this has contributed to the overall performance of the organisation.

Social and community issues

PSNI actively encourages its employees to give something back to their local community. In 2006/07, PSNI officers and staff were involved in a wealth of fundraising activities and

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support programmes, at both a corporate and local level. Just a couple of examples of such work have included the Chief Constable's charity ball which raised £41,000 for the Northern Ireland Cancer Fund for Children; and the birth of the Newforge Taggers, an extremely successful scheme initiated by PSNI Rugby Club which uses tag rugby to help young people with learning disabilities to grow in confidence and realise their potential, while promoting health and having fun.

Going concern

These financial statements have been prepared on a going concern basis of accounting.

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REMUNERATION REPORT

Remuneration policy

The remuneration of Police Chief Officers is set by the Northern Ireland Policing Board.

In reaching its recommendations, the Policing Board has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments and other public bodies to meet the output targets for the delivery of services;
- the funds available to the organisation;
- the Government's inflation target; and
- Police Negotiating Board pay scales for Chief Officers.

The Policing Board takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Service contracts

The Policing Board is responsible for the appointment and service contracts of Chief Officers.

Chief Constable & Deputy Chief Constable

The Chief Constable was appointed by the Policing Board from 1 September 2002 on a five year fixed term contract. In March 2007, the Board offered the Chief Constable a three year extension to his current contract which he accepted.

The Deputy Chief Constable was appointed by the Policing Board from 31 March 2003 on a seven year fixed term contract. However, this fixed term period was reduced to five years, effective from 1 September 2003, in line with the 2004 pay agreement.

The new PSNI Regulations 2005 specify a fixed term of 5 years for the post of Chief Constable or Deputy Chief Constable, which may be extended for a further term of a maximum of three years and for subsequent terms of a maximum of one year. Any extension or subsequent extension which is due to expire more than one year after the expiry of the original fixed term shall require the consent of the Secretary of State.

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Should the Policing Board decide not to extend a contract of the Chief Constable or Deputy Chief Constable, it is required to give a minimum notice period of six months.

Assistant Chief Constables

Fixed Term Agreements for Assistant Chief Constables were abolished from 1 April 2004.

However, there is a requirement for the Policing Board to provide an annual review of appointment in respect of those Assistant Chief Constables with more than 30 years pensionable service and who have reached the age of 55, to determine whether their continuing service is in the interests of the service.

The appointment dates for current Assistant Chief Constables are as follows:

Peter Sheridan	1 May 2003
Duncan McCausland	1 September 2002
Roy Toner	1 September 2002
Judith Gillespie	19 May 2004
Drew Harris	13 March 2006
Alistair Finlay	28 August 2006

Civilian Chief Officers

The appointment dates for current Civilian Chief Officers are as follows:

David Best	1 October 1999
Joe Stewart	3 September 2001

Unless otherwise stated, Civilian Chief Officers hold appointments which are open ended or until they reach retirement age.

Provision for compensation on early termination, for anything other than misconduct, is subject to the advice of the Northern Ireland Office.

There have been no awards made in respect of early termination during the year.

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Salary and pension entitlement

Chief Officer Salaries

Remuneration and pension information for the year ended 31 March 2007 is provided for Chief Officers of the PSNI as follows:

Audited Information	Salary 2006/07 £'000s	Salary 2005/06 £'000s
<i>Chief Constable</i> Sir Hugh Orde	185-190	175-180
<i>Deputy Chief Constable</i> Paul Leighton	160-165	145-150
<i>Assistant Chief Constable Crime Operations</i> Peter Sheridan	115-120	105-110
<i>Assistant Chief Constable Urban</i> Duncan McCausland	110-115	105-110
<i>Assistant Chief Constable Operational Support</i> Roy Toner	110-115	105-110
<i>Assistant Chief Constable Rural Region</i> Judith Gillespie	100-105	95-100
<i>Assistant Chief Constable Criminal Justice</i> Drew Harris <i>(Full year equivalent for 05/06)</i>	95-100	0-5 <i>(90-95)</i>
<i>Assistant Chief Constable Crime Support</i> Alistair Finlay (Appointed 28/08/2006) <i>(Full year equivalent for 06/07)</i>	70-75 <i>(95-100)</i>	-
<i>Director of Finance & Support Services</i> David Best	105-110	100-105
<i>Director of Human Resources</i> Joe Stewart	110-115	110-115

Note: The above table does not include details of salary to individuals who acted up into post during the year to cover absences due to annual leave.

'Salary' includes gross salary; performance pay or bonuses; overtime; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

None of the Chief Officers listed above received any benefits in kind during the year to 31 March 2007 or during the year to 31 March 2006.

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Chief Officer Pension Benefits

Audited Information	Accrued pension at age 60 as at 31/03/07 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/03/07	CETV at 31/03/06	Real increase in CETV
	£000's	£000's	£000's	£000's	£000's
Sir Hugh Orde ¹	115 - 120	2.5 - 5	1,401	1,341	41
Paul Leighton ¹	75 - 80	2.5 - 5	982	929	38
Peter Sheridan ¹	55 - 60	2.5 - 5	712	679	23
Duncan McCausland ¹	40 - 45	2.5 - 5	513	478	24
Roy Toner ¹	45 - 50	2.5 - 5	554	522	22
Judith Gillespie ¹	40 - 45	2.5 - 5	482	439	33
Drew Harris ¹	35 - 40	7.5 - 10	357	279	69
Alistair Finlay ¹	35 - 40	5 - 7.5	418	334 ²	78
David Best	30 - 35 plus lump sum of 100 - 105	2 - 2.5 plus lump sum of 5 - 7.5	577	541	34
Joe Stewart	10 - 15 plus lump sum of 40 - 45	0 - 2.5 plus lump sum of 5 - 7.5	223	194	28

Notes:

- ¹ PSNI Police Officers have the option of electing for a lump sum paid on retirement (up to 25% of their pension). The figures shown are the gross pension figures assuming no lump sum payment.
- ² CETV as at start date of 28 August 2006, in line with disclosure requirements.

These pension benefits are provided through two pension schemes depending on the employment status of the individual. Details of these schemes are as follows:

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Principal Civil Service Pension Scheme (NI)

Pension benefits for PSNI Direct Recruits and Civil Servants seconded from the Department of Finance and Personnel (DFP) are provided through the Principal Civil Service Pension Scheme (NI) (PCSPS (NI)). From 1 October 2002, direct recruits and civil servants may be in one of three statutory based '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 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 in the same way as in 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 from a selection of approved products. 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 future provision of lump sum benefits on death in service and ill health retirement of these employees.

