

**POLICE SERVICE OF
NORTHERN IRELAND**

**Police Pension Accounts
For the year ended 31 March 2011**



The Accounting Officer authorised these
financial statements on behalf of the
Northern Ireland Policing Board for issue

on

30 June 2011

Laid before the Northern Ireland Assembly under Section 12 (3) of Part 2 to the
Police (Northern Ireland) Act 2000 as amended by the Police (Northern Ireland) Act
2003 and Northern Ireland Act 1998 (Devolution of Policing and Justice Functions)
Order 2010

on

01 July 2011

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REPORT OF THE MANAGERS

Introduction

Following the introduction of the New Police Pension Scheme on 6 April 2006, the Police Service of Northern Ireland (PSNI) now administers two pension schemes for police officers. Both of these Schemes, the existing Police Pension (now referred to as the 'closed' scheme) and the New Police Pension Scheme (or 'new' scheme), are included in the Police Pension Accounts. Both Schemes are unfunded defined benefit schemes.

The regulations under which the Closed Scheme operates are the Pensions (Northern Ireland) Order 1995 and the RUC Pensions Regulation 1988 and subsequent amendments. The regulations are modified for members of the PSNI Full Time Reserve in accordance with the RUC Reserve (Full Time) Pension Regulations 1994 and subsequent amendments.

The New Police Pension Scheme operates under the Police Pensions (Northern Ireland) Regulations 2007 which apply from 6 April 2006. This is now the only scheme available to new recruits serving in the PSNI.

Membership of these schemes is not compulsory and officers may make other pension arrangements.

All police officers are given a booklet explaining the scheme rules at induction or training.

The rationale of preparing separate Pension Accounts is to avoid the detail required by IAS 19 and IAS 26 (Retirement Benefits) from overshadowing and drawing attention away from the record of the PSNI's core financial performance. Prior to separate Pension Accounts being prepared, Revenue Account, IAS 19 and IAS 26 information was disclosed as part of the PSNI Annual Financial Statements.

Both the Closed Police Pension Scheme and the New Police Pension Scheme are administered by the Northern Ireland Policing Board and PSNI is designated as the scheme practitioner.

Accounts Direction

The Annual Report and Accounts for 2010-11 have been prepared in a form directed by the Department of Justice in accordance with Section 12 (3) of Part 2 to the Police (Northern Ireland) Act 2000 as amended by the Police (Northern Ireland) Act 2003 and Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010.

REPORT OF THE MANAGERS (CONTINUED)

Devolution of Policing and Justice Functions

On 12 April 2010, justice functions in Northern Ireland were devolved to the Northern Ireland Assembly and the Department of Justice came into existence as a new Northern Ireland Department. From this date, the PSNI became an executive non-departmental public body of the Department of Justice.

In accordance with the Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010, the annual report and accounts of the PSNI for the year ended 31 March 2011 and onwards, will be laid in the Northern Ireland Assembly.

During the period up to 12 April 2010, the PSNI complied with the corporate governance and accountability framework arrangements (including *Managing Public Money*) issued by HM Treasury and the Northern Ireland Office.

From 12 April 2010 onwards, the PSNI complied with the corporate governance and accountability framework arrangements (including *Managing Public Money Northern Ireland*) issued by the Department of Finance and Personnel and Department of Justice.

From this date, the PSNI became an executive Non Departmental Public Body (NDPB) of the Department of Justice. As such, it now complies with the corporate governance and accountability framework arrangements issued by the Department of Justice and also the guidance issued by the Department of Finance and Personnel, including *Managing Public Money Northern Ireland*. The Annual Report and Accounts for years ended 31 March 2011 onwards are laid in the Northern Ireland Assembly.

REPORT OF THE MANAGERS (CONTINUED)

The Managers, advisers and employers for both Schemes were as follows:

Managers:

**Government Department
(scheme manager)**

Department of Justice
Block B
Castle Buildings
Stormont Estate
Belfast
BT4 3SG

Pension Scheme Administrator

Northern Ireland Policing Board
Waterside Tower
31 Claredon Road
Claredon Dock
Belfast
BT1 3BG

Advisers:

**Accounting Officer & Pension
Scheme Practitioner**

Chief Constable
Police Service of Northern Ireland
Brooklyn
65 Knock Road
Belfast
BT5 6LE

Pension Scheme Actuary

Government Actuary's Department
Finlaison House
15-17 Furnival Street
London
EC4A 1AB

Auditor

Office of the Comptroller and Auditor
General for Northern Ireland
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

Bankers

Northern Bank
Donegall Square West
Belfast

The Scheme has no separate bank
account. It utilises the banking
arrangements of the PSNI.

Employers:

Principal Employer

Police Service of Northern Ireland
Brooklyn
65 Knock Road
Belfast
BT5 6LE

REPORT OF THE MANAGERS (CONTINUED)

Changes to the Schemes

There was no pay award increase applied to pensions during 2010-11.

There have been no other significant changes to either Scheme during the year.

Membership Statistics

Details of the current membership of the Closed Police Pension Scheme are as follows:

Active Members

At 1 April 2010	6,127
New entrants – transfers in	7
Retirements in the year	(419)
Deaths	(1)
Other leavers	<u>(128)</u>
At 31 March 2011	5,586

Deferred Members

At 1 April 2010	1,125
Members leaving who have deferred pension rights	128
Members taking up deferred pension rights	<u>(32)</u>
At 31 March 2011	1,221

Pensions in Payment

	Members	Dependents	Total
At 1 April 2010	10,805	1,509	12,314
Members retiring in year at normal retirement age	42	-	42
Other retirements	481	-	481
New dependents	-	115	115
Cessations	<u>(70)</u>	<u>(63)</u>	<u>(133)</u>
At 31 March 2011	11,258	1,561	12,819

Compensation Payments

	Members	Dependents	Total
At 1 April 2010	111	-	111
Members leaving under early retirement	6	-	6
Members reaching normal retirement age during the year	<u>(24)</u>	-	<u>(24)</u>
At 31 March 2011	93	-	93

REPORT OF THE MANAGERS (CONTINUED)

Details of the current membership of the New Police Pension Scheme are as follows:

Active Members

At 1 April 2010	1,476
New entrants	417
Retirements in the year	-
Deaths	(1)
Other leavers	<u>(24)</u>
At 31 March 2011	1,868

Deferred Members

At 1 April 2010	9
Members leaving who have deferred pension rights	11
Members taking up deferred pension rights	<u>(1)</u>
At 31 March 2011	19

Pensions in Payment	Members	Dependents	Total
At 1 April 2010	-	1	1
Members retiring in year at normal retirement age	-	-	-
Other retirements	-	-	-
New dependents	-	2	2
Cessations	-	<u>-</u>	<u>-</u>
At 31 March 2011	-	3	3

Additional Voluntary Contributions and Stakeholder Pensions

The Secretary of State appointed Equitable Life and Standard Life as providers of the in-house Additional Voluntary Contribution (AVC) Scheme for Police Officers. This is legislated in Statutory Rules of Northern Ireland for the PSNI Pension Scheme. PSNI designated Standard Life as Stakeholder Pension Provider. PSNI have made known to staff the arrangements and provide a facility for staff to contribute through payroll if they so wish.

