



Police Service of Northern Ireland

Police Pension Accounts

for the year ended 31 March 2013

Police Service of
Northern Ireland



Police Pension Accounts

For the year ended 31 March 2013

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

on

25 June 2013

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 the Northern Ireland Act 1998
(Devolution of Policing and Justice Functions) Order 2010

on

4 July 2013

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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 older 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 and main features of the scheme at induction or training.

The rationale of preparing separate Pension Accounts is to avoid the detail required by IAS 19 (Employment Benefits) 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, the relevant 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.

The rates of contributions and benefits are set by the Department of Justice (DOJ) as directed by Central Government and the Department of Finance & Personnel (DFP).

Accounts Direction

The Annual Report and Accounts for 2012-13 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)

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.

As such PSNI complies 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.

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 2013, will be 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 Clarendon Road
Clarendon 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

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 2012-13. There have been no other significant changes to either Scheme during the year.

Additional employee contributions have been introduced during the year but this had no effect on the pension entitlements. Government have also introduced Auto-enrolment legislation to ensure availability of pensions to all PSNI employees. It is not expected that this will have any material impact on Police Pension Scheme Membership.

Membership Statistics

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

Active Members

At 1 April 2012	5,259
Transfers in	1
Retirements in the year	(184)
Deaths	(2)
Other leavers	(30)
At 31 March 2013	5,044

Deferred Members

At 1 April 2012	1,362
Members leaving who have deferred pension rights	38
Members taking up deferred pension rights	(97)
At 31 March 2013	1,303

Pensions in Payment

	Members	Dependents	Total
At 1 April 2012	11,554	1,587	13,141
Members retiring in year at normal retirement age	178	-	178
Other retirements	269	-	269
New dependents	-	123	123
Cessations	(205)	(74)	(279)
At 31 March 2013	11,796	1,636	13,432

Compensation Payments¹

	Members	Dependents	Total
At 1 April 2012	75	-	75
Members reaching normal retirement age during the year	(28)	-	(28)
At 31 March 2013	47	-	47

¹ Compensation payments relate to the payment in lieu of pensions to deferred members and are accounted for in the PSNI Main Financial Statements.

Report of the Managers (continued)

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

Active Members

At 1 April 2012	1,852
New entrants	8
Deaths	(2)
Other leavers	(28)
At 31 March 2013	1,830

Deferred Members

At 1 April 2012	32
Members leaving who have deferred pension rights	27
Members taking up deferred pension rights	(8)
At 31 March 2013	51

Pensions in Payment

	Members	Dependents	Total
At 1 April 2012	-	3	3
Members retiring in year at normal retirement age	-	-	-
Other retirements	-	-	-
New dependents	-	-	-
Cessations	-	-	-
At 31 March 2013	-	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 the 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.

£20,595 of contributions have been made by members of PSNI to the scheme during the year (2011-12: £25,664) (see note 10).

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

Financial Position and Going Concern

The Combined Statement of Financial Position (which includes liabilities belonging to both the closed and the new pension schemes) at 31 March 2013 shows net liabilities of £5.823bn (31 March 2012: £5.406bn). 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 DFP control over income and expenditure, such grants may not be issued in advance of need.

Report of the Managers (continued)

Grants for 2013-14 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 the NI Assembly and there is no reason to believe that the DOJ's future sponsorship and future Assembly approval will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these Scheme accounts.

Events after the Reporting Period

There are no events occurring after the reporting period.

Audit Services

The financial statements for 2012-13 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 19 to 21.

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 relating solely to the audit of these Financial Statements was £15,000 (2011-12 £15,000). These costs are borne by the PSNI Main Accounts and are excluded from these statements.

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 relating to the PSNI Pension Accounts 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.psnipolice.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 2013 of expected future benefit payments under the Police Pension Schemes, for benefits accrued in respect of employment (or former employment) prior to 31 March 2013, 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)	1,841.36	148.54
Deferred Pensioners	211.60	0.79
Current Pensioners (excluding injury)	<u>3,619.78</u>	<u>0.50</u>
Total	5,672.74	149.83

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 2012-13 have been assessed as follows:

	% of pensionable pay	
	Closed Scheme	New Scheme
Current Service Cost	54.7%	50.8%

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	99.22	22.76

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 2012-13 Pension Accounts.

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 3.95% pa excluding promotional and performance increments
- A long term nominal discount rate of 4.10% pa
- A rate of long-term inflation and pensions increases of 1.70% 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 2012, together with summary data as at 31 March 2013.

Ian Boonin
Fellow of the Institute and Faculty of Actuaries
Government Actuary's Department
10 May 2013

STATEMENT OF THE CHIEF CONSTABLE'S RESPONSIBILITIES

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 and the Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010, 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.