PSNI Police Pension Scheme

Pension benefits for PSNI Police Chief Officers are provided through the PSNI Police Pension Scheme. This is a statutory scheme that provides benefits on an "Average Pensionable Pay (APP)" basis at the retirement age, which is compulsory at the age of 65.

To qualify for an ordinary retirement pension, an officer has to complete 25 years service and attain 50 years of age. Benefits accrue at the rate of 1/60th of APP for each year of service up to 20 years, and 2/60th for each year thereafter, up to a maximum of 40/60th of APP. There is an option for a lump sum to be paid on retirement, if the officer elects to give up (commute) up to 25% of the pension. Actuarial tables are used to calculate the lump sum. Members pay contributions of 11% of basic pay. Pensions increase in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse, children or civil partner, subject to provisions within the scheme. On death in service, that is not as a result of an injury on duty (IOD), the scheme pays a lump sum benefit of twice pensionable pay, and there are also pension benefits for the spouse and/or children of the deceased.

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On death as a result of IOD, or death within 12 months of retiring as a result of an injury, a lump sum benefit of 5 times pensionable pay is payable, subject to scheme conditions. Medical retirement is possible in the event of serious ill health. Officers with less than 2 years service receive a lump sum benefit (gratuity), and those with more than 2 years service receive an ill-health pension, depending on the number of years of actual pensionable service.

Cash Equivalent Transfer Values

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 2003/04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the PCSPS(NI) or PSNI Police Pension Scheme arrangements and for which a transfer payment has been received, commensurate with the additional pension liabilities being assumed. 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 pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Sir Hugh Orde
Chief Constable
Police Service of Northern Ireland
1 October 2007

STATEMENT OF RESPONSIBILITIES OF THE POLICE SERVICE OF NORTHERN IRELAND AND THE CHIEF CONSTABLE

Under Part 2, Sections 12(1), 12(2) and 12(3) of the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003, the Chief Constable of the Police Service of Northern Ireland is required to prepare a statement of accounts on behalf of the Northern Ireland Policing Board, in the form and on the basis directed by the Secretary of State. The annual financial statements are prepared on an accruals basis and must give a true and fair view of the income and expenditure, total recognised gains and losses and cash flows for the financial year and the balances held at the year end.

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

- observe the Accounts Direction issued by the Northern Ireland Office, 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 financial statements; and
- prepare the financial statements on the going concern basis.

ROLE OF THE CHIEF CONSTABLE OF POLICE SERVICE OF NORTHERN IRELAND AS ACCOUNTING OFFICER FOR POLICE GRANT

The Accounting Officer for the Northern Ireland Office has appointed the Chief Constable of the Police Service of Northern Ireland as Accounting Officer for the Police Service of Northern Ireland. 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 assets of the Police service of Northern Ireland, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum issued by HM Treasury and published in Government Accounting.

STATEMENT ON INTERNAL CONTROL

Scope of responsibility

As Accounting Officer for the Police Service of Northern Ireland, I have responsibility for maintaining a sound system of internal control that supports the achievement of PSNI's policies, aims and objectives, set by the Northern Ireland Policing Board, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I am directly accountable to the Accounting Officer of the Northern Ireland Office and may be called upon to appear before the Public Accounts Committee. My responsibilities as Chief Constable and Accounting Officer are set out in the Police (Northern Ireland) Act 2000 and in the HM Treasury memorandum "Responsibilities of an NDPB Accounting Officer".

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 organisational policies, aims 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 PSNI for the year ended 31 March 2007 and up to the date of approval of the annual financial statements, and accords with Treasury guidance.

Capacity to handle risk

All Chief Officers and Senior Managers, together with the Audit and Risk Committee, have played an important role in providing leadership to the risk management process. In addition, the Corporate Risk Manager continues to provide training, support and guidance to staff throughout the organisation to ensure that staff are equipped to manage risk.

The risk and control framework

A Risk Policy Framework document is available to the organisation explaining the underlying approach to risk management and documenting the roles and responsibilities of the Chief Constable, Chief Officers and other relevant parties including line management. In addition, it also includes details of the monitoring and reporting arrangements.

With the publication of the Policing Plan and as part of the development of a fully integrated planning process, all Departments and District Command Units (DCU's) reviewed their risk registers in light of priorities selected for 2006/07. The basic methodology for assessing both the likelihood and impact of risk is now firmly embedded within the organisation but continues to be refined to make it more objective.

STATEMENT ON INTERNAL CONTROL (CONTINUED)

A Corporate Risk Register has been in place to highlight the most significant strategic risks facing the organisation for 2006/07. The Register has been revised and updated to take account of the new priorities for 2007/08. In addition to the formal quarterly review of the Corporate Risk Register, Chief Officers also consider the Corporate Risk Register on a regular basis at the Chief Constable's Forum. The key risk priorities facing the organisation during 2006/07 were in the generic areas of funding, procurement, human resourcing, change management and operational policing issues.

Stewardship reporting is a key element of ensuring accountability and ownership of risks and their management within the organisation. All Chief Officers and Senior Managers are required to sign a Stewardship Statement on a half yearly basis to confirm that over a period of time, they have reviewed the risk register for their respective areas of responsibility and assessed the management of the risks identified. The signing of the Stewardship Statements helps to provide assurance that all risks are being managed in the organisation.

The Audit and Risk Committee, which is chaired by a Non-Executive Member, is responsible for monitoring the PSNI's risk management and internal controls on a regular basis during the year. This Committee receives reports from internal and external audit and, in addition, reports presented on the risk management process. PSNI is also subject to regular review by Her Majesty's Inspectorate of Constabulary and other independent monitoring bodies, adding to the framework of assurance.

Significant progress has been made in the overall governance arrangements within the organisation and work is currently underway to further improve the operation and reporting arrangements of the governance Committees. In particular, the organisation is continuing to work on developing a systematic process for coordinating assurance and third party reporting. A programme of work has been progressed which is focussed on eliminating duplication of effort from external recommendations by formally capturing, tracking and discharging recommendations from third parties.