£27,058 of contributions have been made by members of PSNI to the scheme during the year (2009-10: £32,032) (see note 10).

There is no in-house AVC Scheme available to members of the New Police Pension Scheme introduced from April 2006.

Going Concern

The Combined Statement of Financial Position (which includes liabilities belonging to both the closed and the new pension schemes) at 31 March 2011 shows net liabilities of £5.288bn. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the PSNI's other sources of income, may only be met by future grants or grants-in-aid from the PSNI's sponsoring Department (DOJ). This is because, under the normal conventions applying to

REPORT OF THE MANAGERS (CONTINUED)

DFP control over income and expenditure, such grants may not be issued in advance of need.

Grants for 2011-12 have already been included in the DOJ's Estimates for the year, taking into account the amounts required to meet the PSNI's liabilities falling due. These have been approved by Assembly and there is no reason to believe that the DOJ's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these pension scheme accounts.

Events After the Reporting Period

There are no events occurring after the reporting period.

Audit Services

Prior to the devolution of policing and justice functions in Northern Ireland, the Financial Statements were audited by the Comptroller and Auditor General (who heads the National Audit Office) and reported to Parliament. Financial statements for 2010-11 onwards are audited by the Comptroller and Auditor General for Northern Ireland (C&AG), who heads the Northern Ireland Audit Office and is appointed by statute and reports to Northern Ireland Assembly. His certificate and report is produced at pages 16 to 17.

So far as the Accounting Officer is aware, there is no relevant audit information of which the entity's auditors are unaware and the Accounting Officer 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 entity's auditors are aware of that information.

The audit fee for the work performed by the staff of the C&AG during the reporting period, and which relates solely to the audit of these Financial Statements, was £15,000 (2009-10 £18,000). Audit charges for 2009-10 include additional costs for the audit of the implementation of International Financial Reporting Standards.

The C&AG may also undertake other statutory activities that are not related to the audit of the body's Financial Statements such as Value for Money reports. No such activity took place during the year.

Further Information

A full certified copy of the Police Pension Annual Report and Accounts will be available on the PSNI's website www.psni.police.uk.

Any enquiries regarding either the PSNI Closed Police Pension Scheme or the New Police Pension Scheme should be addressed to the Head of Pensions Branch, PSNI.

REPORT OF THE ACTUARY

A. Liabilities

The capitalised value as at 31 March 2011 of expected future benefit payments under the Police Pension Schemes, for benefits accrued in respect of employment (or former employment) prior to 31 March 2011, has been assessed using the methodology and assumptions set out in Sections C and D below. The results are broken down, between the various categories of members, as follows:

	Closed Scheme £m	New Scheme £m
Actives (past service)	1,976.88	68.03
Deferred Pensioners	166.81	0.35
Current Pensioners (excluding injury)	<u>3,076.21</u>	<u>0.19</u>
Total	<u>5,219.90</u>	<u>68.57</u>

B. Accruing Costs

The cost of benefits accruing for each year is met partly by contributions by members, with the employer meeting the balance of the cost. The benefits accruing in the year 2010-11 have been assessed as follows:

	% of pensionable pay	
	Closed Scheme	New Scheme
Current Service Cost	50.1%	42.6%

In relation to the pensionable payroll for the financial year, the Current Service Cost is as follows:

	Closed Scheme £ m	New Scheme £ m
Current Service Cost	125.23	22.41

Past Service Costs have also arisen during the financial year. This is because the pension increase assumption as at 31 March 2011 is based on the Consumer Prices Index (CPI) expectation of inflation rather than the Retail Prices Index (RPI). This is a consequence of the Government's announcement that CPI is to be used for the indexation of public service pensions from April 2011.

	Closed Scheme £ m	New Scheme £ m
Past Service Cost	(643.43)	(6.71)

REPORT OF THE ACTUARY (CONTINUED)

C. Methodology

The present value of the liabilities has been determined using the Projected Unit Credit Method (PUCM). Under the PUCM, the actuarial liability represents the present value of future benefit payments arising in respect of service prior to the valuation date. In respect of active members, the actuarial liability includes allowance for expected future pay increases up to the assumed date of retirement or exit, and for subsequent pension increases. In respect of pensions in payment and deferred members, the actuarial liability includes allowance for future pension increases (and revaluation in deferment). The liability is calculated based on the principal financial assumptions applying to the 2010-11 Pension Disclosures.

D. Assumptions

The assessments have been prepared in accordance with the Financial Reporting Manual (FRM) issued by HM Treasury. The main financial assumptions are set in accordance with the FRM. The assumptions proposed by the Government Actuary's Department and agreed with the PSNI in nominal terms are:

- A rate of earnings increase of 4.9% pa excluding promotional and performance increments
- A long term nominal discount rate of 5.6% pa
- A rate of long-term inflation and pensions increases of 2.65% pa

The PSNI's workforce is too small to provide sufficient data from which to draw statistically reliable conclusions for all of the assumptions which are to be made. The PSNI has confirmed that demographic assumptions should be derived from aggregate experience across all authorities with officers in the Police Pension Schemes supplemented as necessary by appropriate standard tables. We are not aware of any reason why the PSNI's demographic experience over the long term should be significantly different from the aggregate experience assumed in our assessment.

E. Notes

1. We understand that some benefits payable under the PSNI Severance Schemes will be accounted for outside the PSNI Police Pension Accounts. PSNI have instructed us as to which benefits should be included in these statements.
2. The data for this assessment was provided by the PSNI. Full data was provided in respect of the current and former members of the pension scheme as at 31 December 2010, together with summary data as at 31 March 2011.