The combined financial statements must give a true and fair view of the state of affairs of the PSNI Pension Scheme at the year end and of the net resource outturn and cash flows for the year then ended. The financial statements are required to provide disclosure of any material expenditure or income that has not been applied to the purposes intended by the Northern Ireland Assembly or material transactions that have not conformed to the authorities that govern them. In addition, the financial statements must be prepared so as to ensure that the contributions payable to the Scheme during the year have been paid in accordance with the Scheme rules and recommendations of the Actuary.

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.

GOVERNANCE STATEMENT

Scope of responsibility

I have been appointed as the Accounting Officer for the Police Service of Northern Ireland (PSNI), by the Accounting Officer of the Department of Justice (DoJ) to whom I am directly accountable. My responsibilities as the PSNI Accounting Officer are contained in the Police (Northern Ireland) Act 2000, the Department of Finance and Personnel (DFP) document Managing Public Money (NI), and the Management Statement and Financial Memorandum agreed with the DoJ.

As the PSNI Accounting Officer I have responsibility for maintaining a sound system of internal control. The internal controls support the achievement of the PSNI's policies, aims and objectives which are set by the Northern Ireland Policing Board (NIPB), while also safeguarding the public funds and assets for which I am personally responsible as Accounting Officer. This responsibility is undertaken in accordance with the requirements of the DFP document "Managing Public Money (NI)".

The PSNI Governance Framework

The governance structure of the PSNI reflects our unique statutory position, balancing the need for appropriate controls and oversight, while preserving the operational independence of the role of Chief Constable. This balance is recognised in the Police (Northern Ireland) Act 2000, and the Management Statement and Financial Memorandum issued by the DoJ.

It is essential that the PSNI is seen to uphold the highest standards in its own operations and, for this purpose, I am held to account on a regular basis by the NIPB. The NIPB is a statutory non departmental public body consisting of 10 locally elected political representatives and 9 independent members, to whom I have statutory responsibilities.

I recognise that the governance structures for the PSNI set out within the Police (Northern Ireland) Act 2000, incorporating the oversight functions of the NIPB and PSNI as two separate but linked organisations, are unique and not replicated for any other public sector body. Where the requirements of the Act and the Corporate Governance Code differ, the PSNI will always seek to comply with the Act, which reflects the wishes of Parliament. I have assessed the PSNI governance arrangements against the Governance Code and found that the NIPB and the PSNI arrangements when taken together comply with the code to the extent that it is relevant and meaningful.

Police Pensions Scheme framework

The PSNI Police Pension Scheme has a Scheme Manager, Administrator and Practitioner. The Department of Justice is the Scheme Manager, and is responsible for setting the benefits to be provided by the Scheme, amending regulations as necessary and making the policy decisions in relation to the operation of the Scheme.

Given the Board's role in policing, and particularly in managing police pensions, the NIPB is the PSNI Pension Scheme Administrator.

Governance Statement (continued)

The PSNI is the Scheme Practitioner, although in practice PSNI Finance and Pensions Branches carry out all the routine functions and reporting. NIPB has delegated these functions to PSNI to carry out on their behalf.

PSNI Finance and Pensions Branches therefore carry out the day to day running of the Scheme, including the collection and allocation of contributions and payment of benefits.

Leadership Team

I am supported by an executive leadership team consisting of a Deputy Chief Constable, five Assistant Chief Constables and two senior civilian staff Directors. We meet formally each month as the Service Executive Board to provide executive management and governance to the operations and delivery of the PSNI. During 2012-13 the Service Executive Board was supported by three other governance committees, the Risk, Demand and Resources committee (RDR), the Audit and Risk Committee (ARC), and the Strategic, Tasking and Coordinating Group (STCG). The RDR and STCG committees are executive committees and support SEB by making strategic decisions in line with the tone and direction set by SEB. The SEB undertook an effectiveness review in April 2013 looking at its performance over the financial year 2012/13, and is satisfied with the level and type of information it received during the period. The SEB provided strategic direction for the PSNI over the period.

The Audit and Risk Committee consists entirely of independent members, chaired by an independent Chairperson with two other independent members. The Deputy Chief Constable and the Director of Human Resources were members of the ARC until October 2012. A self effectiveness review of the committee compared the committee with best practice contained in the "HM Treasury Audit Committee Handbook" and recommended that the Audit Committee should contain only non executive members. The NIAO and the NIPB also recommended that the membership of the PSNI audit committee should comprise only non executive members. The membership change to the ARC in October 2012 means that PSNI is now fully compliant with the National Audit Office, Audit Committee Self-Assessment checklist.

The Audit and Risk Committee met 4 times during 2012-13, providing me with assurance on issues of internal control, governance and risk. The Committee is informed from a number of sources, one being the Head of Internal Audit who issues an independent opinion on the adequacy and effectiveness of the PSNI's system of internal control. A satisfactory level of assurance has been provided by Internal Audit in relation to risk management, internal control and governance, with the exception of a number of specific areas. No specific areas related to the PSNI Pension Scheme.