Risk management has been incorporated more fully into the corporate planning and decision-making processes of the organisation and will provide increased assurance that significant risks will be identified, evaluated and appropriately controlled within the organisation. The risk and control framework has been the subject of two reviews during 2006/07. One by Internal Audit, concentrating on risk management at the Corporate level, and one by the Corporate Risk Manager looking at ways of improving risk management across the organisation as a whole. The latter review involved a benchmarking exercise of PSNI Risk Management practices against other UK Police Services and PSNI came out very favourably from the review. The combined results of these reviews has demonstrated the need for further training for key personnel and further development of the Risk Management IT system. Significant progress has already been made in these areas and there is a programme of work in place to continue development throughout 2007/08.

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

STATEMENT ON INTERNAL CONTROL (CONTINUED)

by the work of the Internal Auditors and the Chief Officers within the organisation 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 result of my review of the effectiveness of the system of internal control by the Chief Officers and the Audit and Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

As Accounting Officer I have received reports from the Chair of the Audit and Risk Committee concerning internal control, governance and risk.

During the year Deloitte & Touche LLP provided an Internal Audit Service in accordance with the standards defined in the Government Internal Audit Manual. They submitted regular reports together with recommendations for improvement. In addition, the Head of Internal Audit has issued an independent opinion on the adequacy and effectiveness of the organisations system of internal control.

As a result of a legal ruling, it was reported last year that both criminal and administrative investigations had been initiated into Procurement Practice within PSNI. These investigations have now been completed. In response, PSNI has implemented and put in practice all the recommendations arising from the investigations. In January 2007, a further Review of Procurement in the Criminal Justice system by the Criminal Justice Inspectorate recognised PSNI as the Organisation which has advanced most in recent years in terms of developing its own Procurement Policy, Strategy and Operating Procedures.

The provision of a new College continues to be central to the future performance of PSNI but aspects of the funding package remain unresolved. PSNI is now in discussions with the Northern Ireland Fire & Rescue Service, the Prison Service, the Strategic Investment Board and the Northern Ireland Office in relation to shared utilization and development of the proposed College. All three parties are currently assessing the qualitative and quantitative benefits associated with this shared public sector approach. Although a broad funding framework has been established, further clarification and agreement will be required prior to the commencement of any procurement. This ongoing delay may have a potentially significant impact on organisational effectiveness.

During the year, PSNI has been required to divert significant resources to the cost of policing historical events and enquiries, with no additional resource being made available. As a result of meeting these pressures, the effect has been a reduction in the level of resources available to other core areas of policing. These developments present an area of increasing concern and are being pursued as a priority.

Sir Hugh Orde
Chief Constable
Police Service of Northern Ireland
1 October 2007

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 Police Service of Northern Ireland for the year ended 31 March 2007 under the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses 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 Police Service of Northern Ireland, the Chief Constable and auditor

The Police Service of Northern Ireland and the Chief Constable are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Responsibilities of the Police Service of Northern Ireland and the Chief Constable.

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 Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Foreword, Management Commentary and Remuneration 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 Police Service of Northern Ireland 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 Police Service of Northern Ireland'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 Police Service of Northern Ireland's corporate governance procedures or its risk and control procedures.

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT (CONTINUED)

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 opinion

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 Police Service of Northern Ireland and Chief Constable in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Police Service of Northern Ireland'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

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland, of the state of the Police Service of Northern Ireland's affairs as at 31 March 2007 and of its deficit 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 Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland; and
- information given within the Annual Report, which comprises the Foreword, Management Commentary and the unaudited part of the Remuneration Report, is consistent with the financial statements.

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT (CONTINUED)

Audit 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.

John Bourn
Comptroller and Auditor General

Date: Oct 2007

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Notes

- 1. The maintenance and integrity of the Police Service of Northern Ireland (PSNI) web site is the responsibility of the PSNI; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.*
- 2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.*

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

	<u>Notes</u>	Year ended <u>31 March 2007</u> £000	Year ended <u>31 March 2006</u> <u>Restated*</u> £000
INCOME			
Operating income	2	<u>8,152</u> 8,152	<u>4,307</u> 4,307
EXPENDITURE			
Staff costs	3	547,275	553,938
Other operating costs	4	232,391	176,127
Notional cost of capital	5	12,624	12,900
Amortisation and depreciation	8 & 9	<u>29,810</u> 822,100	<u>27,546</u> 770,511
DEFICIT BEFORE EXCEPTIONAL ITEM		(813,948)	(766,204)
EXCEPTIONAL ITEM	6	<u>(187,000)</u>	<u>(4,288)</u>
DEFICIT BEFORE INTEREST		(1,000,948)	(770,492)
INTEREST PAID AND SIMILAR CHARGES	7	<u>(13,387)</u>	<u>(7,210)</u>
DEFICIT FOR THE YEAR		(1,014,335)	(777,702)
Credit in respect of notional cost of capital	5	<u>12,624</u>	<u>12,900</u>
AMOUNT TRANSFERRED FROM RESERVES	15	<u>(1,001,711)</u>	<u>(764,802)</u>
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2007			
DEFICIT FOR THE YEAR		(1,014,335)	(777,702)
Unrealised surplus on revaluation of fixed assets	15	98,502	22,995
Actuarial loss	15	<u>(60,400)</u>	<u>-</u>
TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR		<u>(976,233)</u>	<u>(754,707)</u>

The notes on pages 29 to 49 form part of this account. All amounts above relate to continuing activities.

* Format and figures restated to reflect changes in accounting policy detailed in note 1.2 and the method of calculating the cost of capital.

BALANCE SHEET AS AT 31 MARCH 2007

	<u>Notes</u>	Year ended <u>31 March 2007</u> £000	Year ended <u>31 March 2006</u> <u>Restated*</u> £000
FIXED ASSETS			
Intangible fixed assets	8	4,040	3,349
Tangible fixed assets	9	<u>647,058</u>	<u>550,602</u>
		651,098	553,951
CURRENT ASSETS			
Stocks	10	6,710	5,242
Debtors	11	19,872	18,394
Bank and Cash	16.2	<u>13,865</u>	<u>12,497</u>
		40,447	36,133
CREDITORS: amounts falling due within one year	12	<u>(42,911)</u>	<u>(39,674)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(2,464)</u>	<u>(3,541)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>648,634</u>	<u>550,410</u>
CREDITORS: amounts falling due after more than one year			
Provision for liabilities and charges	13	<u>(350,210)</u>	<u>(101,127)</u>
TOTAL ASSETS LESS TOTAL LIABILITIES		<u>298,424</u>	<u>449,283</u>
FINANCED BY			
CAPITAL AND RESERVES			
General Fund	15	57,011	305,862
Revaluation Reserve	15	<u>241,413</u>	<u>143,421</u>
		<u>298,424</u>	<u>449,283</u>

The notes on pages 29 to 49 form part of this account.