Ian Boonin
Fellow of the Institute and Faculty of Actuaries
Government Actuary's Department
18 April 2011

STATEMENT OF RESPONSIBILITIES OF 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 PSNI 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 Department of Justice. The annual financial statements are prepared on an accruals basis and must give a true and fair view of the net expenditure, changes in taxpayers' equity 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, Managing Public Money Northern Ireland and in particular to:

- observe the Accounts Direction issued by the Department of Justice, 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.

The Accounting Officer for the Department of Justice appointed the Chief Constable of the PSNI as Accounting Officer for the Police Pension Scheme. 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 Pension Scheme, are set out in Managing Public Money Northern Ireland published by DFP.

STATEMENT ON INTERNAL CONTROL

Scope of responsibility

As Accounting Officer for the PSNI, 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 Managing Public Money (NI).

In respect of the reporting period, I am directly accountable to the Accounting Officer of the Department of Justice 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 Managing Public Money (NI) published by the Department of Finance and Personnel Northern Ireland (DFP) and the Framework Document for Governance of PSNI issued by virtue of Section 27 of the Police (NI) Act 2000.

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 2011 and up to the date of approval of the annual report and accounts, and accords with DFP 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

Risk Policy is reviewed annually to ensure that the risk management process is continuously refined and improved. Accordingly a revised Risk Management Policy was issued to the Service on 14 February 2011 by way of a Service Procedure. This document, which published organisation wide explains the underlying approach to risk management and describes the roles and responsibilities of the Chief Constable, Chief Officers and other relevant parties including line management. In addition, it includes details of the monitoring and reporting of risk management arrangements.

STATEMENT ON INTERNAL CONTROL (CONTINUED)

Risk Management is now fully embedded into the organisation with each Department and District actively managing their individual Risk Registers that are linked to the Policing Plan objectives. Most Branches also have Risk Registers. Each register is monitored electronically on the PRiDE (Performance and Risk in Delivering Excellence) system. All control actions are time bound and the PRiDE system automatically generates reminders to risk action owners when an update is required. The Corporate Risk Manager, who provides assistance and guidance to Departmental and District Risk Managers, monitors the effectiveness of these processes and reports findings on a quarterly basis to the Chief Constables Forum and on a semi-annual basis to the Deputy Chief Constable to assist the Chief Officers' Annual Performance Appraisal process. Further assurance was derived from the District 'Control Risk Self Assessment' (CRSA) process that was conducted at the end of 2010. The results of the CRSA showed that all Districts were deemed to be fully compliant with Risk Management processes.

A Corporate Risk Register is actively managed by the Corporate Risk Manager that is designed to capture significant strategic risks facing the organisation during 2010-11. Chief Officers review the Corporate Risk Register on a monthly basis at the Resource Demand and Risk Committee (RDRC). The key risk priorities facing the organisation during 2010-11 were in relation to the threat of terrorist attack, recruitment and retention of key investigative staff, funding, legacy investigations and public confidence. The Corporate Risk Manager provides written reports to RDRC to inform decision-making and maintains the Corporate Risk Register on behalf of the Chief Constable. The Corporate Risk Manager also briefs the RDRC on emerging risks and significant risks arising from Districts and/or Departments.

Stewardship reporting is a key assurance control ensuring accountability, ownership and management of risks throughout the Service. All Chief Officers and Senior Managers sign a Stewardship Statement on a half yearly basis thereby confirming that over the preceding six month period they have reviewed the risk register for their respective areas of responsibility and assessed the management of the risks identified. Stewardship reporting provides assurance that key risks are being managed across the organisation.

Processes to Manage Operational Risks introduced during 2009-10 incorporate the risks identified through the operation of the National Intelligence Model (NIM). These risks are at strategic and tactical levels and continue to provide assurance. NIM control strategies for each priority are aligned with the actions necessary to manage any identified risk.

The terms of reference for the Organisational Improvement Committee (OIC) included a strategic management oversight role in relation to the management of risk registers at District/Departmental level. Trained and qualified staff from within the Planning and Governance Unit have provided ongoing advice and guidance at all levels of the organisation on risk management techniques.

STATEMENT ON INTERNAL CONTROL (CONTINUED)

The PSNI Audit and Risk Committee, chaired by a Non Executive Member, is responsible for providing assurance to the Chief Constable that effective risk management, governance and control arrangements are in place. The Committee receives regular reports on risk management and updates to the Corporate Risk Register. In addition, the Committee also receives regular reports from both Internal and External Audit and from a number of other assurance sources. PSNI is also subject to regular review by Her Majesty's Inspectorate of Constabulary (HMIC) the Criminal Justice Inspectorate for Northern Ireland and other independent monitoring bodies, adding to the Assurance framework.

Overview

The Overview database is now firmly embedded into the organisation which further enhances the overall governance arrangements. The database is used to assign, track and manage the implementation of recommendations arising from third party reports. The Organisational Improvement Committee received reports on the quality and timeliness of the implementation of recommendations throughout the year. These reports were also tabled at the Audit and Risk Committee to provide assurance of the overall management of Overview.

As a result of ongoing internal Strategic Review during 2010-11, the Governance Committee structure was reviewed. This will result in a new governance committee structure that will be implemented from the 1 April 2011.

Information Assurance

PSNI continues to implement its current Information Assurance Strategy to protect all of PSNI's information assets, enable secure delivery of operational policing services and inspire public confidence that our information is protected in line with the appropriate standards. The Strategy complies with the Cabinet Office requirements defined in the Security Policy Framework and is aligned with ISO 27001 on Information Security Management. The Strategy is owned by the Senior Information Risk Owner (SIRO) - ACC Operational Support - and implementation progress is monitored by the Information Management Committee chaired by the SIRO. Thirty seven out of a total of fifty one objectives were complete by 31 March 2011 with a further eleven in progress towards completion. The Strategy is currently being reviewed and updated towards 2013 to reflect the changing business requirements of policing and the latest Governmental Policy on Information Assurance.

An information governance structure is well established with a hierarchy of Strategic and Operational Business Owners taking responsibility for effectively managing information risk for their respective systems. The Corporate Information Risk Register is maintained by a dedicated Information Assurance Unit and detailed Risk Treatment Plans are managed through the security accreditation process involving Operational Business Owners. During 2010-11 PSNI achieved all the mandatory targets set by the National Policing Improvement Agency for compliance with national information assurance policy.

STATEMENT ON INTERNAL CONTROL (CONTINUED)

PSNI suffered one breach of sensitive data during the period. This resulted when a member of staff was assaulted and had his briefcase stolen. The circumstances were reported to the Information Commissioner and are the subject of an on-going investigation.

