

# POLICE SERVICE OF NORTHERN IRELAND



## Police Pension Accounts

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

For the year ended 31 March 2008

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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 Pensions Scheme operates under the Police Pensions (Northern Ireland) Regulations 2007 which apply retrospectively 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.

This is now the fifth standalone Police Pension Accounts. The rationale of preparing separate Pension Accounts is to avoid the detail required by FRS 17 (Retirement Benefits) from overshadowing and drawing attention away from the record of the police's core financial performance. Prior to these Pension Accounts, a Revenue Account and FRS 17 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 PSNI on behalf of the Northern Ireland Policing Board.

### **Accounts Direction**

The Police Pension Accounts 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.

## REPORT OF THE MANAGERS (continued)

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

### Managers:

*Accounting Officer & Pension  
Scheme Practitioner*

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

*Pension Scheme Administrator*

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

### Advisers:

*Pension Scheme Actuary*

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

*Government Department*

Northern Ireland Office  
Castle Buildings  
Belfast  
BT4 3SG

*Auditors*

Comptroller and Auditor General  
National Audit Office  
151 Buckingham Palace Road  
Victoria  
London  
SW1S 9SS

*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

During the year, pensions were increased by 3.6% with effect from 9 April 2007.

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 2007	<b>7,920</b>
New entrants – transfers in	11
Retirements in the year	(517)
Deaths	(3)
Other leavers	(84)
At 31 March 2008	<b>7,327</b>

#### Deferred Members

At 1 April 2007	864
Members leaving who have deferred pension rights	68
Members taking up deferred pension rights	(10)
At 31 March 2008	<b>922</b>

#### Pensioners in Payment

	Members	Dependents	Total
At 1 April 2007	<b>9,162</b>	<b>1,429</b>	<b>10,591</b>
Members retiring in year at normal retirement age	32	0	32
Other retirements	661	0	661
New dependents	0	88	88
Cessations	(123)	(73)	(196)
At 31 March 2008	<b>9,732</b>	<b>1,444</b>	<b>11,176</b>

#### Compensation Payments

	Members	Dependents	Total
At 1 April 2007	<b>208</b>	<b>0</b>	<b>208</b>
Members leaving under early retirement	14	0	14
Members reaching normal retirement age during the year	(60)	0	(60)
At 31 March 2008	<b>162</b>	<b>0</b>	<b>162</b>

## REPORT OF THE MANAGERS (continued)

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

### Active Members

At 1 April 2007	<b>358</b>
New entrants	343
Retirements in the year	0
Deaths	0
Other leavers	(33)
At 31 March 2008	<b>668</b>

There are no deferred members or pensions in payment as at 31 March 2008.

### 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 in the Closed Scheme. 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.

£46,117 of contributions have been made by members of PSNI to the scheme during the year (see note 17).

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

### Going Concern

The Combined Balance Sheet (which includes liabilities belonging to both the closed and the new pension schemes) at 31 March 2008 shows net liabilities of £4,879.71m. 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 (the Northern Ireland Office). This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Grants for 2008/09 have already been included in the NIO's Estimates for that year, taking into account the amounts required to meet the PSNI's liabilities falling due. These have been approved by Parliament and there is no reason to believe that the NIO's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to

## **REPORT OF THE MANAGERS (continued)**

adopt a going concern basis for the preparation of these pension scheme accounts.

### **Future Developments**

Following the introduction of the New Police Pension Scheme from 6 April 2006, this is the only Scheme available to all new police officer recruits.

### **Post Balance Sheet Events**

From 7 April 2008, pensions were increased by 3.9%.

On 21 May 2008, guidance was published introducing new factors for commutation of annual pensions for lump sum in the Closed Police Pension Scheme and for exchange of lump sum for additional pension in the New Police Pension Scheme.

There are no other post balance sheet events to be noted.

### **Audit Services**

The National Audit Office is responsible for the audit of the Police Pension Accounts. Audit services are paid by the Police Service of Northern Ireland and therefore payments details are included in their Annual Financial Statements. The fees for this year are £17,000 (2006/07: £16,500).

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.

### **Further Information**

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.