* Format and figures restated to reflect change in accounting policy detailed in note 1.2.

Sir Hugh Orde
Chief Constable
Police Service of Northern Ireland
1 October 2007

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

	<u>Notes</u>	Year ended <u>31 March 2007</u> £000	Year ended <u>31 March 2006</u> <u>Restated*</u> £000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	16.1	(773,447)	(840,299)
CAPITAL EXPENDITURE			
Purchase of intangible fixed assets	16.3	(1,969)	(3,433)
Purchase of tangible fixed assets	16.3	(39,731)	(36,814)
Proceeds from disposal of tangible fixed assets		<u>5,180</u>	<u>2,307</u>
Net Cash Outflow from Capital Expenditure		<u>(36,520)</u>	<u>(37,940)</u>
FINANCING			
Grant-in-aid	14	769,098	840,993
Capital Grant to acquire fixed assets	14 & 16.3	42,237	39,694
Net Cash Inflow from Financing		<u>811,335</u>	<u>880,687</u>
INCREASE IN CASH	16.2	<u>1,368</u>	<u>2,448</u>

The notes on pages 29 to 49 form part of this account.

* Format and figures restated to reflect change in accounting policy detailed in note 1.2.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007

1. STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the 2006/07 Government Financial Reporting Manual (FReM) issued by the Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

1.2 Change of Accounting Policy

With effect from the 2006/07 reporting period, the FReM requires the PSNI to account for grants and grants-in-aid received for revenue purposes as financing because they are regarded as contributions from a controlling party. This is a change in accounting policy from earlier periods when such items were recorded as income. The effect of this change on the audited 2005/06 accounts and the impact of the change in the results of the current year is shown below. Note there is no impact on the net liability position of the PSNI as a result of this change in policy.

	At 31 March 2006 (as stated previously)	Impact of adopting new policy	At 31 March 2006 (restated)
Amount transferred to/ (from) reserves	107,572	(872,374)	(764,802)
General Reserve	(104,668)	410,530	305,862
Government Grant Reserve	553,951	(553,951)	Nil
Revaluation Reserve	Nil	143,421	143,421

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007
 (CONTINUED)**

	At 31 March 2007 (without applying new policy)	Impact of adopting new policy	At 31 March 2007 (applying the new policy)
Amount transferred to/(from) reserves	(192,760)	(808,951)	(1,001,711)
General Reserve	(352,674)	409,685	57,011
Government Grant Reserve	651,098	(651,098)	Nil
Revaluation Reserve	Nil	241,413	241,413

1.3 Fixed Assets and Depreciation

Fixed assets are stated at lower of replacement cost and recoverable amount. All properties are revalued in full every 5 years by District Valuers of the Valuation and Lands Agency. Assets in the course of construction are not revalued. The cost or revalued amount is depreciated at fixed rates on a straight line basis over the expected useful lives of the assets. Land and assets in the course of construction are not depreciated. Depreciation rates are as follows:

Buildings	-	50 years
Operational	-	5 to 40 years
Vehicles	-	4 to 10 years
IT & Communications	-	3 to 10 years

Vehicles commence depreciating on the date of commissioning or six months after purchase, whichever occurs first. The estimated useful lives of fixed assets are reviewed regularly and the minimum value for capitalisation is £5,000 for an individual asset, or £1,000 for an asset forming part of a significant asset group. The majority of firearms are not capitalised as they fall outside these threshold limits.

1.4 Intangible Assets – Software Licences

Software licences are included at cost and amortised over a 3 year period which is estimated to be their useful economic life.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007 (CONTINUED)

1.5 Notional Cost of Capital

The income and expenditure account bears a non-cash charge for interest relating to the use of capital. The basis of the charge is 3.5% of the average capital employed during the year, defined as total assets less total liabilities.

1.6 Pension Costs

Pension benefits are provided through the following defined benefit pension schemes.

Police Staff are members of the Principal Civil Service Pension Scheme (NI) (PCSPS (NI)) which is an unfunded defined benefit scheme. The PCSPS (NI) produces its own resource accounts, but PSNI is unable to identify its share of the underlying assets and liabilities. The most up to date actuarial valuation was carried out as at 31 March 2003 and details of this valuation are available in the PCSPS (NI) Resource Accounts.

Police Officers are members of the existing PSNI Police Pension Scheme or the New Police Pension Scheme, introduced from 6 April 2006. Separate Police Pension Accounts have been prepared by PSNI for the year ended 31 March 2007.

PSNI contributes a percentage of pensionable earnings towards their employees superannuation, at the Accruing Superannuation Liability Charge (ASLC) rates, determined by the Government Actuary and advised by HM Treasury. Further details are provided in note 3 of the Financial Statements.

1.7 Value Added Tax

Income and expenditure is shown exclusive of Value Added Tax, which in most cases is recoverable from HM Customs and Excise, in accordance with Section 20 of the Value Added Tax Act 1983. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets.

1.8 Stock

Stock is stated at the lower of cost and net realisable value. Provision is made for obsolete, slow moving or defective items where appropriate.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007 (CONTINUED)

1.9 Provision for Severance Programmes

Provision is made for the costs of providing severance payments to Police Officers leaving the Service under the Voluntary Severance or Full Time Reserve programmes based on anticipated numbers of leavers, their age and length of service.

1.10 Provision for Compensation Claims

A provision for compensation claims is charged against operating costs when it is assessed that a liability is likely to arise, based on average amounts paid in respect of each category of claim.

1.11 Provision for Early Retirement Costs

PSNI is required to meet the additional cost of benefits beyond the normal PCSPS(NI) benefits in respect Police Staff who retire early, from the date of their retirement until they reach normal pensionable age.

1.12 Provision for Injury Awards

Provision is made for the costs of providing injury awards to Police Officers based on the current number of injury awards and also on estimated life expectancy of these pensioners. The liability is measured on an actuarial basis by the Government Actuary's Department. Actuarial gains and losses are recognised in the Statement of Total Recognised Gains and Losses.

1.13 Provision for Stock

Provision is made for obsolete, slow moving or defective items where appropriate.

As part of a managed service contract, PSNI has agreed to purchase any stock in possession of the contractor at the end of the contract. PSNI has estimated the amount of stock which may need to be purchased back, based on usage levels. PSNI have provided in full for this amount.