An updated PSNI Information Assurance Policy, supported by twenty-seven detailed information security standards, was published during 2010. At 31 March 2011 forty major information systems were accredited, seventeen were in the accreditation process and a further thirteen are to be progressed during 2011-12. A security culture audit was undertaken with recommendations to be taken forward to enhance and improve information security education, awareness and training throughout the organisation.

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 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 (and any other external stakeholders including Her Majesty's Inspectorate of Constabulary's (HMIC) and Criminal Justice Inspectorate for Northern Ireland (CJINI) etc). The Chief Officers and the Audit and Risk Committee have advised me on the implications of the result of my review of the effectiveness of the system of internal control, 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 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 organisation's system of internal control. Based upon the work Internal Audit have undertaken during the year, they have provided the Chief Constable with a satisfactory level of assurance in relation to risk management, internal control and governance with the exception of a number of specific areas. Firm action has been taken by PSNI to address issues where "Limited" assurance levels on individual reviews were identified.



Matt Baggott
Chief Constable
Police Service of Northern Ireland
22 June 2011

**THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND
AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY**

I certify that I have audited the financial statements of the Police Service of Northern Ireland Pension Accounts for the year ended 31 March 2011 under the Police (Northern Ireland) Act 2000 as amended by the Police (Northern Ireland) Act 2003 as amended by Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010. These comprise the Combined Statement of Comprehensive Net Expenditure, the Combined Statement of Financial Position, the Combined Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Northern Ireland Policing Board, the Chief Constable and auditor

As explained more fully in the Statement of Responsibilities of the Chief Constable, the Northern Ireland Policing Board and the Chief Constable as Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with the Police (Northern Ireland) Act 2000 as amended by the Police (Northern Ireland) Act 2003 as amended by Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Police Service of Northern Ireland Pension Account's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Police Service of Northern Ireland Pension account; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

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

**THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND
AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY
(CONTINUED)**

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Police Service of Northern Ireland Pension Account's affairs as at 31 March 2011 and of its combined net expenditure, changes in taxpayers' equity and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Police (Northern Ireland) Act 2000 as amended by the Police (Northern Ireland) Act 2003 as amended by Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010 and directions issued thereunder by the Department of Justice.

Opinion on other matters

In my opinion the information given in the Report of the Managers and the Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with Department of Finance and Personnel's guidance.

Report

I have no observations to make on these financial statements.



KJ Donnelly
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU
30 June 2011

POLICE SERVICE OF NORTHERN IRELAND
POLICE PENSION ACCOUNTS FOR YEAR ENDED 31 MARCH 2011

**COMBINED STATEMENT OF COMPREHENSIVE NET EXPENDITURE FOR
THE YEAR ENDED 31 MARCH 2011**

	<u>Note</u>	2010-11 £000	2009-10 £000
Income			
Contributions receivable	3	92,489	81,680
Transfers In	4	<u>1,020</u>	<u>1,670</u>
		<u>93,509</u>	<u>83,350</u>
Expenditure			
Current Service Costs	5	(147,640)	(110,070)
Past Service Costs	5	650,140	-
Enhancements	6	(22,100)	(11,720)
Transfers In	4	(1,020)	(1,670)
Interest on Scheme Liabilities	8	<u>(254,700)</u>	<u>(270,080)</u>
		<u>224,680</u>	<u>(393,540)</u>
Combined Net Expenditure		<u>318,189</u>	<u>(310,190)</u>
Other			
Other Comprehensive Net Expenditure			
Actuarial Gain / (Loss)	13.5	<u>339,460</u>	<u>(1,341,020)</u>
Total Comprehensive Net Expenditure for the year ended 31 March 2011		<u>657,649</u>	<u>(1,651,210)</u>

The notes on pages 22 to 40 form part of these accounts.

POLICE SERVICE OF NORTHERN IRELAND
POLICE PENSION ACCOUNTS FOR YEAR ENDED 31 MARCH 2011

COMBINED STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2011

	<u>Note</u>	2010-11 £000	2009-10 £000
Non- current assets:			
Receivables	11	<u>208</u>	<u>131</u>
		208	131
Current assets:			
Receivables	11	<u>11,660</u>	<u>10,863</u>
		11,868	10,994
Payables (within 12 months)	12	<u>(11,660)</u>	<u>(10,863)</u>
Net Current assets		208	131
Payables (after 12 months)	12	(208)	(131)
Pension Liability:			
Closed Scheme	13.1	(5,219,900)	(5,993,270)
New Scheme	13.2	<u>(68,570)</u>	<u>(55,860)</u>
Net Liabilities including Pension Liabilities		<u>(5,288,470)</u>	<u>(6,049,130)</u>
Taxpayers' Equity:			
General Fund		<u>(5,288,470)</u>	<u>(6,049,130)</u>

The financial statements on pages 18 to 40 were approved and authorised by the PSNI on 22 June 2011 and were signed on its behalf by:

Matt Baggott

Matt Baggott
Chief Constable
Police Service of Northern Ireland
22 June 2011

The notes on pages 22 to 40 form part of these accounts

POLICE SERVICE OF NORTHERN IRELAND
POLICE PENSION ACCOUNTS FOR YEAR ENDED 31 MARCH 2011

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2011

	Notes	General Reserve	
		2010-11 £000	2009-10 £000
Balance at 31 March		(6,049,130)	(4,530,340)
Grant from Parent Department		103,011	117,420
Discharge of Commutation Judicial Review 2008/09		-	15,000
Combined Net Expenditure		318,189	(310,190)
Actuarial Loss		<u>339,460</u>	<u>(1,341,020)</u>
Net Change in Taxpayers' Equity		<u>760,660</u>	<u>(1,518,790)</u>
Balance at 31st March		<u>(5,288,470)</u>	<u>(6,049,130)</u>