Governance Statement (continued)

Internal Control Framework

The Service Executive Team assess how the achievement of our policies, aims and objectives might be affected by the risks we face, and the internal control framework is designed to mitigate those risks. The framework has been in place across the 2012-13 financial year. 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, and it therefore provides reasonable rather than absolute assurance of effectiveness.

The internal control framework, which accords with DFP guidance and best practise, is an ongoing live process identifying and prioritising the risks to the achievement of organisational policies, aims and objectives. I have put in place arrangements to ensure that a proper evaluation of the balance of the cost of control and the risk encountered is part of the PSNI decision making process. The internal control systems ensure that PSNI's assets and those relating to the Police Pension Scheme are utilised with regard to the overall value for money to public funds.

Risk and Control Framework

Capacity to handle risk

Within PSNI we manage our business with a view to the risks we face, using appropriate control systems. This process is embedded in how we undertake our responsibilities and includes clearly defined policies and processes, effective financial management and the identification and management of risks.

Our ability to handle risk can be clearly seen by the movements on the corporate risk register over the reporting period, with four new risks coming on, three risks being removed, and changes in two risks being incorporated. No new risks have been identified in relation to the Police Pension Scheme during the year.

To ensure that we continue to respond to our changing environment, the PSNI's strategic objectives are translated to our operations through working towards meeting the Northern Ireland Policing Plan, and by clearly defined accountabilities over the delivery of outputs and outcomes.

We continue to refine management information and business reporting to provide the Service Executive Team and the NIPB with appropriate and timely management information to allow them to identify and respond to emerging risks.

Framework

Risk management is high on the business agenda and we manage risks in a structured manner. The risk tolerance level set by the Service Executive Team for professional policing issues, regularity and propriety, and financial management is low. The risk tolerance level forms part of the risk management review of individual risks by the Service Executive Team.

Governance Statement (continued)

Consideration and mitigation of risk is crucial to the effectiveness of the system of internal control. Policies and principles for how staff can undertake the work of PSNI are developed, maintained and communicated to staff through the code of ethics, and staff handbook. Compliance with these policies is expected of all our staff and breaches can lead to re-training and/or disciplinary action.

All Chief Officers and Service Managers together with the Audit and Risk committee have provided leadership to the risk management process, throughout the reporting period. In addition the Corporate Risk Manager provides training, guidance and support across the organisation to enable all staff to manage risk.

The PSNI has a risk management policy which is available to all in the organisation, and clearly describes the various roles and responsibilities of relevant positions within the PSNI. The monitoring and reporting of risk management arrangements are also included in the policy.

Risk management is embedded into the organisation with each Department and District actively managing individual risk registers, and all have a common theme and link through to the Policing Plan objectives. A control risk self assessment process is also completed across Districts and Departments, and this is reviewed by Internal Audit.

The Corporate Risk Register is managed by the Corporate Risk Manager and captures significant risks facing the organisation. The Risk Register is reviewed on a monthly basis at the RDR Committee, with changes to the register reported to the SEB. The effectiveness of the risk management process is reported twice a year to the RDR Committee and is used to assist in the Chief Officers Annual Performance Appraisal Process.

Stewardship reporting is a key assurance control for the accountability, ownership and management of risks throughout the PSNI. All Senior Officers provide an assurance statement twice per year confirming they have reviewed the risks within their area of responsibility, and assessed the management of the risks identified.

The PSNI Audit and Risk Committee, which consists of non-executive members provides me with assurance that effective risk management, governance and control arrangements are in place. The Audit and Risk Committee receives regular risk management updates, along with reports from internal and external audit. The DoJ, Policing Board and NIAO regularly attend the ARC meetings as observers.

Any risks relating to the Police Pension Scheme are managed in accordance with the Corporate Framework.

Statement of Information Risk

Together with the staff of PSNI I have privileged access to data and information to support the discharge of the policing function and ensure that the work undertaken by PSNI is factual,

Governance Statement (continued)

accurate and complete. The PSNI has a duty to respect this privilege and ensure that the personal information entrusted to it is safeguarded properly.

The PSNI complies with the mandatory requirements in the Cabinet Office's security policy framework, and has developed its own information assurance strategy, and information assurance policy which is supported by 27 detailed information security standards. The strategy facilitates the safe and secure move towards transformational services, information sharing in partnership with other bodies, and recognises the increasing threat to information assets in a developing technological environment through:

- Effective and Secure Information sharing
- Proportionate Risk Management, Accreditation, and Communications leading to enhanced organisational Information Assurance awareness
- Increased Innovation Empathy
- Alignment with National Objectives

The strategy is owned by an Assistant Chief Constable who is a member of the Service Executive Board, and is the Service Information Risk Owner (SIRO) for the PSNI. The SIRO is supported by a dedicated Information Assurance Unit led by the PSNI Accreditor and supported by the Information Assurance Manager, the IT Security Officer, and a network of Information Asset Owners who oversee all of the information assets held by PSNI. There is a Corporate Information Risk Register providing details on information risk treatment plans which are managed through the security accreditation process.