## REPORT OF THE ACTUARY

### A. Liabilities

The capitalised value as at 31 March 2008 of expected future benefit payments under the Police Pension Schemes, for benefits accrued in respect of employment (or former employment) prior to 31 March 2008, 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:

	<u>£ million</u> <u>Closed Scheme</u>	<u>£ million</u> <u>New Scheme</u>
Actives (past service)	(2,319.68)	(10.14)
Deferred Pensioners	(125.35)	(0.01)
Current Pensioners (excluding injury)	<u>(2,424.53)</u>	<u>-</u>
<b>Total</b>	<b><u>(4,869.56)</u></b>	<b><u>(10.15)</u></b>

### 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 cost of benefits accruing in the year 2007/08 has been assessed as follows:

	<b>% of pensionable pay</b>	
	Closed Scheme	New Scheme
Current Service Cost	60.9%	55.9%

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

	Closed Scheme £ million	New Scheme £ million
Current Service Cost	151.74	7.00

### C. Methodology

The value of the liabilities has been obtained by projecting the accrued benefits, with allowance for expected future pay increases in respect of active members. The standard contribution rate for accruing costs has also been determined using the projected unit method.

## REPORT OF THE ACTUARY (CONTINUED)

### D. Assumptions

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

- A rate of earnings increase of 4.3% pa excluding promotional and performance increments
- A long term nominal discount rate of 5.3% pa
- A rate of long-term inflation and pensions increases of 2.75% 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 Police Service of Northern Ireland. Full data was provided in respect of the current and former members of the pension scheme as at 31 December 2007, together with summary data as at 31 March 2008.

**Andrew Johnston**  
**Government Actuary's Department**  
**London**

**13 June 2008**

## STATEMENT OF ACCOUNTING OFFICERS RESPONSIBILITIES

Under Section 12(3) of the Police (Northern Ireland) Act 2000 as amended by Section 7(4) of the Police (Northern Ireland) Act 2003, the Chief Constable of the Police Service of Northern Ireland is required to prepare a statement of accounts for pensions purposes on behalf of the Northern Ireland Policing Board, in the form and on the basis directed by the Secretary of State.

With the exception of certain transactions (which are accounted for on a cash basis) the financial statements are prepared on an accruals basis and must give a true and fair view of the financial transactions of the Schemes during the year and the disposition, at the end of the financial year, of the net liability. Note 2, 'Accounting Policies', to the financial statements describes those transactions which are accounted for on a cash basis, the use of which has no material effect on the net outgoings for the year nor on the net liability at the year end.

In preparing the financial statements, 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 a going concern basis.

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 Pension Accounts. 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 pension schemes, are set out in Managing Public Money published by HM Treasury.

## **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 Managing Public Money.

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 Managing Public Money published by HM Treasury.

### **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 2008 and up to the date of approval of the annual report and accounts, 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. This work has included two training events for Risk Managers, bespoke training days for departments and one to one visits with every District Commander and District Risk Management Team.

### **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

## **STATEMENT ON INTERNAL CONTROL (CONTINUED)**

parties including line management. In addition, it also includes details of the monitoring and reporting arrangements. The Risk Policy Framework document was reviewed and updated at the end of 2006/07 and the revised policy published to the organisation in June 2007.

With the publication of the Policing Plan and as part of the development of a fully integrated planning process, all Departments and Districts reviewed their risk registers in light of priorities selected for 2007/08. Following corporate restructuring on 1 April 2007, Area risk registers and District risk registers were merged to reflect the new District Command structure. 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.

A Corporate Risk Register has been in place to highlight the most significant strategic risks facing the organisation for 2007/08. The Register has been revised and updated to take account of the new priorities for 2008/09. Chief Officers also consider the Corporate Risk Register on a monthly basis at the Chief Constable's Forum. The key risk priorities facing the organisation during 2007/08 were in the generic areas of funding, historical enquiries 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 implementing 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.

## **STATEMENT ON INTERNAL CONTROL (CONTINUED)**

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. During 2007/08 PSNI continued to improve risk management procedures by implementing the recommendations of major reviews carried out in previous years. This has led to an increased capacity to identify frequently occurring risks, the development of risk templates and critical assessment of individual risk registers to improve assurance and accountability. Significant progress has already been made in these areas and there is a programme of work in place to continue development throughout 2008/09.

PSNI have also appointed a Senior Information Risk Owner who is a member of the executive management team. PSNI comply with Communications–Electronics Security Group (CESG) and national guidance on information assurance and have an Information Assurance Unit which specifically addresses assurance issues pertaining to the collection, use, storage and retrieval of information.

