

Presented pursuant to c.32, Section 12(6)(b) of the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003

---

# Police Service of Northern Ireland Accounts 2003-2004 and Northern Ireland Police Service Pension Account 2003-2004

ORDERED BY THE HOUSE OF COMMONS TO BE PRINTED 8 MARCH 2005

The National Audit Office  
scrutinises public spending  
on behalf of Parliament.

The Comptroller and Auditor General,  
Sir John Bourn, is an Officer of the  
House of Commons. He is the head of the  
National Audit Office, which employs some  
800 staff. He, and the National Audit Office,  
are totally independent of Government.

He certifies the accounts of all Government  
departments and a wide range of other public  
sector bodies; and he has statutory authority  
to report to Parliament on the  
economy, efficiency and effectiveness  
with which departments and other bodies  
have used their resources.

Our work saves the taxpayer millions of  
pounds every year. At least £8 for every  
£1 spent running the Office.

This account can be found on the National Audit Office web site at  
[www.nao.org.uk](http://www.nao.org.uk)

# Contents

|                                                                                                                            | Page |
|----------------------------------------------------------------------------------------------------------------------------|------|
| Police Property Fund - Foreword to the Annual Financial Statements                                                         | 2    |
| Statement of responsibilities of the Police Service of Northern Ireland and the Chief Constable as to Police Property Fund | 4    |
| Statement on Internal Control, Police Property Fund                                                                        | 5    |
| Certificate and Report of the Comptroller and Auditor General                                                              | 7    |
| Receipts and Payments, Police Property Fund                                                                                | 9    |
| Statement of Balances, Police Property Fund                                                                                | 10   |
| Notes to the Annual Financial Statements, Police Property Fund                                                             | 11   |
| Police Fund - Foreword to the Annual Financial Statements                                                                  | 12   |
| Statement of responsibilities of the Police Service of Northern Ireland and the Chief Constable, Police Fund               | 14   |
| Statement on Internal Control, Police Fund                                                                                 | 15   |
| Certificate and Report of the Comptroller and Auditor General                                                              | 17   |
| Receipts and Payments, Police Fund                                                                                         | 19   |
| Statement of Balances, Police Fund                                                                                         | 20   |
| Notes to the Annual Financial Statements                                                                                   | 21   |
| Police Service of Northern Ireland - Foreword to the Annual Financial Statements                                           | 23   |
| Statement of responsibilities of the Police Service of Northern Ireland and the Chief Constable,                           | 27   |
| Statement on Internal Control, Police Service of Northern Ireland                                                          | 28   |
| The Certificate and Report of the Comptroller and Auditor General                                                          | 30   |
| Income and Expenditure Account                                                                                             | 32   |
| Balance Sheet                                                                                                              | 33   |
| Cash Flow Statement                                                                                                        | 34   |
| Notes to the Annual Financial Statements                                                                                   | 35   |
| Report on the Police Pension Scheme                                                                                        | 49   |
| Report of the Actuary                                                                                                      | 52   |
| Statement of Accounting Officer's responsibilities                                                                         | 53   |
| Statement on Internal Control                                                                                              | 54   |
| The Certificate and Report of the Comptroller and Auditor General                                                          | 56   |
| Revenue Account                                                                                                            | 58   |
| Statement of Total Recognised Gains and Losses                                                                             | 58   |
| Balance Sheet                                                                                                              | 59   |
| Cash Flow Statement                                                                                                        | 60   |
| Notes to the Scheme Statements                                                                                             | 61   |
| Annex 1: Detailed report of the Actuary                                                                                    | 67   |

# Police Property Fund - Foreword to the Annual Financial Statements

## Police (Northern Ireland) Act 2000

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

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

The Police Property Fund is a separate fund, administered by the PSNI and established by regulations under section 2 of the Police (Property) Act 1897, which comprises unclaimed receipts arising from criminal investigations by the PSNI, which the Policing Board donate to charities.

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

## Financial summary

The Receipts and Payments Account is set out on page 9 and shows an excess of receipts over payments for the year of £5,377.