The SIRO receives monthly reports in relation to Information Risk, which is elevated to the Service Executive Board if appropriate. PSNI continues to work towards the Cabinet Office Information Assurance Maturity Model, and at 31 March 2013 PSNI can demonstrate 100% Compliance at Level 1 in all 6 of the key risk areas. This provides evidence of our ability to manage information risk.

Personal Data Related Incidents

There is a current investigation into a potential breach of personal information from the internal Human Resources computer system. The investigation is at an early stage, and the outcomes from the investigation will be treated in the appropriate way when available. No personal data incidents in relation to the Police Pension Scheme have been recorded.

Governance Statement (continued)

Significant Internal Control Issues

I am able to report that there were no significant weaknesses in the PSNI's system of internal controls in 2012-13 which affected the achievement of the PSNI's key policies, aims, and objectives. Internal Audit has provided me with an overall satisfactory level of assurance in relation to risk management, the operational effectiveness of internal control systems, and in relation to governance arrangements, with the exception of a number of specific areas of concern noted by Internal Audit in their Annual Assurance Statement. These issues do not impact the Police Pension Scheme.

Review of Effectiveness

As the PSNI Accounting Officer I have responsibility for reviewing the effectiveness of the system of internal control.

My review is informed by the work undertaken by the Internal Auditors during the reporting period, and the Service Executive Officers (Chief Officers) within the organisation who have responsibility for the development and maintenance of the internal control framework.

The comments from the External Auditors in their management letters and reports, and those external bodies which provide a challenge function to the work of PSNI also inform my review. The Northern Ireland Policing Board, Department of Justice, Northern Ireland Office, Department of Finance and Personnel, Her Majesty's Treasury, Her Majesty's Inspectorate of Constabulary, and the Criminal Justice Inspectorate of Northern Ireland, are some of the bodies providing external scrutiny to the work of PSNI.

Internal Audit submit regular reports on the management of key business risks, and the effectiveness of the system of internal control, making recommendations for improvement where appropriate. This is formally reported to the Audit and Risk Committee at each meeting. Those recommendations accepted by PSNI have been implemented, or, are being implemented against agreed timetables, with those accepted recommendations past their initial planned end date reported to the Audit and Risk Committee, and quarterly to the Service Executive Board. Internal Audit produced their report on Payroll and Pensions Control Risk Self Assessment during the period. No significant issues were identified as part of this review and a satisfactory level of assurance was received.

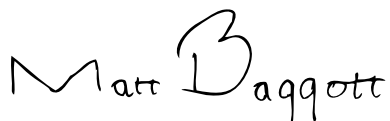
The Service Executive Board continues to keep its internal control arrangements under review in response to internal and external developments. The Service Executive Board is independently advised by the Audit and Risk Committee which meets four times per year, and reports through its annual report, and regular meetings between the independent Chair of the Audit and Risk committee and the Deputy Chief Constable.

Accounting Officers Statement of Assurance

As Chief Constable I have received statutory oversight from the DoJ and NIPB, along with detailed inspections from national and local inspection agencies who publish their reports. Internal Audit have also provided a satisfactory level of assurance in relation to risk management, internal control and governance.

Governance Statement (continued)

As the PSNI Accounting Officer, I am satisfied with the overall effectiveness of the system of internal control and am content that adequate plans exist to address any weaknesses and ensure continuous improvement.

A handwritten signature in black ink that reads "Matt Baggott". The signature is written in a cursive style with a large, prominent letter 'B'.

Matt Baggott
Chief Constable
Police Service of Northern Ireland
21 June 2013

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 Police Pension Accounts for the year ended 31 March 2013 under the Police (Northern Ireland) Act 2000 as amended by the Police (Northern Ireland) Act 2003 as amended by the 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 Accounting Officer, 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 examine, certify and report on the financial statements in accordance with the Police (Northern Ireland) Act 2000 as amended by the Police (Northern Ireland) Act 2003 as amended by the 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 Financial Reporting Council'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 Police Pension Accounts' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Police Service of Northern Ireland Police Pension Accounts; 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 recorded 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.

***The Certificate and Report of the Comptroller and Auditor General
to the Northern Ireland Assembly (continued)***

Opinion on Regularity

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

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 Police Pension Accounts' affairs as at 31 March 2013 and of its combined net expenditure, combined cash flows and changes in taxpayers' equity for the year then ended and of the amount and disposition at that date of its assets and liabilities other than liabilities to pay benefits after the Scheme year end; 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 the Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010 and directions issued there under 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.