### **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. 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.

**Sir Hugh Orde**  
**Chief Constable**  
**Police Service of Northern Ireland**  
**20 June 2008**

## **THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT**

I certify that I have audited the financial statements of the Police Service of Northern Ireland Pension Accounts for the year ended 31 March 2008 under the Police (Northern Ireland) Act 2000 as amended by the Police (Northern Ireland) Act 2003. These comprise the Combined Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

### **Respective responsibilities of the Police Service of Northern Ireland, the Chief Constable and auditor**

The Chief Constable, as Accounting Officer, is responsible for preparing the Report of the Managers 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 Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements 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 have been properly prepared in accordance with 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 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 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 to form an opinion on the effectiveness of the 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, which comprises the Report of the Managers and the Actuary's Report, and consider whether it is consistent with the audited financial statements.

I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### **Basis of audit opinions**

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by 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.

### **Opinions**

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 scheme's affairs as at 31 March 2008, combined net outgoings, recognised gains and losses 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 and directions made thereunder by the Secretary of State for Northern Ireland.

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

**Opinion on Regularity**

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

**Report**

I have no observations to make on these financial statements.

***T J Burr  
Comptroller and Auditor General  
National Audit Office  
151 Buckingham Palace Road  
Victoria  
London  
SW1W 9SS***

***27 June 2008***

**COMBINED REVENUE ACCOUNT FOR THE YEAR ENDED  
 31 MARCH 2008**

	<u>Notes</u>	<u>Year ended 31 March 2008</u>	<u>Year ended 31 March 2007</u>
		£000	£000
<b>Income</b>			
Contributions receivable	3	81,596	83,127
Transfers In	4	1,690	1,670
Total		<u>83,286</u>	<u>84,797</u>
<b>Outgoings</b>			
Current Service Costs	5	(158,740)	(122,330)
Enhancements	6	(8,980)	(9,360)
Transfers In	4	(1,690)	(1,670)
Interest on Scheme liabilities	7	(236,060)	(214,050)
Total		<u>(405,470)</u>	<u>(347,410)</u>
Removal of Provision for Injury Awards	8	<u>-</u>	187,000
<b>Net outgoings for the year</b>		<b><u>(322,184)</u></b>	<b><u>(75,613)</u></b>

The notes on pages 21 to 35 form part of these accounts.

**COMBINED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 MARCH 2008**

	<u>Notes</u>	<u>Year ended 31 March 2008</u>	<u>Year ended 31 March 2007</u>
		£000	£000
<b>Net outgoings for the year</b>		<b>(322,184)</b>	<b>(75,613)</b>
Actuarial gain /(loss)	12.4	<u>499,280</u>	<u>(948,630)</u>
<b>Recognised gains and (losses) for the year</b>		<b><u>177,096</u></b>	<b><u>(1,024,243)</u></b>

The notes on pages 21 to 35 form part of these accounts.

**COMBINED BALANCE SHEET AS AT 31 MARCH 2008**

	<u>Notes</u>	Year ended 31 March 2008	Year ended 31 March 2007
		£000	£000
<b>Current assets:</b>			
Debtors	10	4,372	4,347
<b>Creditors due within 1 year</b>			
Creditors	11	<u>(4,372)</u>	<u>(4,347)</u>
<b>Net current assets, excluding pension liabilities</b>		-	-
<b>Provisions for Pension liabilities:</b>			
Closed Scheme	12.1	(4,869,560)	(5,127,000)
New Scheme	12.2	(10,150)	(2,570)
<b>Net liabilities, including pension liabilities</b>		<u><b>(4,879,710)</b></u>	<u><b>(5,129,570)</b></u>
<b>Taxpayers' Equity:</b>			
Opening balance		(5,129,570)	(4,156,900)
Grant In Aid	13	72,764	51,573
Net outgoings for the year		(322,184)	(75,613)
Actuarial gains / (losses)	12.4	<u>499,280</u>	<u>(948,630)</u>
<b>Closing balance</b>		<u><b>(4,879,710)</b></u>	<u><b>(5,129,570)</b></u>

The notes on pages 21 to 35 form part of these accounts.