## Prompt payment policy

PSNI is committed to the prompt payment of bills for goods and services received in accordance with the Government's Better Payments Practice Code and British Standard BS 7890 'Achieving Good Payment Performance in Commercial Transactions'. Unless otherwise stated in the contract, payment was due within 30 days of the receipt of the goods or services or presentation of a valid invoice or similar demand, whichever is later. PSNI paid one invoice in respect of the Police Property Fund this year which was paid within 30 days of the date on which it was registered for payment.

## Interest rate and currency risk

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

## Disabled persons

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

## Employee involvement

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

## Political and charitable contributions

Police Property Fund made no charitable donations or political donations during the year.

## Chief Officers

The posts held by the Chief Officers who are members of the Chief Constable's Forum are detailed in the Annual Financial Statements of the Police Service of Northern Ireland.

## Health and safety

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

## Chief Constable's Annual Report

A certified copy of these Police Property Fund Financial Statements will be included on the PSNI's website as an addendum to the Chief Constable's 2003-2004 Annual Report in February 2005.

## Audit services

The National Audit Office are responsible for the audit of the Police Property Fund Financial Statements. Audit services are paid by the Police Service of Northern Ireland and therefore payment details are included in their Annual Financial Statements. The fees for this year are £2,082.

*Hugh Orde*  
Chief Constable  
Police Service of Northern Ireland

26 January 2005

# Statement of responsibilities of the Police Service of Northern Ireland and the Chief Constable, as to Police Property Fund

## Police Property Fund Financial Statements

Under Part II, Sections 12(1), 12(2) and 12(3) of the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003, the Chief Constable of the Police Service of Northern Ireland is required to prepare a statement of accounts on behalf of the Northern Ireland Policing Board, in the form and on the basis directed by the Secretary of State. The Police Property Fund accounts must properly present the receipts and payments, and statement of balances for the financial year. In preparing the accounts, the Chief Constable of the PSNI is required to

- Observe the accounts direction issued by NIO, 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 have been followed and disclose and explain any material departures in the annual financial statements; and
- Prepare the financial statements on the going concern basis.

## Role of the Chief Constable of Police Service of Northern Ireland as Accounting Officer for Police Grant

The Accounting Officer for the Northern Ireland Office designated the Chief Constable of the Police Service of Northern Ireland as Accounting Officer for the Police Service of Northern Ireland. The Chief Constable's relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum issued by HM Treasury and published in Government Accounting.

# Statement on Internal Control, Police Property Fund

## Scope of responsibility

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

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

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of organisational policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in PSNI for the year ended 31 March 2004 and up to the date of approval of the annual financial statements, and accords with Treasury guidance.

## Capacity to handle risk

All Chief Officers and Senior Managers, together with the Audit and Risk Management Committee, have played an important role in providing leadership to the risk management process. Risk management workshops were held at the outset, attended by a number of representatives of various ranks and grades of staff throughout the organisation, to ensure that staff are trained and equipped to manage risk. The risks impacting on the achievement of objectives were identified and a control strategy was determined for each of the significant risks.

## The risk and control framework

With the publication of the Policing Plan and as part of the development of a fully integrated planning process, all Departments and District Command Units (DCU's) reviewed their risk registers in light of priorities selected for 2004-2005. The key corporate business risks for the organisation have been identified and included in a Corporate Risk Register. The key risk priorities facing the organisation are in the generic areas of ICT infrastructure, estate management, impact of new legislation, funding and communication.

A Risk Framework document has been prepared which explains the underlying approach to risk management, documents the roles and responsibilities of Chief Officers and others, including line management, and which also includes details of management and reporting arrangements.

All Chief Officers are required to sign stewardship statements on a half yearly basis, confirming that they have reviewed the risks for their areas of responsibility and assessed the management of the risks identified.

The Audit and Risk Management Committee 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.

A significant Change Programme is still underway and the risk and control framework will continue to develop to reflect a changing environment. In particular, risk management is being 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 in the organisation.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Chief Officers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. 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 Management 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 Management Committee concerning internal control. PSNI has developed a framework to give assurance in management of risk across the organisation.

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

*Hugh Orde*  
Chief Constable  
Police Service of Northern Ireland

26 January 2005



# Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on pages 9 to 11 under the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003.