Statement about Contributions payable

In my opinion the contributions payable to the Police Service of Northern Ireland Police Pension Accounts during the year ended 31 March 2013 have in all material respects been paid in accordance with the rules of the Scheme and with the recommendations of the Actuary.

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

***The Certificate and Report of the Comptroller and Auditor General
to the Northern Ireland Assembly (continued)***

Matters on which I report by exception (continued)

- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with Department of Finance and Personnel's guidance.

Report

I have no observations to make on these financial statements.



**K J Donnelly
Comptroller and Auditor General
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU
25 June 2013**

Combined Statement of Comprehensive Net Expenditure for the year ended 31 March 2013

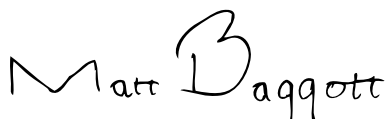
	<u>Note</u>	2012-13 £000	2011-12 £000
Income			
Contributions receivable	3	93,423	91,502
Transfers in	4	<u>400</u>	<u>1,260</u>
		<u>93,823</u>	<u>92,762</u>
Expenditure			
Pension Cost - current service costs	5	(121,980)	(124,760)
Enhancements	6	-	(4,700)
Transfers in	4	(400)	(1,260)
Interest on Scheme liabilities	8	<u>(260,640)</u>	<u>(294,680)</u>
		<u>(383,020)</u>	<u>(425,400)</u>
Combined Net Expenditure		<u>(289,197)</u>	<u>(332,638)</u>
Other			
Other Comprehensive Net Expenditure			
Recognised (loss) / gain for the financial year:			
Actuarial (loss) / gain	13.5	<u>(220,690)</u>	<u>123,270</u>
Total Comprehensive Net Expenditure for the year ended 31 March 2013		<u>(509,887)</u>	<u>(209,368)</u>

The notes on pages 26 to 43 form part of these accounts.

Combined Statement of Financial Position as at 31 March 2013

	<u>Note</u>	31 March 2013 £000	31 March 2012 £000
Non-current assets:			
Receivables	11	155	179
Current assets:			
Receivables	11	8,489	7,423
Current liabilities:			
Payables (within 12 months)	12	<u>(8,489)</u>	<u>(7,423)</u>
Net current assets, excluding pension liability:			
		-	-
Payables (after 12 months)	12	<u>(155)</u>	<u>(179)</u>
Total Assets:			
		-	-
Pension liability:			
Closed Scheme	13.1	<u>(5,672,740)</u>	(5,308,740)
New Scheme	13.2	<u>(149,830)</u>	<u>(97,620)</u>
Net liabilities including pension liabilities		<u>(5,822,570)</u>	<u>(5,406,360)</u>
Taxpayers' Equity:			
General Fund		<u>(5,822,570)</u>	<u>(5,406,360)</u>

The financial statements on pages 22 to 43 were approved and authorised by the PSNI on 21 June 2013 and were signed on its behalf by:



Matt Baggott
Chief Constable
Police Service of Northern Ireland
21 June 2013

The notes on pages 26 to 43 form part of these accounts

Combined Statement of Changes in Taxpayers' Equity for the year ended 31 March 2013

	General Fund	
	2012-13 £000	2011-12 £000
Balance at 31 March	(5,406,360)	(5,288,470)
Grant from Parent Department	93,677	91,478
Combined net expenditure	(289,197)	(332,638)
Actuarial (loss) / gain	(220,690)	123,270
Net change in Taxpayers' Equity	<u>(416,210)</u>	<u>(117,890)</u>
Balance at 31st March	<u>(5,822,570)</u>	<u>(5,406,360)</u>

The notes on pages 26 to 43 form part of these accounts

Combined Statement of Cash Flows for the year ended 31 March 2013

	<u>Note</u>	2012-13 £000	2011-12 £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		(289,197)	(332,638)
Decrease in receivables – non current assets	11a	24	29
(Increase) / Decrease in receivables – current assets	11a	(1,066)	4,237
Decrease in payables – after 12 months	12a	(24)	(29)
Increase / (Decrease) in payables – within 12 months	12a	1,066	(4,237)
Increase in pension provision – Closed Scheme	13.1	354,580	393,150
New Scheme	13.2	28,040	26,290
Increase in pension provision – Enhancements and transfers in: Closed Scheme	13.1	-	4,700
New Scheme	13.2	400	1,260
Use of provision – pension liability Closed Scheme – Pension payments	13.3	(165,790)	(156,960)
Gratuities / Commutations	13.3	(20,380)	(26,180)
Payments to and on account of leavers New Scheme – Pension payments	13.3	(1,140)	(1,050)
Payments to and on account of leavers	13.3	(100)	(20)
	13.3	<u>(90)</u>	<u>(30)</u>
Net cash outflow from Operating Activities		(93,677)	(91,478)
Cash flows from Financing Activities			
Financing		<u>93,677</u>	<u>91,478</u>
Net increase / (decrease) in cash and cash equivalent in the period		<u><u>-</u></u>	<u><u>-</u></u>

The notes on pages 26 to 43 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 2012-13 Government Reporting Manual (FReM) issued by the Department of Finance and Personnel. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector. IAS 19 Employee Benefits and IAS 26 Retirement Benefits are of particular relevance to these statements. 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 PSNI Pension Scheme is a contracted out, unfunded, defined benefit pay-as-you-go occupational pension scheme operated by the PSNI on the behalf of members of the PSNI who satisfy the membership criteria.