**Sir Hugh Orde**  
**Chief Constable**  
**Police Service of Northern Ireland**  
**20 June 2008**

**COMBINED CASH FLOW STATEMENT FOR THE YEAR ENDED  
 31 MARCH 2008**

	<u>Notes</u>	<u>Year ended 31 March 2008</u>	<u>Year ended 31 March 2007</u>
		£000	£000
<b>Reconciliation of net outgoings to operating cash flows</b>			
Net outgoings for the year		(322,184)	(75,613)
Adjustments for movements in working capital		-	-
Increase in pension provision:			
Closed Scheme	12.1	387,490	334,840
New Scheme	12.2	7,310	1,540
Increase in pension provision - enhancements & transfers in:			
Closed Scheme	12.1	9,180	10,820
New Scheme	12.2	1,490	210
Removal of Provision for Injury Awards	8 & 12.1	-	(187,000)
Use of provision:			
Closed Scheme	12.1	(156,030)	(136,370)
New Scheme	12.2	<u>(20)</u>	—
<b>Net cash outflow from operating activities</b>		<b>(72,764)</b>	<b>(51,573)</b>
<b>Financing</b>	<b>13</b>	<b><u>72,764</u></b>	<b><u>51,573</u></b>
<b>Increase/(decrease) in cash in the period</b>		<b>—</b>	<b>—</b>

The notes on pages 21 to 35 form part of these accounts.

## NOTES TO THE ACCOUNTS

### 1. Basis of preparation of the Pension Accounts

The PSNI Pension Accounts have been prepared in accordance with the relevant provisions of the 2007/08 Government Financial Reporting Manual (FReM) issued by the Treasury, which reflects the requirements of Financial Reporting Standard (FRS) 17 *Retirement Benefits*. 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 Accounts Direction from the Northern Ireland Office.

The Accounts summarise the transactions of both the Closed Police Pension Scheme and the New Police Pension Scheme. The combined balance sheet shows the deficits on each scheme; the combined revenue account 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, and the pension accounts should be read in conjunction with that report.

### 2. Statement of accounting policies

#### 2.1 *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.

## NOTES TO THE ACCOUNTS (continued)

### 2.2 *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.

### 2.3 *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.

### 2.4 *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 Revenue Account. The cost is based on a real discount rate of 2.5% real.

### 2.5 *Past service costs*

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.

Past service costs are recognised in the Revenue Account on a straight-line basis over the period in which increase in benefit vest.

### 2.6 *Enhancements*

Any enhancements to pensions, including on departure or retirement, are measured and reflected immediately in the Revenue Account.

## NOTES TO THE ACCOUNTS (continued)

### 2.7 *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 Revenue Account. The interest cost is based on a real discount rate of 2.5%.

### 2.8 *Other payments*

Other payments are accounted for on an accruals basis.

### 2.9 *Scheme liabilities*

Provision is made for liabilities to pay pensions and other benefits on the future. The scheme liability is measured on an actuarial basis using the projected unit method and is discounted at a real 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 balance sheet date and updates it to reflect current conditions.

### 2.10 *Pension benefits payable*

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

### 2.11 *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.

## NOTES TO THE ACCOUNTS (continued)

### **2.12** *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.

### **2.13** *Injury benefits*

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

### **2.14** *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.

### **2.15** *Actuarial gains / losses*

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are recognised in the Statement of Recognised Gains and Losses for the year.

### **2.16** *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 ACCOUNTS (continued)**

**3. Contributions Receivable**

	<u>Notes</u>	Year ended 31 March 2008	Year ended 31 March 2007
		£000	£000
Employers' Contributions:			
Closed Scheme		50,435	53,051
New Scheme		2,546	816
Employees' Contributions:			
Closed Scheme		27,426	28,882
New Scheme		<u>1,189</u>	<u>378</u>
		<u>81,596</u>	<u>83,127</u>

**4. Transfers In**

		£000	£000
Closed Scheme	12.1	200	1,460
New Scheme	12.2	<u>1,490</u>	<u>210</u>
		<u>1,690</u>	<u>1,670</u>

**5. Current Service Costs**

		£000	£000
Closed Scheme	12.1	151,740	120,840
New Scheme	12.2	<u>7,000</u>	<u>1,490</u>
		<u>158,740</u>	<u>122,330</u>

**NOTES TO THE ACCOUNTS (continued)**

**6. Enhancements**

	<u>Notes</u>	Year ended 31 March 2008	Year ended 31 March 2007
		£000	£000
Closed Scheme	12.1	8,980	9,360
New Scheme		<u>-</u>	<u>-</u>
		<u>8,980</u>	<u>9,360</u>

**7. Interest on Scheme Liabilities**

		£000	£000
Interest charge for the year:			
Closed Scheme	12.1	235,750	214,000
New Scheme	12.2	<u>310</u>	<u>50</u>
		<u>236,060</u>	<u>214,050</u>

**8. Removal of Provision for 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 was valued at £187m as at 31 March 2006 by the Government Actuary's Department.