The notes on pages 22 to 40 form part of these accounts

POLICE SERVICE OF NORTHERN IRELAND
POLICE PENSION ACCOUNTS FOR YEAR ENDED 31 MARCH 2011

**COMBINED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 MARCH 2011**

	<u>Note</u>	2010-11 £000	2010-09 £000
Cash Flows from Operating Activities			
Combined Net Expenditure for the year less movement and payables relating to items not passing through the revenue account		318,189	(310,190)
(Increase)/ Decrease in Receivables - non-current assets	11a	(77)	25
(Increase)/ Decrease in Receivables - current assets	11a	(797)	(3,859)
Increase/ (Decrease) in Payables - after 12 months	12a	77	(25)
Increase/ (Decrease) in Payables - within 12 months	12a	797	3,859
Increase in pension provision- Closed Scheme	13.1	(266,360)	367,470
New Scheme	13.2	18,560	12,680
Increase in pension provision- Enhancements and transfers in:			
Closed Scheme	13.1	22,100	11,720
New Scheme	13.2	1,020	1,670
Use of provision:			
Closed Scheme-			
Pension Payments	13.3	(147,300)	(138,680)
Gratuities/ Commutations	13.3	(48,150)	(61,140)
Payments to and on account of leavers	13.3	(980)	(900)
New Scheme-			
Pension Payments	13.3	(30)	-
Payments to and on account of leavers	13.3	<u>(60)</u>	<u>(50)</u>
Net Cash outflow from Operating Activities		(103,011)	(117,420)
Cash flows from Financing Activities			
Financing		<u>103,011</u>	<u>117,420</u>
Increase/ Decrease in Cash and cash equivalent in the period		<u><u>=</u></u>	<u><u>=</u></u>

The notes on pages 22 to 40 form part of these accounts.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. Basis of preparation of the Pension Accounts

The PSNI Pension Accounts have been prepared in accordance with the relevant provisions of the 2010-11 Government Reporting Manual (FReM), which reflects the requirements of International Accounting Standard (IAS) 19 Employee Benefits and IAS 26 Accounting and Reporting by Retirement Benefit Plans. These accounts show the unfunded pension liabilities and movements in those liabilities during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice (SORP) Financial Reports of Pension Schemes to the extent that these are appropriate, together with Section 12 (3) of the Police (Northern Ireland) Act 2000 as amended by Section 7 (4) of the Police (Northern Ireland) Act 2003 and the Northern Ireland Act 1988 (Devolution of Policing Functions) 2010 and the Accounts Direction from the Department of Justice.

The Accounts summarise the transactions of both the Closed Police Pension Scheme and the New Police Pension Scheme. The Consolidated Statement of Financial Position shows the deficits on each scheme; the Statement of Comprehensive Net Expenditure shows the total of the movements from each scheme liability analysed between the pension cost, enhancements and transfers in, and the interest on the scheme liability. The actuarial position of each pension scheme is dealt with in the Report of the Actuary (Page 9), and the pension accounts should be read in conjunction with that report.

2 Statement of accounting policies

The accounting policies contained in the FReM follow international generally accepted accounting practice for companies (international GAAP) to the extent that it is meaningful and appropriate to the public sector.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Scheme for the purpose of giving a true and fair view has been selected. The accounting policies adopted have been applied consistently in dealing with items considered material in relation to the accounts.

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

The Statement of Financial Position at the 31 March 2011 shows a liability of £5.288bn. This reflects the inclusion of liabilities falling due in future years which are to be financed by drawings from the Northern Ireland Consolidated Fund. Such drawings will be from grants in aid approved annually by the Northern Ireland Assembly, to meet the Net Cash Requirement of the DOJ which fund the PSNI. Under the Government Resources and Accounts Act NI 2001, no money may be drawn from the Fund by the Department of Justice other than required for

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

the service of the specified year or retained in excess of that need.

There is no reason to believe that the future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of the PSNI's Police Pension Accounts for 2010-11.

2.2 Contributions receivable

Employers' normal pension contributions are accounted for on an accruals basis.

Employers' special pension contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, on a cash basis.

Employees' pension contributions which exclude amounts paid in respect of the purchase of added years and Additional Voluntary Contributions are accounted for on an accruals basis.

Employees' contributions paid in respect of the purchase of added years are accounted for on an accruals basis. The associated increase in the scheme liability is recognised as expenditure.

2.3 Early Retirement

Funding has been received in 2010-11 £1,036k to facilitate the costs incurred against approved early retirement of Police Officers.

2.4 Transfers in and out

Transfers in are normally accounted for as income and expenditure (representing the associated increase in the scheme liability) on a cash basis, although group transfers in may be accounted for on an accruals basis where the scheme has formally accepted or transferred a liability.

2.5 Other income

Other income, including refunds of gratuities, overpayments recovered other than by deduction from future benefits are accounted for on an accruals basis. To the extent that this income also represents an increase in the scheme liability, it is also reflected in expenditure.

2.6 Current service cost

The current service cost is the increase in the present value of the scheme liabilities arising from current member's service in the current period and is recognised in the Combined Statement of Comprehensive Net Expenditure. The cost is based on a real discount rate of 2.5%.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

Past service costs

2.7

Past service costs are increases in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

The change from RPI to CPI indexation from 1 April 2011 will be treated as a change in benefits and will therefore be shown as a negative past service cost measured as at 22 June 2010, the date of the Government announcement. This will also impact on some of the other items included in the Combined Statement of Comprehensive Net Expenditure such as the current service cost and the interest cost which will be measured on CPI expectation between 22 June 2010 and 31 March 2011.

2.8 Enhancements

Any enhancements to pensions, including on departure or retirement, are measured and reflected immediately in the Combined Statement of Comprehensive Net Expenditure.

2.9 Interest on scheme liabilities

The interest cost is the increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement and is recognised in the Combined Statement of Comprehensive Net Expenditure. The interest cost is based on a real discount rate of 2.5%.

2.10 Other payments

Other payments are accounted for on an accruals basis.

2.11 Scheme liabilities

Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liability is measured on actuarial basis using the projected unit method and is discounted at a rate of 2.5%.

Full actuarial valuations by a professionally qualified actuary are obtained at intervals not exceeding four years. The actuary reviews the most recent actuarial valuation at the date of the statement of financial position and updates it to reflect current conditions.

2.12 Pension benefits payable

Pension benefits payable are accounted for as a decrease in the scheme liability on an accruals basis.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

2.13 Pension payments to those retiring at their normal retirement age

Where a retiring member of either pension scheme has no choice over the allocation of benefits receivable between the value of the lump sum and the annual pension, the transaction is accounted for as a decrease in the scheme liability on an accruals basis.

Where a retiring member of either pension scheme has a choice over the allocation of benefits receivable between the value of the lump sum and the annual pension, the transaction is accounted for as a decrease in the scheme liability on a cash basis.

2.14 Pension payments to and on account of leavers before their normal retirement age

Where a member of either pension scheme is entitled to only a refund of contributions, the transaction is accounted for as a decrease in the scheme liability on an accruals basis.