Contributions to the Scheme by employers and employees are set at rates determined by the Scheme's Actuary and approved by DOJ. The contributions partially fund payments made by the Scheme, the balance of funding being provided by DOJ through the annual Supply Estimates process. The administration expenses associated with the operation of the Scheme are borne by PSNI and reported in the PSNI Main Accounts.

The Financial Statements 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 (Pages 9 and 10), 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 financial Reporting Standards 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.

Notes to the Annual Financial Statements (continued)

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

The Statement of Financial Position at the 31 March 2013 shows a liability of £5.823bn. 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 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 2012-13.

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

Contributions received from the employer in relation to the early retirement of Police Officers on ill health grounds were £2,805k in 2012-13 (£1,799k 2011-12). The process for decisions on ill health retirements is managed by the Northern Ireland Policing Board.

Contributions are based on an officer's final salary and are accounted for on an accruals basis.

Notes to the Annual Financial Statements (continued)

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 2.35%.

2.7 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.

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. There have been no enhancements to Police Pensions for 2012-13, 2011-12 enhancements related to the Patten Severance Scheme.

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 2.35%.

2.10 Other payments

Other payments are accounted for on an accruals basis.

Notes to the Annual Financial Statements (continued)

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 2.35%.

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. A full actuarial valuation was completed by the Scheme Actuary for 2012-13.

2.12 Pension benefits payable

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

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.

Notes to the Annual Financial Statements (continued)

2.17 Actuarial gains and losses

Actuarial gains and losses arising from any new valuation and from updating the latest actuarial valuation to reflect conditions at the Combined Statement of Financial Position date are recognised in the Combined 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.

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 (Payables after 12 months).

2.21 Accounting standards, interpretations and amendments to published standards adopted during the year ended 31 March 2013

The PSNI has reviewed the accounting standards, interpretations and amendments to published standards that became effective during 2012-13 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) 2012-13 and concludes that these do not impact the 2012-13 PSNI Pension Accounts.

Notes to the Annual Financial Statements (continued)

3. Contributions Receivable

	<u>Note</u>	2012-13 £000	2011-12 £000
Employers' Contributions:			
Closed Scheme		47,868	49,791
New Scheme		12,928	12,430
Employees' Contributions:			
Closed Scheme			
Normal		24,256	22,622
Purchase of added years		-	-
New Scheme			
Normal		5,566	4,860
Purchase of added years		-	-
Early Retirement		<u>2,805</u>	<u>1,799</u>
		<u>93,423</u>	<u>91,502</u>

4. Transfers in (see also Note 7)

Individual transfers in from other schemes:			
Closed Scheme	13.1	-	-
New Scheme	13.2	<u>400</u>	<u>1,260</u>
		<u>400</u>	<u>1,260</u>

5. Pension cost

Current Service Cost

Closed Scheme	13.1	99,220	102,950
New Scheme	13.2	<u>22,760</u>	<u>21,810</u>
		<u>121,980</u>	<u>124,760</u>

Notes to the Annual Financial Statements (continued)

6. Enhancements

	<u>Note</u>	2012-13 £000	2011-12 £000
Employers:			
Closed Scheme			
Enhancement to pensions on retirement	13.1	-	4,700
New Scheme			
Enhancement to pensions on retirement	13.2	-	-
		<u>-</u>	<u>4,700</u>

7. Transfers in (see also Note 4)

Individual transfers in from other schemes			
Closed Scheme	13.1	-	-
New Scheme	13.2	<u>400</u>	<u>1,260</u>
		<u>400</u>	<u>1,260</u>

Amounts receivable in respect of inward transfers increase the pension liability to the same extent. This increase is reflected in the Combined Statement of Comprehensive Net Expenditure as expenditure as part of the movement in the provision during the year.

8. Interest on Scheme Liabilities

Interest charge for the year:			
Closed Scheme	13.1	255,360	290,200
New Scheme	13.2	<u>5,280</u>	<u>4,480</u>
		<u>260,640</u>	<u>294,680</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 (ie 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:

	2012-13	2011-12
	£000	£000
Movements in the year:		
Balance at 1 April	873	879
New Investments	21	26
Sale of investments to provide pension benefits	(42)	(59)
Changes in market value of Investments	<u>89</u>	<u>27</u>
Balance at 31 March	<u>941</u>	<u>873</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.