1.14 Leases

Rentals paid under operating leases are charged to operating costs on a straight-line basis over the term of the lease.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007
(CONTINUED)**

1.15 Third party Assets

PSNI holds as custodian certain assets belonging to third parties. These are not recognised in the financial statements as the PSNI does not have a direct beneficial interest in them.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007
 (CONTINUED)**

	Year ended <u>31 March 2007</u>	Year ended <u>31 March 2006</u>
	£000	£000
2. OPERATING INCOME		
Fees for firearms certificates, permits and accident reports	1,354	1,399
Police transport	319	316
Profit on Disposal of Fixed Assets	1,679	20
Other	<u>4,800</u>	<u>2,572</u>
	<u>8,152</u>	<u>4,307</u>

3. STAFF COSTS

Wages and salaries	433,131	440,903
Social security costs	37,496	40,212
Pension costs (employer contribution)	62,629	62,516
Secondments / Agency	<u>14,019</u>	<u>10,307</u>
	<u>547,275</u>	<u>553,938</u>

The average number of employees over the year is as follows:

	Number	Number
Chief Officers	10	9
PSNI (police staff)	2,893	3,120
PSNI (police officers)	8,360	8,604
PSNI (part-time reserve)	821	893
Secondments	17	7
Agency	<u>712</u>	<u>568</u>
	<u>12,813</u>	<u>13,201</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007 (CONTINUED)

STAFF COSTS (CONTINUED)

PRINCIPAL CIVIL SERVICE PENSION SCHEME (NI)

Pension benefits for PSNI Direct Recruits and Civil Servants seconded from the Department of Finance and Personnel (DFP) are provided through the Principal Civil Service Pension Scheme (NI) (PCSPS (NI)). From 1 October 2002, employees may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus). 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).

For 2006/07, employers' contributions of £8,798,552 were paid to the PCSPS (NI) (2005/06: £8,852,029) at one of four rates in the range 16.5% to 23.5% of pensionable pay, based on salary bands. 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 employers' contributions were paid to any of the four appointed stakeholder pension providers. Any employer contributions would be age-related and range from 3 to 12.5% of pensionable pay. Employers are also required to match any employee contributions up to 3% of pensionable pay. In addition, no employer contributions were payable to the PCSPS(NI) to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees.

There were no contributions due to the partnership pension providers at the balance sheet date. There were no contributions prepaid at that date.

PSNI POLICE PENSION SCHEMES

Pension benefits for PSNI officers, including full time reserves, are provided through the PSNI Police Pension Scheme (PPS) and from 6 April 2006, the New Police Pension Scheme (NPPS).

Police Pension Scheme (PPS)

This is a statutory scheme that provides benefits on an "Average Pensionable Pay (APP)" basis at age 55 regardless of rank. It is a defined benefits final salary scheme. All officers are entitled to work to age 60 and can apply for 5 yearly extensions after age 60.

For 2006/07, employers' contributions of £53,014,174 were paid to the PSNI Police Pension Scheme (2005/06: £53,663,678) at the rate of 20.25% of pensionable pay. To qualify for an ordinary retirement pension, an officer has to complete 25 years service and attain 50 years of age. Benefits accrue at the rate of 1/60th of APP for each year of service up to 20 years, and 2/60th for each year thereafter, up to a maximum of 40/60th of APP. There is an option

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007 (CONTINUED)

STAFF COSTS (CONTINUED)

for a lump sum to be paid on retirement, if the officer elects to give up (commute) up to 25% of the pension. Actuarial tables are used to calculate the lump sum. Members pay contributions of 11% of basic pay. Pensions increase in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse or children, subject to provisions within the scheme. On death in service, that is not as a result of an injury on duty (IOD), the scheme pays a lump sum benefit of twice pensionable pay, and there are also pension benefits for the spouse and/or children of the deceased. On death as a result of IOD, or death within 12 months of retiring as a result of an injury, a lump sum benefit of 5 times pensionable pay is payable, subject to scheme conditions. Medical retirement is possible in the event of serious ill health. Officers with less than 2 years service receive a lump sum benefit (gratuity), and those with more than 2 years service receive an ill-health pension, depending on the number of years of actual pensionable service.

This scheme is now closed to new recruits from the 6 April 2006. Existing officers had a one off opportunity to transfer to the New Police Pension Scheme.

New Police Pension Scheme (NPPS)

For 2006/07, employers' contributions of £816,071 were paid to the PSNI New Police Pension Scheme at the rate of 20.25% of pensionable pay. To qualify for an ordinary retirement pension, an officer must serve to age 55. Benefits accrue at the rate of 1/70th of APP for each year of service up to a maximum of 35/70th of APP. In addition to the pension a defined lump sum of four times pension is payable. Members pay contributions of 9.5% of basic pay. Pensions increase in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse, civil partner, unmarried partner or children, subject to provisions within the scheme. On death in service, that is not as a result of an injury on duty (IOD), the scheme pays a lump sum benefit of three times pensionable pay, and there are also pension benefits for the spouse, civil partner, unmarried partner and/or children of the deceased. On death as a result of IOD, or death within 12 months of retiring as a result of an injury, a lump sum benefit of 5 times pensionable pay is payable, subject to scheme conditions. There is a 2 tier medical retirement pension for officers with over 2 years service. If an officer is permanently disabled for the ordinary duties of a member of PSNI a standard ill health pension is awarded. If an officer is disabled from the ordinary duties of a member of PSNI and permanently disabled for any regular employment an enhanced top-up ill health pension could be awarded.

SEVERANCE PAYMENTS

Severance Payments have been made from 1 January 2001 to officers leaving the PSNI under the Voluntary Severance or Full Time Reserve programmes for the PSNI. The Schemes were developed in line with the recommendations of the Independent Commission on Policing (Patten) and it was necessary, in order to fulfil Government commitments, to permit officers to leave from the planned date of 1 January 2001. The total of payments made in the year to 31 March 2007 was £50.62m. HM Treasury approved the payments.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007
 (CONTINUED)**

Pension Liability (2005/06)

Pension benefits for direct recruits of PSNI were previously provided through the PSNI (Civilian) Pension Scheme, which was analogous to the PCSPS(NI). Legislation was approved on 8 March 2004 to add PSNI civilian direct recruits to the employments listed in Schedule 1 to the Superannuation (Northern Ireland) Order 1972 with effect from 30 September 2002. This Scheme has since been wound up with the transfer of liability (valued at £82.3m by the GAD, including £15.7m interest) being made to DFP on 1 December 2005. The additional interest charge during 2005/06 was £4.288m.