Where a member of either pension scheme has the option of receiving a refund of contributions or a deferred pension, the transaction is accounted for as a decrease in the scheme liability on a cash basis.

2.15 Injury benefits

Injury benefits are accounted for in the PSNI Main Financial Statements.

2.16 Lump sums payable on death in service

Lump sum payments payable on death in service are accounted for on an accruals basis. They are funded through the normal pension contributions and are a charge on the pension provision.

2.17 Actuarial gains / losses

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the statement of financial position date are recognised in the Statement of Comprehensive Net Expenditure for the year.

2.18 Additional voluntary contributions

Additional Voluntary Contributions (AVC's) are deducted from employees' salaries and are paid over directly by the employing departments to the approved AVC providers.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

2.19 Administration Expenses

Administration expenses are borne by the PSNI Main Accounts and are excluded from these statements.

2.20 Receivables and Payables

Total Receivables and Payables have been reanalysed into two additional categories to add clarity. The additional categories are Non-Current Assets and Non-Current Liabilities.

2.21 Accounting standards, interpretations and amendments to published standards adopted during the year ended 31 March 2011

The PSNI has reviewed the accounting standards, interpretations and amendments to published standards that became effective during 2010-11 and which are relevant to its operations. The adoption of these standards has not had a significant impact on the financial position or results of the Police Pension Fund.

2.22 Accounting standards, interpretations and amendments to published standards not yet effective

The PSNI has reviewed the additional or revised accounting standards and new (or amendments to) interpretations contained within the Government Financial Reporting Manual (FReM) 2011-12 and considers that these changes are not relevant to its operations.

In addition, certain new standards, interpretations and amendments to existing standards have been published that are mandatory for accounting periods beginning on or after 1 April 2011 or later periods, but which the PSNI has not adopted early.

Standard	Description of revision	Application date	Comments
IAS 24	Related Party Disclosures - Revised definition of related parties	Annual periods beginning on or after 1 January 2011	Inclusion of a partial exemption for government-related entities. Given that the FReM interprets the related party requirements significantly to reduce the disclosure on transactions between public sector entities it is unlikely that this will have significant impact.

POLICE SERVICE OF NORTHERN IRELAND
POLICE PENSION ACCOUNTS FOR YEAR ENDED 31 MARCH 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

3. Contributions Receivable

	<u>Note</u>	2010-11 £000	2009-10 £000
Employers' Contributions:			
Closed Scheme		52,700	46,403
New Scheme		10,622	6,846
Employees' Contributions:			
Closed Scheme			
Normal		23,960	25,207
Purchase of added years		22	25
New Scheme			
Normal		4,144	3,194
Purchase of added years		5	5
Early Retirement		<u>1,036</u>	-
		<u>92,489</u>	<u>81,680</u>

4. Transfers in (see also Note 7)

Individual transfers in from other schemes			
Closed Scheme	13.1	-	-
New Scheme	13.2	<u>1,020</u>	<u>1,670</u>
		<u>1,020</u>	<u>1,670</u>

5. Service Costs

Current Service Cost

Closed Scheme	13.1	125,230	98,890
New Scheme	13.2	<u>22,410</u>	<u>11,180</u>
		<u>147,640</u>	<u>110,070</u>

Past Service Cost

Closed Scheme	13.1	(643,430)	-
New Scheme	13.2	<u>(6,710)</u>	-
		<u>(650,140)</u>	-

POLICE SERVICE OF NORTHERN IRELAND
POLICE PENSION ACCOUNTS FOR YEAR ENDED 31 MARCH 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

6. Enhancements

	<u>Note</u>	2010-11 £000	2009-10 £000
Employers:			
Closed Scheme			
Enhancement to pensions on retirement	13.1	22,100	11,720
New Scheme			
Enhancement to pensions on retirement	13.2	<u>-</u>	<u>-</u>
		<u>22,100</u>	<u>11,720</u>

7. Transfers in (see also Note 4)

Individual transfers in from other schemes			
Closed Scheme	13.1	-	-
New Scheme	13.2	<u>1,020</u>	<u>1,670</u>
		<u>1,020</u>	<u>1,670</u>

8. Interest on Scheme Liabilities

		2010-11 £000	2009-10 £000
Interest charge for the year:			
Closed Scheme	13.1	251,840	268,580
New Scheme	13.2	<u>2,860</u>	<u>1,500</u>
		<u>254,700</u>	<u>270,080</u>

9. Administration Fees and Expenses

All costs of administering the PSNI Pension Schemes are borne by the PSNI, and included within the PSNI Main Financial Statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

10. Additional Voluntary Contributions

The Closed Police Pension Scheme provides for officers to make additional voluntary contributions (AVC's) to increase their pension entitlements or to increase life assurance cover. Officers may arrange to have agreed sums deducted from their salaries, for onward payment to the approved provider. (i.e. Equitable Life or Standard Life). The Managers of the Police Pension Scheme have responsibility only for onward payment by employers of officer's contributions to the scheme's approved provider. These AVC's are not brought to account in this statement. Officer's participating in this arrangement receive an annual statement from the approved provider as at 31 March confirming the amounts held to their account and the movements in the year.

The aggregate amounts of AVC investments are as follows:

	2010-11 £000	2009-10 £000
Movements in the year:		
Balance at 1 April	849	793
New Investments	27	32
Sale of investments to provide pension benefits	(48)	(137)
Changes in market value of Investments	<u>51</u>	<u>161</u>
Balance at 31 March	<u>879</u>	<u>849</u>
Contributions received to provide life cover	-	-
Benefits paid on death	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

There is no in-house AVC Scheme available to members of the New Police Pension Scheme introduced from 6 April 2006.