Notes to the Annual Financial Statements (continued)

11. Receivables – contributions due in respect of pensions

11(a) Analysis by type:

	2012-13	2011-12
	£000	£000
Amounts falling due within 1 year:		
Pension contribution due from employer	8,033	7,022
Pension overpayments less than 1 year	21	33
Amounts due from PSNI main accounts	426	360
Other receivables	<u>9</u>	<u>8</u>
	8,489	<u>7,423</u>
Amounts falling due after 1 year:		
Pension overpayments more than 1 year	232	268
Provision for doubtful debts	<u>(77)</u>	<u>(89)</u>
At 31 March	<u>8,644</u>	<u>7,602</u>

11(b) Analysis by organisation:

Amounts falling due within 1 year:		
Balances with other central government bodies	8,459	7,382
Balances with bodies external to government	<u>30</u>	<u>41</u>
	<u>8,489</u>	<u>7,423</u>
Amounts falling due after 1 year:		
Balances with bodies external to government	<u>155</u>	<u>179</u>
At 31 March	<u>8,644</u>	<u>7,602</u>

Notes to the Annual Financial Statements (continued)

12. Payables in respect of pensions

12(a) Analysis by type:

	2012-13	2011-12
	£000	£000
Amounts falling due within 1 year:		
Pensions	53	38
Amount due to PSNI main accounts	8,063	7,063
HM Revenue and Customs	<u>373</u>	<u>322</u>
	8,489	7,423
Amounts falling due after 1 year:		
Amounts due to PSNI main accounts	<u>155</u>	<u>179</u>
At 31 March	<u>8,644</u>	<u>7,602</u>

12(b) Analysis by organisation:

Amounts falling due within 1 year:		
Balances with other central government bodies	8,436	7,385
Balances with bodies external to government	<u>53</u>	<u>38</u>
	8,489	7,423
Amounts falling due after 1 year:		
Balances with other central government bodies	<u>155</u>	<u>179</u>
At 31 March	<u>8,644</u>	<u>7,602</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 2013 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 2013	At 31 March 2012	At 31 March 2011	At 31 March 2010	At 31 March 2009
Rate of increase in salaries	3.95%	4.25%	4.9%	4.3%	4.3%
Rate of increase in pensions	1.70%	2.00%	2.65%	2.75%	2.75%
Rate of inflation	1.70%	2.00%	2.65%	2.75%	2.75%

Mortality rate

Expectation of life in years of current pensioners

At 31 March	2013	2012	2011	2010	2009
Males (Age 60)	28.2	28.1	29.2	29.1	28.5
Males (Age 65)	23.4	23.3	24.1	23.9	23.4
Females (Age 60)	30.8	30.7	32.5	32.3	31.7
Females (Age 65)	25.8	25.7	27.3	27.1	26.6

Notes to the Annual Financial Statements (continued)

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

At 31 March	2013	2012	2011	2010	2009
Males (Age 60)	30.6	30.1	30.7	30.6	30.2
Males (Age 65)	25.7	25.6	26.1	26.0	25.6
Females (Age 60)	33.1	32.4	33.9	33.8	33.3
Females (Age 65)	27.9	27.8	29.2	29.1	28.6

	At	At	At	At	At
	31 March	31 March	31 March	31 March	31 March
	2013	2012	2011	2010	2009

Rate for discounting scheme liabilities	4.10%	4.85%	5.6%	4.6%	6.04%
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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 FReM, 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.

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.

Notes to the Annual Financial Statements (continued)

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 Combined 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 data for the previous 5 years:

	2012-13	2011-12	2010-11	2009-10	2008-09
Closed Police Pension Scheme:					
Active Members	5,044	5,259	5,586	6,127	6,758
Deferred Members	1,303	1,362	1,221	1,125	1,120
Pensioners in Payment Members	11,796	11,554	11,258	10,805	10,309
Pensioners in Payment Dependents	1,636	1,587	1,561	1,509	1,493
Compensation Payments	47	75	93	111	143
New Police Pension Scheme:					
Active Members	1,830	1,852	1,868	1,476	1,028
Deferred Members	51	32	19	9	2
Pensioners in Payment Dependents	3	3	3	1	1

Notes to the Annual Financial Statements (continued)

13.1 Analysis of movement in the Closed Pension Scheme liability

	2012-13 £000	2011-12 £000
Scheme liability at 1 April	<u>(5,308,740)</u>	<u>(5,219,900)</u>
Current service cost	(99,220)	(102,950)
Interest on pension Scheme liability	<u>(255,360)</u>	<u>(290,200)</u>
	<u>(354,580)</u>	<u>(393,150)</u>
Enhancements	-	(4,700)
Pension transfers in	<u>-</u>	<u>-</u>
	<u>-</u>	<u>(4,700)</u>
Benefits payable (see note 13.3)	187,310	184,190
Actuarial (loss) / gain (see note 13.5)	<u>(196,730)</u>	<u>124,820</u>
Scheme liability at 31 March	<u>(5,672,740)</u>	<u>(5,308,740)</u>