7. INTEREST PAID AND SIMILAR CHARGES

	Year ended 31 March 2007 £000	Year ended 31 March 2006 £000
Unwind of discount on provisions	<u>13,387</u>	<u>7,210</u>

8. INTANGIBLE FIXED ASSETS

Software Licences

Cost

At 1 April	3,433	-
Additions	1,973	3,433
Disposals	-	-
Transfers	-	-
At 31 March	<u>5,406</u>	<u>3,433</u>

Amortisation

At 1 April	84	-
Charged in year	1,282	84
Disposals	-	-
At 31 March	<u>1,366</u>	<u>84</u>

Net Book Value

At 31 March	<u>4,040</u>	<u>3,349</u>
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Software licences are included at cost and amortised over a 3 year period which is estimated to be their useful economic life.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007
(CONTINUED)**

9. TANGIBLE FIXED ASSETS

	<u>Land & Buildings</u>	<u>Assets in Course of Construction</u>	<u>Operational (inc Plant & Equip)</u>	<u>Vehicles (inc Aircraft)</u>	<u>IT & Comms</u>	<u>Total</u>
<u>Cost or Valuation</u>	£000	£000	£000	£000	£000	£000
At 1 April 2006	536,427	7,307	10,633	64,387	84,591	703,345
Additions	13,735	14,212	71	3,206	9,040	40,264
Disposals	(3,393)	-	(109)	(3,418)	(87)	(7,007)
Transfers	2,612	(4,836)	-	498	1,726	-
Revaluation below						
Historical Cost	(9,085)	-	(162)	(902)	(4,004)	(14,153)
Revaluation	<u>98,297</u>	<u>-</u>	<u>44</u>	<u>573</u>	<u>24</u>	<u>98,938</u>
At 31 March 2007	<u>638,593</u>	<u>16,683</u>	<u>10,477</u>	<u>64,344</u>	<u>91,290</u>	<u>821,387</u>
<u>Depreciation</u>						
At 1 April 2006	64,771	-	5,880	33,958	48,134	152,743
Charged in Year	12,478	-	521	7,529	8,000	28,528
Disposals	(257)	-	(70)	(3,139)	(64)	(3,530)
Revaluation below						
Historical Cost	(1,460)	-	(113)	(62)	(2,213)	(3,848)
Revaluation	<u>-</u>	<u>-</u>	<u>21</u>	<u>392</u>	<u>23</u>	<u>436</u>
At 31 March 2007	<u>75,532</u>	<u>-</u>	<u>6,239</u>	<u>38,678</u>	<u>53,880</u>	<u>174,329</u>
<u>Net Book Value</u>						
At 31 March 2007	<u>563,061</u>	<u>16,683</u>	<u>4,238</u>	<u>25,666</u>	<u>37,410</u>	<u>647,058</u>
At 31 March 2006	<u>471,656</u>	<u>7,307</u>	<u>4,753</u>	<u>30,429</u>	<u>36,457</u>	<u>550,602</u>

The Valuation and Lands Agency carried out an interim valuation of land and buildings on 31 March 2007. The basis of valuation was as follows:

- Police Stations and hill top installations – depreciated replacement cost
- Offices and stores – existing use value
- Surplus land and buildings and property held for development – open market value

The Valuation and Lands Agency is considered an external valuer as defined by the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual, and the valuations have been made in accordance with this Manual. The last full valuation of land, buildings and assets in the course of construction was carried out on 31 March 2005.

Other tangible fixed assets were revalued on 31 March 2007 using latest available indices.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007
 (CONTINUED)**

9. TANGIBLE FIXED ASSETS (CONTINUED)

Assets in the course of construction were valued at total expenditure incurred.

Included within land and buildings is long leasehold property with a net book value of £77,598,085 and surplus assets with a net book value of £14,800,000.

The following non depreciable assets are included in the note above at a cost of:

Land	-	£168,500,000
Assets in course of construction	-	£16,683,000

The total downward revaluation in the year is £11,720,000 (which includes an adjustment of £1,415,000 for disposals in previous years - see note 15.)

10. STOCKS

	Year ended 31 March 2007 £000	Year ended 31 March 2006 £000
General stores	2,351	2,363
Transport Services stores	1,137	1,332
Information and Communication Services stores	2,092	449
Heating oil	475	487
Petrol and diesel	<u>655</u>	<u>611</u>
	<u>6,710</u>	<u>5,242</u>

11. (A) DEBTORS: amounts falling due within one year

Trade debtors	1,145	406
Other debtors	13,270	12,120
Prepayments and accrued income	<u>5,457</u>	<u>5,868</u>
	<u>19,872</u>	<u>18,394</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007
 (CONTINUED)**

11. (B) INTRA GOVERNMENT DEBTOR BALANCES

	<u>Year ended 31 March 2007</u>	<u>Year ended 31 March 2006</u>
	Amounts falling due within 1 year	
	£000	£000
Balances with NIO Core, its agencies & NDPBs	4,630	3,183
Balances with other central government bodies	9,161	8,647
Balances with local authorities	90	48
Balances with NHS Trusts	-	-
Balances with public corporations & trading funds	-	-
Balances with bodies external to government	<u>5,991</u>	<u>6,516</u>
Total	<u>19,872</u>	<u>18,394</u>

12. (A) CREDITORS: amounts falling due within one year

Trade creditors	9,756	8,020
Trade accruals	4,646	2,403
Taxation & social security	13,845	13,382
Payroll accrual	11,750	12,803
Other creditors	<u>2,914</u>	<u>3,066</u>
	<u>42,911</u>	<u>39,674</u>

12. (B) INTRA GOVERNMENT CREDITOR BALANCES

	Amounts falling due within 1 year	
Balances with NIO Core, its agencies & NDPBs	741	283
Balances with other central government bodies	14,129	14,842
Balances with local authorities	10	13
Balances with NHS Trusts	1	-
Balances with public corporations & trading funds	163	50
Balances with bodies external to government	<u>27,867</u>	<u>24,486</u>
Total	<u>42,911</u>	<u>39,674</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007
 (CONTINUED)**