## Respective responsibilities of the Chief Constable and Auditor

As described on page 4, the Chief Constable of the Police Service of Northern Ireland is responsible for the preparation of 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. The Chief Constable is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Police Service of Northern Ireland has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 5 and 6 reflects the Police Service of Northern Ireland's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Chief Constable's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Police Service of Northern Ireland's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Chief Constable in the preparation of the financial statements.

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

## Opinion

In my opinion

- the financial statements properly present the receipts and payments of the Police Property Fund for the year ended 31 March 2004 and the balances held at that date and have been properly prepared in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland; and
- in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

23 February 2005

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

## Receipts and Payments account for the year ended 31 March 2004, Police Property Fund

|                                                         | <b>Year ended<br/>31 March<br/>2004<br/>£</b> | Year ended<br>31 March<br>2003<br>£ |
|---------------------------------------------------------|-----------------------------------------------|-------------------------------------|
| <b>Receipts</b>                                         |                                               |                                     |
| Proceeds from sale of seized and lost property          | <b>6,474</b>                                  | 7,147                               |
| <b>Payments</b>                                         |                                               |                                     |
| Sundry Expenses of collection, storage and disposal     | <b>1,097</b>                                  | 1,150                               |
| Donation to charities                                   | <b>0</b>                                      | 22,400                              |
|                                                         | <b>1,097</b>                                  | 23,550                              |
| <b>Excess of receipts (payments) for financial year</b> | <b>5,377</b>                                  | (16,403)                            |

*The notes on page 11 form part of this account.*

All amounts above relate to continuing activities.

## Statement of Balances as at 31 March 2004, Police Property Fund

|                                  | <b>31 March<br/>2004<br/>£</b> | 31 March<br>2003<br>£ |
|----------------------------------|--------------------------------|-----------------------|
| Balance at 1 April 2003          | <b>3,099</b>                   | 19,502                |
| Add excess of receipts\payments) | <b>5,377</b>                   | (16,403)              |
| Balance at 31 March 2004         | <b>8,476</b>                   | 3,099                 |

*The notes on page 11 form part of this account.*

*Hugh Orde*  
Chief Constable  
Police Service of Northern Ireland

26 January 2005

# Notes to the Annual Financial Statements, Police Property Fund

## **1 Statement of principal accounting policies**

### *1.1 Accounting convention*

The financial statements have been prepared on a receipts and payments basis in accordance with the historical cost convention. Without limiting the information given, the financial statements comply with the accounting and disclosure requirements of the Companies (Northern Ireland) Order 1986, the accounting standards issued or adopted by the Accounting Standards Board and accounting and disclosure requirements issued by HM Treasury.

### *1.2 Value Added Tax*

Receipts are shown exclusive of Value Added Tax. The payment in this financial year is inclusive of Value Added Tax as this was not recoverable. Irrecoverable VAT is charged to the relevant payment category.

## **2 Related party disclosures**

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

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

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

## Police Fund - Foreword to the Annual Financial Statements

### Police (Northern Ireland) Act 2000

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

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

The Police Fund is a separate fund administered by the PSNI in association with the RUC Benevolent Fund and ex members who volunteer their services. It was established by regulations under section 28 of the Police Act (NI) 1970 which consists of a PSNI Grant and fines imposed on police officers as a result of disciplinary action. This together with investment income, is applied by PSNI for the welfare of police officers and their dependants.

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

### Financial summary

The Receipts and Payments Account is set out on page 19 and shows an excess of receipts over payments for the year of £4,511.

### Prompt payment policy

PSNI is committed to the prompt payment of bills for goods and services received in accordance with the Government's Better Payments Practice Code and British Standard BS 7890 'Achieving Good Payment Performance in Commercial Transactions'. Unless otherwise stated in the contract, payment was due within 30 days of the receipt of the goods or services or presentation of a valid invoice or similar demand, whichever is later. Payments for the Police Fund are made through the PSNI. PSNI paid 95% of all invoices within 30 days of the date on which they were registered for payment during the period.

### Interest rate and currency risk

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

### Disabled persons

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

## Employee involvement

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

## Political and charitable contributions

The Police Fund made no charitable donations or political donations during the year.

## Chief Officers

The posts held by the Chief Officers who are members of the Chief Constable's Forum are detailed in the Annual Financial Statements of the Police Service of Northern Ireland.