**9. Administration Fees and Expenses**

All costs of administering the PSNI Pension Schemes are borne by the Police Service of Northern Ireland.

**NOTES TO THE ACCOUNTS (continued)**

**10. Debtors**

	Year ended 31 March 2008	Year ended 31 March 2007
<b>10(a) Analysis by type:</b>		
	£000	£000
Pension contribution due from employer	4,034	3,900
Pension overpayments	285	299
Provision for doubtful debts	<u>(75)</u> 210	<u>(95)</u> 204
Amounts due from PSNI main accounts	124	239
Other debtors	<u>4</u>	<u>4</u>
	<u>4,372</u>	<u>4,347</u>

**10(b) Intra-Government Balances**

	Amounts falling due within 1 year	
	£000	£000
Balances with other central government bodies	4,158	4,139
Balances with bodies external to government	<u>214</u>	<u>208</u>
At 31 March	<u>4,372</u>	<u>4,347</u>

**NOTES TO THE ACCOUNTS (continued)**

**11. Creditors due within 1 year**

	Year ended 31 March 2008	Year ended 31 March 2007
<b>11(a) Analysis by type:</b>		
	£000	£000
Amount due to PSNI main accounts	4,248	4,108
Unpaid pensions	123	-
HM Revenue and Customs	<u>1</u>	<u>239</u>
	<u>4,372</u>	<u>4,347</u>

**11(b) Intra-Government Balances**

	Amounts falling due within 1 year	
	£000	£000
Balances with other central government bodies	4,249	4,347
Balances with bodies external to government	123	-
At 31 March	<u>4,372</u>	<u>4,347</u>

## NOTES TO THE ACCOUNTS (continued)

### 12. Provision for Pension Liabilities

Both the PSNI Police Pension Schemes are unfunded defined benefit schemes. An actuarial valuation of each scheme was carried out as at 31 March 2008 by the Government Actuary's Department. The major assumptions used by the Actuary were:

	At 31 March 2008	At 31 March 2007	At 31 March 2006
Rate of inflation	2.75%	2.75%	2.5%
Rate of increase in salaries	4.3%	4.3%	4.0%
Rate of increase in pensions	2.75%	2.75%	2.5%
Rate for discounting scheme liabilities	5.3%	4.6%	5.4%

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.

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

## NOTES TO THE ACCOUNTS (continued)

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 balance sheet 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 PSNI accept 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.

### 12.1 Analysis of Movement in the Closed Pension Scheme Liability

	Year ended 31 March 2008		Year ended 31 March 2007	
	£000		£000	
<b>Scheme liability at 1 April</b>		(5,127,000)		(4,156,900)
Current service cost	(151,740)		(120,840)	
Interest on pension scheme liability	<u>(235,750)</u>	(387,490)	<u>(214,000)</u>	(334,840)
Enhancements	(8,980)		(9,360)	
Transfers in	<u>(200)</u>	(9,180)	<u>(1,460)</u>	(10,820)
Removal of Injury Awards (see note 8)		-		187,000
Pension payments (see note 12.3)		156,030		136,370
Actuarial gain / (loss) (see note 12.4)		<u>498,080</u>		<u>(947,810)</u>
<b>Scheme liability at 31 March</b>		<u>(4,869,560)</u>		<u>(5,127,000)</u>

**NOTES TO THE ACCOUNTS (continued)**

During the year ended 31 March 2008, employee contributions represented an average of 11% of pensionable pay. Employer contributions represented an average of 20.25% of pensionable pay.

**12.2 Analysis of Movement in the New Pension Scheme Liability**

	<u>Year ended</u> <u>31 March 2008</u>	<u>Year ended</u> <u>31 March 2007</u>
		£000
<b>Scheme liability at 1 April</b>	(2,570)	-
Current service cost	(7,000)	(1,490)
Interest on pension scheme liability	<u>(310)</u> (7,310)	<u>(50)</u> (1,540)
Transfers in	(1,490)	(210)
Pension payments (see note 12.3)	20	-
Actuarial gain / (loss) (see note 12.4)	<u>1,200</u>	<u>(820)</u>
<b>Scheme liability at 31 March</b>	<u>(10,150)</u>	<u>(2,570)</u>

During the year ended 31 March 2008, employee contributions represented an average of 9.5% of pensionable pay. Employer contributions represented an average of 20.25% of pensionable pay.