13. PROVISIONS FOR LIABILITIES AND CHARGES

	<u>Voluntary and FTR Severance</u>	<u>Compensation Claims</u>	<u>Injury Awards</u>	<u>Stock</u>	<u>Early Retirement</u>	<u>Total</u>
	£000	£000	£000	£000	£000	£000
At 1 April 2006	91,088	9,392	-	628	19	101,127
Exceptional item	-	-	187,000	-	-	187,000
Utilised in Year	(50,618)	(6,916)	(13,414)	(240)	(229)	(71,417)
Provision not utilised	(6,653)	(36)	-	-	-	(6,689)
Discount unwind	3,188	329	9,870	-	-	13,387
Actuarial loss	-	-	60,400	-	-	60,400
Increase in Provision	<u>44,494</u>	<u>16,537</u>	<u>4,994</u>	<u>133</u>	<u>244</u>	<u>66,402</u>
At 31 March 2007	<u>81,499</u>	<u>19,306</u>	<u>248,850</u>	<u>521</u>	<u>34</u>	<u>350,210</u>

Voluntary Severance Programme

The Secretary of State for Northern Ireland established a Voluntary Severance Scheme for PSNI Regular and Full Time Reserve Officers in July 2000. During the current year, 316 officers left the Service. The provision is in respect of a further 768 officers estimated to leave during 2007/08 and 2008/09. This provision is subject to uncertainty and is based on estimates of numbers, ranks and profiles of officers who may apply and an average amount they may receive. HM Treasury is committed to funding the scheme. Please also refer to note 19 on contingent liabilities.

Full Time Reserve (FTR) Programme

The position on the Full Time Reserve was highlighted by Patten Recommendation 103 which stated that the future police service should not include a Full Time Reserve.

In line with an undertaking given to the Policing Board, the Chief Constable carried out security reviews in September 2004 and September 2007 announcing his decision on the future of the Full Time Reserve.

In September 2004, out of the 1,487 Full Time Reserve officers, 680 were retained on the basis of three year contracts from 1 April 2005. The remaining officers were released in a phased manner across an 18 month period from the termination of their contracts. These costs have been provided for in the above note.

More recently, in September 2007 the decision was taken on the remaining 680 officers. It has been decided to reduce the number of officers by 299 over a period of around 12 months from 1 April 2008. The remaining 381 officers are expected to leave by March 2011, when the Severance Scheme will end. The estimated costs of releasing all 680 Full Time Reserve officers are approximately £85 million. These costs have not been provided for in the above note as the decision in relation to the remaining Full Time Reserve had not been taken at the balance sheet date.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007
 (CONTINUED)**

Compensation Claims

The compensation claim provision is analysed under three categories: injury claims, damage claims and legal fees. The following table shows the breakdown of the provision between these categories.

	<u>Injury</u> <u>Claims</u> £000	<u>Damage</u> <u>Claims</u> £000	<u>Legal Fees</u> £000	<u>Total</u> £000
At 1 April 2006	4,742	192	4,458	9,392
Utilised in Year	(3,431)	(113)	(3,372)	(6,916)
Provision not utilised	-	(36)	-	(36)
Discount unwind	166	7	156	329
Increase/(decrease) in Provision	<u>8,451</u>	<u>(5)</u>	<u>8,091</u>	<u>16,537</u>
At 31 March 2007	<u>9,928</u>	<u>45</u>	<u>9,333</u>	<u>19,306</u>

At the 31 March 2007 there were 3,351 'live' injury or wrongful acts claims and 113 'live' damage to property claims. Associated legal fees are also provided for.

Claims have varying life spans with claims involving personal injury mostly concluded within six years of receipt and claims for damage to property usually being concluded within one or two years of receipt. In deriving the above figures, assumptions have been made relating to the number of outstanding claims likely to attract compensation, the average claim value for the different claim types and likely timing of settlement. The data assumes that past trends will persist with only marginal fluctuations and any deviations from this pattern may have a material impact on actual claims settled. The provision for years one to six have been discounted at the HM Treasury rate of 3.5%.

This note, together with note 19, reflects that the PSNI is involved in a number of legal cases. While these are being dealt with appropriately, ultimately damages may be awarded against the Service. We regularly review the outcome of these cases, to see if there are lessons to be learnt and to identify areas where we can improve our systems of internal control, if necessary.

Injury Awards

Following a change to the tax regime, from April 2006 injury awards are no longer permitted to be part of pension schemes and the relevant costs are now recognised in the PSNI's main financial statements. The pension liability relating to injury awards has been valued by the Government Actuary's Department. This year an actuarial loss has arisen due to a change in the financial assumptions used to calculate the outstanding liability at the year end.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007
 (CONTINUED)**

Stock

PSNI entered into a managed service contract for the ordering, supply, handling and accounting of uniform related items. The contractor purchased the total amount of uniform stock held by PSNI during the financial year. However as part of the contract, PSNI has agreed to purchase any stock in possession of the contractor at the end of the contract. It has been estimated, based on usage levels of the stock transferred, that £521k of stock initially transferred may not be issued by the end of the contract, and therefore this amount has been provided for in full.

Early retirement

This is the result of decisions taken to allow individuals to retire early from the service with the PSNI agreeing to meet their pension costs until their normal retirement age. This liability is estimated at £34k as at 31 March 2007.

14. GRANT-IN-AID

	<u>Year ended</u> <u>31 March 2007</u>	<u>Year ended</u> <u>31 March 2006</u> <u>Restated</u>
	£000	£000
Revenue	695,606	763,380
Patten Severance	53,902	55,930
Patten Non Severance	<u>19,590</u>	<u>21,683</u>
	769,098	840,993
Capital	<u>42,237</u>	<u>39,694</u>
	<u>811,335</u>	<u>880,687</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007
 (CONTINUED)**

15. RECONCILIATION OF GOVERNMENT FUNDS

	<u>31 March 2007</u>		<u>31 March 2006</u> <u>Restated</u>	
	<u>General Fund</u> £000	<u>Revaluation Reserve</u> £000	<u>General Fund</u> £000	<u>Revaluation Reserve</u> £000
At 1 April	305,862	143,421	189,977	120,426
Transfer to income and expenditure account	(1,001,711)	-	(764,802)	-
Grant-in-aid (note 14)	811,335	-	880,687	-
Surplus on revaluation of fixed assets (note 9)	-	98,502	-	22,995
Adjustment for disposal in previous years	-	1,415	-	-
Realised surplus on disposals of fixed assets	1,925	(1,925)	-	-
Actuarial loss (note 13)	(60,400)	-	-	-
At 31 March	<u>57,011</u>	<u>241,413</u>	<u>305,862</u>	<u>143,421</u>