During the year ended 31 March 2013 employee contributions represented an average of 12.2% of pensionable pay. Employer contributions represented an average of 24.2% for 2012-13 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

	2012-13 £000	2011-12 £000
Scheme liability at 1 April	<u>(97,620)</u>	<u>(68,570)</u>
Current service cost	(22,760)	(21,810)
Interest on pension scheme liability	<u>(5,280)</u> <u>(28,040)</u>	<u>(4,480)</u> <u>(26,290)</u>
Transfers In	(400)	(1,260)
Benefits payable (see note 13.3)	190	50
Actuarial loss (see note 13.5)	<u>(23,960)</u>	<u>(1,550)</u>
Scheme Liability at 31 March	<u>(149,830)</u>	<u>(97,620)</u>

During the year ended 31 March 2013, employee contributions represented an average of 10.4% of pensionable pay. Employer contributions represented an average of 24.2% of pensionable pay and are proposed to be maintained at this level for 2013-14.

13.3 Analysis of benefits paid

Closed Scheme:

Pension payments	165,790	156,960
Gratuities/ Commutations	20,380	26,180
Payments to and on account of leavers (see note 13.4)	<u>1,140</u>	<u>1,050</u>
Per Statement of Cash Flows	<u>187,310</u>	<u>184,190</u>

New Scheme:

Pension payments	100	20
Payments to and on account of leavers (see note 13.4)	<u>90</u>	<u>30</u>
Per Statement of Cash Flows	<u>190</u>	<u>50</u>

Notes to the Annual Financial Statements (continued)

13.4 Analysis of payments to and on account of leavers

	2012-13 £000	2011-12 £000
Closed Scheme:		
Refunds to members leaving service	-	-
Individual transfers to other schemes	<u>1,140</u>	<u>1,050</u>
Per Statement of Cash Flows	<u>1,140</u>	<u>1,050</u>
New Scheme:		
Refunds to members leaving service	90	30
Individual transfers to other schemes	-	-
Per Statement of Cash Flows	<u>90</u>	<u>30</u>

13.5 Analysis of actuarial (loss) / gain

Closed Scheme:		
Experience gains arising on the Scheme liabilities	113,960	134,120
Changes in demographic assumptions underlying the present value of the Scheme liabilities	-	129,820
Changes in financial assumptions underlying the present value of the Scheme liabilities	<u>(310,690)</u>	<u>(139,120)</u>
	<u>(196,730)</u>	<u>124,820</u>
New Scheme:		
Experience losses arising on pension liabilities	(4,630)	(670)
Changes in demographic assumptions underlying the present value of the Scheme liabilities	-	3,100
Changes in assumptions underlying the present value of the Scheme liabilities	<u>(19,330)</u>	<u>(3,980)</u>
	<u>(23,960)</u>	<u>(1,550)</u>
Per Combined Statement of Comprehensive Net Expenditure	<u>(220,690)</u>	<u>123,270</u>

Notes to the Annual Financial Statements (continued)

13.6 History of experience gain/(loss)

	2012-13	2011-12	2011-10	2010-09	2009-08
Closed Scheme:					
Experience gain / (loss) on the Scheme liabilities					
Amount (£m)	113.96	134.12	(69.97)	159.83	(54.47)
Percentage of the present value of the Scheme liabilities	2.0%	2.5%	(1.3%)	2.7%	(1.2%)
Total actuarial gain / (loss)					
Amount (£m)	(196.73)	124.82	332.68	(1,317.92)	596.14
Percentage of the present value of the Scheme liabilities	(3.5%)	2.4%	6.4%	(22%)	13.3%
New Scheme:					
Experience loss on the Scheme liabilities					
Amount (£m)	(4.63)	(0.67)	(6.58)	(0.66)	(2.05)
Percentage of the present value of the Scheme liabilities	(3.1%)	(0.7%)	(9.6%)	(1.2%)	(11.1%)
Total actuarial gain / (loss)					
Amount (£m)	(23.96)	(1.55)	6.78	(23.1)	3.31
Percentage of the present value of the Scheme liabilities	(16.0%)	(1.6%)	9.9%	(41.4%)	17.9%

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 £20,165 (6 cases of overpayments) of Losses or Special Payments recorded (2011-12 - £10,211 6 cases).

Notes to the Annual Financial Statements (continued)

16. Related party transactions

PSNI is a body of constables (as set out in the Police Act 2000), 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 25 June 2013.

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