POLICE SERVICE OF NORTHERN IRELAND
POLICE PENSION ACCOUNTS FOR YEAR ENDED 31 MARCH 2011

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

11. Receivables – contributions due in respect of pensions

	2010-11	2009-10
11(a) Analysis by type:		
	£000	£000
Amounts Falling due within 1 year		
Pension contribution due from employer	9,417	9,475
Pension overpayments less than 1 year	52	7
Amounts due from PSNI main accounts	2,183	1,373
Other receivables	<u>8</u>	<u>8</u>
	11,660	10,863
Amounts falling due after 1 year		
Pension overpayments more than 1 year	323	203
Provision for doubtful debts	<u>(115)</u>	<u>(72)</u>
At 31 March 2011	<u>11,868</u>	<u>10,994</u>

11(b) Intra-Government Balances

	2010-11	2009-10
	£000	£000
Amounts falling due within 1 year		
Balances with other central government bodies	11,600	10,848
Balances with bodies external to government	<u>60</u>	<u>15</u>
	11,660	10,863
Amounts falling due after 1 year		
Balances with bodies external to government	<u>208</u>	<u>131</u>
At 31 March 2011	<u>11,868</u>	<u>10,994</u>

**POLICE SERVICE OF NORTHERN IRELAND
POLICE PENSION ACCOUNTS FOR YEAR ENDED 31 MARCH 2011**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

12. Payables in respect of pensions

12(a) Analysis by type:

	2010-11 £000	2009-10 £000
Amounts Falling due within 1 year		
Amount due to PSNI main accounts	9,477	9,490
Unpaid Pensions	75	55
HM Revenue and Customs	<u>2,108</u>	<u>1,318</u>
	11,660	10,863
Amounts falling due after 1 year		
Amounts due to PSNI main accounts	<u>208</u>	<u>131</u>
At 31 March 2011	<u>11,868</u>	<u>10,994</u>

12(b) Intra-Government Balances

	2010-11 £000	2009-10 £000
Amounts falling due within 1 year		
Balances with other central government bodies	11,585	10,808
Balances with bodies external to government	<u>75</u>	<u>55</u>
	11,660	10,863
Amounts falling due after 1 year		
Balances with other central government bodies	<u>208</u>	<u>131</u>
At 31 March 2010	<u>11,868</u>	<u>10,994</u>

13. Provision for Pension Liabilities

Assumptions underpinning the provision for pension liability

Both the PSNI Police Pension Schemes are unfunded defined benefit schemes. An actuarial valuation of each scheme was carried out as at 31 March 2011 by the Government Actuary's Department. The report of the Actuary on pages 9 and 10 sets out the scope, methodology and results of the work the actuary has carried out.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

The PSNI are responsible for providing the Actuary with the information the Actuary needs to carry out the valuation. This information includes, but is not limited to, details of:

- scheme membership, including age and gender profile, active membership, deferred pensioners and pensioners;
- benefit structure, including details of any discretionary benefits and any proposals to amend the scheme;
- income and expenditure, including details of expected bulk transfers into or out of the scheme; and
- following consultation with the Actuary, the key assumptions that should be used to value the scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

The major assumptions used by the Actuary were:

	At 31 March 2011	At 31 March 2010	At 31 March 2009	At 31 March 2008	At 31 March 2007
Rate of increase in salaries	4.9%	4.3%	4.3%	4.3%	4.3%
Rate of increase in pensions	2.65%	2.75%	2.75%	2.75%	2.75%
Rate of inflation	2.65%	2.75%	2.75%	2.75%	2.75%

Mortality rate

Expectation of life in years of current pensioners

At 31 March	2011	2010	2009	2008	2007
Males (Age 60)	29.2	29.1	28.5	28.4	25.5
Males (Age 65)	24.1	23.9	23.4	23.3	20.6
Females (Age 60)	32.5	32.3	31.7	31.6	28.5
Females (Age 65)	27.3	27.1	26.6	26.4	23.6

NOTES TO THE ANNUAL FINANCIAL STATEMENT (CONTINUED)

Expectation of life in years of current active/deferred members on retirement at age stated

At 31 March	2011	2010	2009	2008	2007
Males (Age 60)	30.7	30.6	30.2	30.1	27.5
Males (Age 65)	26.1	26.0	25.6	25.5	22.7
Females (Age 60)	33.9	33.8	33.3	33.2	30.5
Females (Age 65)	29.2	29.1	28.6	28.6	25.6

Notes:

For 2005 as 82% of the scheme membership was male, all benefits were valued using the male demographic assumptions. This is regarded as simplifying the assessment, whilst not having a material impact on the results.

	At 31 March 2011	At 31 March 2010	At 31 March 2009	At 31 March 2008	At 31 March 2007
Rate for discounting scheme liabilities	5.6%	4.6%	6.04%	5.3%	4.6%

These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The actuary uses professional expertise in arriving at a view of the most appropriate rates to use in the annual valuation of the scheme liabilities. However, the scheme manager acknowledges that the valuation reported in these accounts is not certain, since a change in any one of these assumptions will either increase or reduce the liability. For example, on its own, even a small rise in the assumed rate of inflation will result in an increase in the pension liability.

The assumption that has the biggest impact on the amount of the reported liability is the discount rate net of price inflation. As set out in the FRM, and as required by IAS 19, the discount rate net of price inflation is based on yields on high quality corporate bonds. HM Treasury advise the relevant rate each year, based on the advice of the Government Actuary's Department. The inflation assumption reflects long – term assumption for the CPI used in Treasury forecasting. The rates are set out in the above table. Any decrease in the rate leads to a significant increase in the reported liability.

In reality, the complexity and range of assumptions underlying the calculation of the pension liability are such that a change in one financial assumption is likely to have a knock-on effect on other financial assumptions. The scheme manager does not consider it useful to attempt to reflect the impact of any changes in the range of assumptions, since this would result in giving a range of inherently uncertain figures.

NOTES TO THE ANNUAL FINANCIAL STATEMENT (CONTINUED)

In the opinion of the scheme manager, the actuary has used key assumptions that are the most appropriate for the scheme in the light of current knowledge.

Analysis of the provision for pension liability

Pension scheme liabilities accrue over employees' periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing each scheme liability, the Actuary must estimate the impact of several inherently uncertain variables far into the future. These variables include not only the key financial assumptions noted in the table above, but also assumptions about the changes that occur in the future in the mortality rate, the age of retirement and the age from which a pension becomes payable.

The value of each scheme liability included on the Statement of Financial Position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to reduce the assumed rate of inflation, or the assumed rate of increase in salaries, then the value of the pension scheme liability will decrease (other things being equal). Conversely, if the assumed rates are increased, the value of the liability will increase. The manager accepts that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in this note. The note also discloses 'experience' gains or losses for the year, showing the amount charged or credited for the year because events have not coincided with assumptions made for the last valuation.