## Health and Safety

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

## Chief Constable's Annual Report

A certified copy of these Police Fund Financial Statements will be included on the PSNI's website as an addendum to the Chief Constable's 2003-2004 Annual Report in February 2005.

## Audit services

The National Audit Office are responsible for the audit of the Police Fund Financial Statements. Audit services are paid by the Police Service of Northern Ireland and therefore payment details are included in their Annual Financial Statements. The fees for this year are £2,082.

*Hugh Orde*  
Chief Constable  
Police Service of Northern Ireland

26 January 2005

## Statement of responsibilities of the Police Service of Northern Ireland and the Chief Constable, Police Fund

### Financial Statements

Under Part II, Sections 12(1), 12(2) and 12(3) of the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003, the Chief Constable of the Police Service of Northern Ireland is required to prepare a statement of accounts on behalf of the Northern Ireland Policing Board, in the form and on the basis directed by the Secretary of State. The Police Fund accounts must properly present the receipts and payments, and statement of balances for the financial year. In preparing the accounts, the Chief Constable of the PSNI is required to

- observe the accounts direction issued by NIO, 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 have been followed and disclose and explain any material departures in the annual financial statements; and
- prepare the financial statements on the going concern basis.

## Role of the Chief Constable of Police Service of Northern Ireland as Accounting Officer for Police Grant

The Accounting Officer for the Northern Ireland Office designated the Chief Constable of the Police Service of Northern Ireland as Accounting Officer for the Police Service of Northern Ireland. The Chief Constable's relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum issued by HM Treasury and published in Government Accounting.



# Statement on Internal Control, Police Fund

## Scope of responsibility

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

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

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of organisational policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in PSNI for the year ended 31 March 2004 and up to the date of approval of the annual financial statements, and accords with Treasury guidance.

## Capacity to handle risk

All Chief Officers and Senior Managers, together with the Audit and Risk Management Committee, have played an important role in providing leadership to the risk management process. Risk management workshops were held at the outset, attended by a number of representatives of various ranks and grades of staff throughout the organisation, to ensure that staff are trained and equipped to manage risk. The risks impacting on the achievement of objectives were identified and a control strategy was determined for each of the significant risks.

## The risk and control framework

With the publication of the Policing Plan and as part of the development of a fully integrated planning process, all Departments and District Command Units (DCU's) reviewed their risk registers in light of priorities selected for 2004-2005. The key corporate business risks for the organisation have been identified and included in a Corporate Risk Register. The key risk priorities facing the organisation are in the generic areas of ICT infrastructure, estate management, impact of new legislation, funding and communication.

A Risk Framework document has been prepared which explains the underlying approach to risk management, documents the roles and responsibilities of Chief Officers and others, including line management, and which also includes details of management and reporting arrangements.

All Chief Officers are required to sign stewardship statements on a half yearly basis, confirming that they have reviewed the risks for their areas of responsibility and assessed the management of the risks identified.

The Audit and Risk Management Committee 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.

A significant Change Programme is still underway and the risk and control framework will continue to develop to reflect a changing environment. In particular, risk management is being 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 in the organisation.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Chief Officers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. 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 Management 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 Management Committee concerning internal control. PSNI has developed a framework to give assurance in management of risk across the organisation.

During the year Deloitte 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.

*Hugh Orde*  
Chief Constable  
Police Service of Northern Ireland

26 January 2005

# Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on pages 19 to 22 the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003.

## Respective responsibilities of the Chief Constable and Auditor

As described on page 14, the Chief Constable of the Police Service of Northern Ireland is responsible for the preparation of 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. The Chief Constable is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements properly present the receipts and payments and are properly prepared in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland, and whether in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Police Service of Northern Ireland has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 15 and 16 reflects the Police Service of Northern Ireland's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Chief Constable's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Police Service of Northern Ireland's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the judgements made by the Chief Constable in the preparation of the financial statements.