16. NOTES TO CASH FLOW STATEMENT

16.1 Reconciliation of operating deficit to net cash outflow from operating activities

	<u>Year ended 31 March 2007</u> £000	<u>Year ended 31 March 2006</u> <u>Restated</u> £000
Deficit for the year before interest & exceptional item	(813,948)	(766,204)
Interest	(13,387)	(7,210)
Depreciation	29,810	27,546
Profit on disposal of fixed assets	(1,679)	(20)
Notional cost of capital	12,624	12,900
Reclassification of capital expenditure	-	1,383
Revaluation below Historical Cost	11,720	3,855
(Increase) / Decrease in stock	(1,468)	1,010
(Increase) / Decrease in debtors	(1,502)	964
Increase in creditors	2,700	(6,863)
Increase in provisions	246,713	29,652
Provisions used	(71,417)	(140,234)
Unwinding of Discount	13,387	7,210
Adjustment for exceptional item (note 6)	<u>(187,000)</u>	<u>(4,288)</u>
Net cash outflow from operating activities	<u>(773,447)</u>	<u>(840,299)</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007
 (CONTINUED)**

16.2 Reconciliation of net cash inflow to movement in net debt

	Year ended 31 March 2007	Year ended 31 March 2006 <u>Restated</u>
	£000	£000
Cash in bank at 1 April	12,497	10,049
Net cash inflow	<u>1,368</u>	<u>2,448</u>
Cash in bank at 31 March	<u>13,865</u>	<u>12,497</u>

All of the above cash is held in commercial bank accounts.

16.3 Reconciliation of capital grant to purchase of fixed assets

Purchase of Intangible Fixed Assets	1,969	3,433
Purchase of Tangible Fixed Assets	39,731	36,814
Opening Capital Creditors	(1,195)	(1,748)
Closing Capital Creditors	<u>1,732</u>	<u>1,195</u>
Capital Grant to Acquire Fixed Assets	<u>42,237</u>	<u>39,694</u>

17. CAPITAL COMMITMENTS

Contracted	22,861	38,751
Authorised but not contracted	<u>117,195</u>	<u>93,179</u>
	<u>140,056</u>	<u>131,930</u>

18. OBLIGATIONS UNDER LEASES

Annual commitments under non-cancellable operating leases are as follows:

	<u>Land and Buildings</u>		<u>Other</u>	
	Year ended 31 March 2007	Year ended 31 March 2006	Year ended 31 March 2007	Year ended 31 March 2006
	£000	£000	£000	£000
Operating Leases which expire:				
Within one year	2	45	2	13
In two to five years	353	45	162	157
In over five years	<u>55</u>	<u>409</u>	<u>-</u>	<u>-</u>
	<u>410</u>	<u>499</u>	<u>164</u>	<u>170</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007 (CONTINUED)

19. CONTINGENT LIABILITIES

Voluntary Severance

Details of the voluntary severance schemes beyond 2008/09 have not yet been announced and are subject to a further degree of uncertainty, including levels of recruitment, levels of natural wastage and other operational circumstances.

Although uncertainty exists about future years, it is estimated that the voluntary severance scheme will extend to 2010/11 with an additional 700 officers leaving under the scheme at an estimated cost of approximately £78 million. HM Treasury is committed to funding future agreed schemes.

Post Traumatic Stress Disorder Class Action

The PSNI and the Northern Ireland Policing Board are named defendants in a class action by 5585 former and serving police officers. The hearing for this case began in November 2005 and concluded in June 2006. A judgement was recently delivered in June 2007 which found in favour of the PSNI under four of the five headings. The judge specifically referred to the formidable tasks individual plaintiffs may have in pursuing claims. This was confirmed by the successful defence by the PSNI in respect of the 10 lead cases. It will take some time to analyse the full detail of the court's findings and to assess the implications of any appeal. It is therefore not considered appropriate to provide further disclosure at this time.

Working Time Regulations Cases

Approximately 6200 former and serving police officers and civilian staff have issued industrial tribunal applications against the Chief Constable, claiming that he has breached the terms of the Working Time Regulations. Since then over 1800 applications have been withdrawn and initial indications are that any remaining individual settlement would be small. However, each case will be scrutinised separately and this process will take time to resolve.

Claims resulting from security breaches

The Chief Constable is named Defendant from 321 current and ex-police officers, members of his police staff and family members, arising out of a breach of security. The action is still at an early stage.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007 (CONTINUED)

Hearing Loss Cases

The PSNI is named Defendant in a number of claims from current and ex-police officers for occupational hearing loss. These claims are reflected in the compensation provision (note 13). However, the number of claims likely to be received in the future is uncertain and cannot be reliably estimated. Each case will be considered on its merits and any settlement based on the severity of hearing loss.

Due to the unusual nature of the 4 sets of claims outlined above, it is still not possible to identify from previous statistics, a scientific assessment of likely settlement rates or an average figure for settlement of each case.

20. LOSSES AND SPECIAL PAYMENTS

<u>Type</u>	<u>No of Cases</u>	<u>£000</u>
Cash Losses	8	2
Overpayments	55	68
Stores	67	207
Claims Waived or Abandoned	689	560
Special Payments – Compensation	510	3,361
Fruitless Payment & Constructive Losses	5	1

21. RELATED PARTY DISCLOSURES

PSNI is a body of constables, funded through the Policing Board which is a Non-Departmental Public Body of the NIO.

The NIO is regarded as a related party. During the year PSNI had a number of material transactions with the NIO and with other government departments and central government bodies. Most of these transactions have been with: the Forensic Science NI; the NI Prison Service (both executive agencies of the NIO); the Rate Collection Agency (executive agency of the Department of Finance and Personnel) and the Construction Service (Department of Finance and Personnel Core).

None of the senior staff of PSNI undertook any transactions during the year with PSNI.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007
(CONTINUED)**

22. THIRD PARTY ASSETS

PSNI hold a number of bank accounts and sealed packages which contain evidence or proceeds of criminal activities. As these monies are not assets of the PSNI they are not included in these financial statements.

Following the outcome of investigations or court proceedings, the money is returned or paid to appropriate authorities.

	<u>Year ended</u> <u>31 March 2007</u> £000	<u>Year ended</u> <u>31 March 2006</u> £000
Bank Balances and Monetary Sealed Packages held	1,732	1,425