Scheme Membership date for the previous 5 years

	2010-11	2009-10	2008-09	2007-08	2006-07
Closed Police Pension Scheme					
Active Members	5,586	6,127	6,758	7,327	7,920
Deferred Members	1,221	1,125	1,120	922	864
Pensioners in Payment Members	11,258	10,805	10,309	9,732	9,162
Pensioners in Payment Dependents	1,561	1,509	1,493	1,444	1,429
Compensation Payments	93	111	143	162	208
New Police Pension Scheme					
Active Members	1,868	1,476	1,028	668	358
Deferred Members	19	9	2	-	-
Pensioners in Payment Members	-	-	-	-	-
Pensioners in Payment Dependents	3	1	1	-	-
Compensation Payments	-	-	-	-	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

13.1 Analysis of Movement in the Closed Pension Scheme Liability

	2010-11 £000	2009-10 £000
Scheme liability at 1 April	<u>(5,993,270)</u>	<u>(4,511,880)</u>
Current service cost	(125,230)	(98,890)
Past service cost	643,430	-
Interest on pension scheme liability	<u>(251,840)</u>	<u>(268,580)</u>
	<u>266,360</u>	<u>(367,470)</u>
Enhancements	(22,100)	(11,720)
Transfers in	<u>-</u>	<u>-</u>
	<u>(22,100)</u>	<u>(11,720)</u>
Discharge of Commutation Judicial Review 2008/09	-	15,000
Pension payments (see note 13.3)	196,430	200,720
Actuarial gain (see note 13.5)	<u>332,680</u>	<u>(1,317,920)</u>
Scheme liability at 31 March	<u>(5,219,900)</u>	<u>(5,993,270)</u>

During the year ended 31 March 2011 employee contributions represented an average of 11.0% of pensionable pay. Employer contributions represented an average of 24.2% for 2010-11 to standardise with other UK Police Services as directed by Government and DFP through DOJ.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

13.2 Analysis of Movement in the New Pension Scheme Liability

	2010-11 £000	2009-10 £000
Scheme Liability at 1 April	<u>(55,860)</u>	<u>(18,460)</u>
Current Service Cost	(22,410)	(11,180)
Past Service Cost	6,710	-
Interest on pension scheme liability	<u>(2,860)</u>	<u>(1,500)</u>
	<u>(18,560)</u>	<u>(12,680)</u>
Transfers In	(1,020)	(1,670)
Enhancements	-	-
Pension payments (see note 13.3)	90	50
Actuarial gain (see note 13.5)	<u>6,780</u>	<u>(23,100)</u>
Scheme Liability at 31 March	<u>(68,570)</u>	<u>(55,860)</u>

During the year ended 31 March 2011, employee contributions represented an average of 9.5% of pensionable pay. Employer contributions represented an average of 20.25% of pensionable pay and are proposed to be maintained at this level for 2011-12.

13.3 Analysis of benefits paid

	2010-11 £000	2009-10 £000
Closed Scheme:		
Pension Payments	147,300	138,680
Gratuities/ Commutations	48,150	61,140
Payments to and on account of leavers (see note 13.4)	<u>980</u>	<u>900</u>
Per Statement of Cash Flows	<u>196,430</u>	<u>200,720</u>
New Scheme:		
Pension Payments	30	-
Payments to and on account of leavers (see note 13.4)	<u>60</u>	<u>50</u>
Per Statement of Cash Flows	<u>90</u>	<u>50</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

13.4 Analysis of payments to and on account of leavers

	2010-11 £000	2009-10 £000
Closed Scheme:		
Refunds to members leaving service	-	26
Individual transfers to other schemes	<u>980</u>	<u>874</u>
Per Statement of Cash Flows	<u>980</u>	<u>900</u>
New Scheme:		
Refunds to members leaving service	60	50
Individual transfers to other schemes	-	-
Per Statement of Cash Flows	<u>60</u>	<u>50</u>

13.5 Analysis of Actuarial Gain/ Loss

	2010-11 £000	2009-10 £000
Closed Scheme:		
Experience gains and (losses) arising on pension liabilities	(69,970)	159,830
Changes in assumptions underlying the present value of the pension liabilities	<u>402,650</u>	<u>(1,477,750)</u>
	<u>332,680</u>	<u>(1,317,920)</u>
New Scheme:		
Experience losses arising on pension liabilities	(6,580)	(660)
Changes in assumptions underlying the present value of the pension liabilities	<u>13,360</u>	<u>(22,440)</u>
	<u>6,780</u>	<u>(23,100)</u>
Per Consolidated Statement of Comprehensive Net Expenditure	<u>339,460</u>	<u>(1,341,020)</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

13.6 History of Experience Gain/(Loss)

	2011-10	2010-09	2009-08	2008-07	2007-06
Closed Scheme:					
Experience loss on scheme liabilities					
Amount (£m)	(69.97)	159.83	(54.47)	22.34	(15.24)
Percentage of liability at the year end	(1.3%)	2.7%	(1.2%)	0.5%	(0.3%)
Total actuarial loss					
Amount (£m)	332.68	(1,317.92)	596.14	498.21	(947.81)
Percentage of liability at the year end	6.4%	(22%)	13.3%	10.2%	(18.5%)
New Scheme:					
Experience loss on scheme liabilities					
Amount (£m)	(6.58)	(0.66)	(2.05)	(1.12)	(0.03)
Percentage of liability at the year end	(9.6%)	(1.2%)	(11.1%)	(11.0%)	(1.2%)
Total actuarial gain/ (loss)					
Amount (£m)	6.78	(23.1)	3.31	1.20	(0.82)
Percentage the present value of scheme liabilities	9.9%	(41.4%)	17.9%	11.8%	(31.9%)

14. Financial Instruments

Accounting standards require disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of its activities and the way in which PSNI is funded from the Department of Justice, the PSNI Police Pension Accounts are not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a more limited role in creating or changing risk than would be typical of the listed companies.

The PSNI Pension Accounts rely primarily on departmental funding for its revenue resource requirements, and is therefore not exposed to liquidity risks. It also has no material deposits, and all assets and liabilities are determined in sterling, so it is not exposed to interest rate or currency risk.

15. Losses and Special Payments

During the year there were £71,726 (14 cases) of Losses or Special Payments recorded (2009-10 - £16,937, 12 cases).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

16. Related party transactions

PSNI is a body of constables, funded through the Northern Ireland Policing Board which is a Non-Departmental Public Body of the Department of Justice.

The Department of Justice is regarded as a related party. During the year the PSNI Pension Account has had a number of material transactions with the Department of Justice and other government Departments, namely the Department of Finance and Personnel.

None of the Managers of the Schemes, key managerial staff or other related parties has undertaken any material transactions with either Scheme during the year.

17. Events Occurring After the Reporting Period

There were no events occurring after the reporting period.

The Annual Report and accounts were authorised by the Chief Constable to be issued on the same day as they were certified by the Comptroller and Auditor General.