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

## Opinion

In my opinion

- the financial statements properly present the receipts and payments of the Police Fund for the year ended 31 March 2004 and the balances held at that date and have been properly prepared in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland; and
- in all material respects the receipts and payments have been applied to the purposes intended by Parliament and conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

23 February 2005

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

## Receipts and Payments account for the year ended 31 March 2004, Police Fund

|                                                                       | Notes | <b>Year ended<br/>31 March<br/>2004<br/>£</b> | Year ended<br>31 March<br>2003<br>£ |
|-----------------------------------------------------------------------|-------|-----------------------------------------------|-------------------------------------|
| <b>Receipts</b>                                                       |       |                                               |                                     |
| Dividends and interest                                                |       | <b>2,715</b>                                  | 2,317                               |
| Grant income                                                          | 2     | <b>27,744</b>                                 | 100,860                             |
| Inland Revenue refund                                                 |       | <b>552</b>                                    | 374                                 |
| Fines on Members of the PSNI                                          |       | <b>10,581</b>                                 | 3,164                               |
|                                                                       |       | <b>41,592</b>                                 | 106,715                             |
| <b>Payments</b>                                                       |       |                                               |                                     |
| Income tax deducted from investment income                            |       | <b>0</b>                                      | 57                                  |
| Corporation Tax                                                       | 3     | <b>175</b>                                    | 487                                 |
| Disbursements for the welfare of members of PSNI and their dependants |       | <b>36,906</b>                                 | 103,911                             |
|                                                                       |       | <b>37,081</b>                                 | 104,455                             |
| <b>Excess of receipts\ (payments)</b>                                 |       | <b>4,511</b>                                  | 2,260                               |

*The notes on pages 21 to 22 form part of this account.*

All amounts above relate to continuing activities.

## Statement of Balances as at 31 March 2004, Police Fund

|              | Notes | <b>31 March<br/>2004</b> | 31 March<br>2003<br>Restated |
|--------------|-------|--------------------------|------------------------------|
| Bank         | 4     | <b>14,039</b>            | 9,528                        |
| Investments* | 5     | <b>63,353</b>            | 63,610                       |
|              |       | <b>77,392</b>            | 73,138                       |

\* The 2003 figure is restated to reflect the market value of investments rather than historical cost.

*The notes on pages 21 to 22 form part of this account.*

*Hugh Orde*  
Chief Constable  
Police Service of Northern Ireland

26 January 2005

# Notes to the Annual Financial Statements, Police Fund

## 1 Statement of principal accounting policies

### 1.1 Accounting convention

The financial statements have been prepared on a receipts and payments basis in accordance with the historical cost convention modified to account for the valuation of investments at market value. Without limiting the information given, the financial statements comply with the accounting and disclosure requirements of the Companies (Northern Ireland) Order 1986, the accounting standards issued or adopted by the Accounting Standards Board and accounting and disclosure requirements issued by HM Treasury.

### 1.2 Value Added Tax

Value Added Tax is not applicable with respect to receipts. Payments are shown inclusive of Value Added Tax. Irrecoverable VAT is charged to the relevant expenditure category.

### 1.3 Corporation Tax

Corporation tax is charged on the interest received during the year from the consolidated stock.

## 2

As a tax efficiency measure NIPB agreed to meet expenses incurred by officers and their dependants visiting the Police Convalescent Homes from the Police Fund and to make a corresponding grant to the Fund.

## 3

During the year, corporation tax of £174.90 was paid in respect of 2002-2003.

## 4 Bank

|                                           | 2004<br>£     | 2003<br>£    |
|-------------------------------------------|---------------|--------------|
| Opening bank balance 1 April 2003         | 9,528         | 7,268        |
| Excess of receipts\payments               | 4,511         | 2,260        |
| <b>Closing bank balance 31 March 2004</b> | <b>14,039</b> | <b>9,528</b> |

## 5 Investments\*

|                                                              |               |               |
|--------------------------------------------------------------|---------------|---------------|
| 14,200 4% Consolidated Stock at Market Value (Cost £10,016). | 11,353        | 11,610        |
| Advances to the Consolidated Fund of Northern Ireland        | 52,000        | 52,000        |
|                                                              | <u>63,353</u> | <u>63,610</u> |

\* The 2003 figure is restated to reflect the market value of investments rather than historical cost.

## **6 Related party disclosures**

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

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

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

## **7 Losses**

During the year a total of £754.16 was overpaid with respect to welfare payments.