**NOTES TO THE ACCOUNTS (continued)**

**12.3 Analysis of Pension Payments**

	<u>Year ended</u> <u>31 March 2008</u>	<u>Year ended</u> <u>31 March 2007</u>
	£000	£000
<b>Closed Scheme:</b>		
Pension payments	112,331	100,010
Gratuities / Commutations	42,759	35,780
Payments to and on account of leavers	<u>940</u>	<u>580</u>
	<u>156,030</u>	<u>136,370</u>
<b>New Scheme:</b>		
Pension payments	-	-
Gratuities / Commutations	-	-
Payments to and on account of leavers	<u>20</u>	<u>-</u>
	<u>20</u>	<u>-</u>

No pension payments have been made during the year regarding the New Police Pension Scheme.

**12.4 Analysis of Actuarial Gain / (Loss)**

	<u>Year ended</u> <u>31 March 2008</u>	<u>Year ended</u> <u>31 March 2007</u>
	£000	£000
<b>Closed Scheme:</b>		
Experience gains and losses arising on pension liabilities	22,340	(15,240)
Changes in assumptions underlying the present value of the pension liabilities	<u>475,740</u>	<u>(932,570)</u>
	498,080	(947,810)
<b>New Scheme:</b>		
Experience gains and losses arising on pension liabilities	(1,120)	(30)
Changes in assumptions underlying the present value of the pension liabilities	<u>2,320</u>	<u>(790)</u>
	1,200	(820)
Total actuarial gain /(loss)	<u>499,280</u>	<u>(948,630)</u>

**NOTES TO THE ACCOUNTS (continued)**

**12.5 History of Experience Gain / (Loss)**

Year ended 31 March	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Closed Scheme:</b>					
Experience gain / (loss) on scheme liabilities					
Amount (£m)	22.34	(15.24)	(6.35)	(5.63)	(100.00)
Percentage of liability at the year end	0.5%	-0.3%	-0.2%	-0.2%	-3.1%
Total actuarial gain / (loss)					
Amount (£m)	498.08	(947.81)	(15.79)	(813.79)	(696.95)
Percentage of liability at the year end	10.2%	-18.5%	-0.4%	-23.4%	-21.7%
<b>New Scheme:</b>					
Experience gain / (loss) on scheme liabilities					
Amount (£m)	(1.12)	(0.03)	-	-	-
Percentage of liability at the year end	-11.0%	-1.2%	-	-	-
Total actuarial gain / (loss)					
Amount (£m)	1.20	(0.82)	-	-	-
Percentage of liability at the year end	11.8%	-31.9%	-	-	-

**13. Grant-In-Aid**

	<u>Year ended 31 March 2008</u>	<u>Year ended 31 March 2007</u>
	£000	£000
Grant-in-Aid from the Northern Ireland Office	<u>72,764</u>	<u>51,573</u>

**14. 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 Northern Ireland Office.

The Northern Ireland Office is regarded as a related party. During the year the PSNI Pension Account has had a number of material transactions with the Northern Ireland Office 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.

## NOTES TO THE ACCOUNTS (continued)

### 15. Financial Instruments

FRS 13 *Derivatives and Other Financial Instruments* requires 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 Northern Ireland Office, 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 to which FRS 13 applies.

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.

### 16. Losses and Special Payments

During the year, there was 1 recorded loss or special payment totalling £544 (2006/07:£7,578).

### 17. 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.

**NOTES TO THE ACCOUNTS (continued)**

The aggregate amounts of AVC investments are as follows:

	<u>Year ended</u> <u>31 March 2008</u>	<u>Year ended</u> <u>31 March 2007</u>
Movements in the year:	£000	£000
<b>Balance at 1 April</b>	1,102	1,013
New Investments	46	70
Sale of investments to provide pension benefits	(188)	(50)
Changes in market value of investments	(19)	<u>69</u>
<b>Balance at 31 March</b>	<u>941</u>	<u>1,102</u>
Contributions received to provide life cover	-	-
Benefits paid on death	<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.

**18. Post Balance Sheet Events**

From 7 April 2008, pensions were increased by 3.9%.

On 21 May 2008, guidance was published introducing new factors for commutation of annual pensions for lump sum in the Closed Police Pension Scheme and for exchange of lump sum for additional pension in the New Police Pension Scheme.

The Annual Report and Accounts were authorised to be issued on 27 June 2008.

There are no other post balance sheet events to be noted.