# Police Service of Northern Ireland - Foreword to the Annual Financial Statements

## Police (Northern Ireland) Acts 2000 and 2003

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

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

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

## Financial summary

The Income and Expenditure Account is set out on page 32 and shows a deficit for the year of £62,237,000, including £24,810,000 for an exceptional item in respect of pension provisions (see notes 7 and 13) and before crediting £10,975,000 in respect of the notional cost of capital. An amount of £51,262,000 was transferred from reserves. The exceptional item, the accruing costs of the PSNI Civilian Pension Scheme, will be discharged in the financial year ended 31 March 2005 by way of a Government Grant which is not accounted for in this year's financial statements.

## Prompt payment policy

PSNI is committed to the prompt payment of bills for goods and services received in accordance with the Government's Better Payments Practice Code and British Standard BS 7890 'Achieving Good Payment Performance in Commercial Transactions'. Unless otherwise stated in the contract, payment was due within 30 days of the receipt of the goods or services or presentation of a valid invoice or similar demand, whichever is later. PSNI paid 95% of all invoices within 30 days of the date on which they were registered for payment during the period.

## Interest rate and currency risk

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

## Future developments

### **Police Service of Northern Ireland 'Programme for Change'**

A three-year plan was published in May 2002 indicating how the PSNI would implement the change programme. This follows on from the publication of the Oversight Commissioner's performance indicators and the NIPB's Policing

Plan. The Programme for Change describes the vision that lies behind the change management programme and the aims of its significant parts. In particular, the following goals have been established within PSNI

- developing an organisational culture and operational style needed to underpin the change process;
- implementing the recommendations contained in the Patten Report and the NIO implementation plan;
- implementing key non-Patten initiatives that are relevant to the change process, i.e. the equality proposals under Section 75 of the NI Act 1998 and the proposals on integrity produced by Her Majesty's Inspector of Constabulary;
- complying with PSNI's statutory responsibilities as stated in the Police (NI) Act 2002;
- addressing the performance indicators provided by the Office of the Oversight Commissioner (OOC);
- ensuring that the work of the Change Manager and Change Management Team fully support the process; and
- ensuring that the annual system for holding DCU Commanders accountable reflects the contents of Patten and the Programme for Change.

Within this context, the recommendations in the Patten Report will involve a programme of activity that will be implemented over a period of up to eight years. A number of significant events have occurred during the year and some are planned over the coming year and beyond. These include the following

- the Service has made good progress in the decentralization programme, including the appointment of Business Managers and Personnel Managers to DCUs. Finance Offices have been established in each DCU with training provided to staff. In the first full year of Local Financial Management, in excess of 85% of the budgets were devolved to local control, empowering DCU Commanders and Heads of Branches to exercise real influence over the use of resources within their area of control. To assist in the management of the resources, training was provided to budget holders and business managers throughout the PSNI;
- the civilianisation programme is gaining momentum and this, together with a policy of redeploying police officers currently in non-operational roles, is leading to a significant increase in officers freed up to carry out frontline policing duties;
- by June 2004, 1,319 new recruits had entered initial training, all recruited on a 50/50 basis. A recruitment target of 540 new officers per annum will remain until there are 7,500 Regular Officers. In addition, the Part Time Reserve is planned to be strengthened to a target complement of 2,500 officers by March 2006. The recruitment campaign for the Part Time Reserve began in February 2003 and the first 10 officers entered training and were attested in March 2004;
- the PSNI has hosted a number of international conferences focusing on Human Rights and Ethnic Minorities and a conference on youth;
- the First Annual Police Service of Northern Ireland/An Garda Síochána Conference took place in April 2002, hosted by An Garda Síochána. The PSNI hosted the second joint Conference in October 2003. Cross Border Conferences on Crime and Policing Disasters have also taken place;
- a new Crime Operations Department has been set up which amalgamates the former Crime and Special Branch Departments. A Criminal Justice Department has also been created and North and South Regions have been amalgamated into a Rural Region;
- provision of a new police training college planned for completion by March 2008 has been agreed, with funding for its construction and running costs to be obtained through a public private partnership initiative;
- development of an information systems programme to take the Service to the forefront of law enforcement processes that are supported by modern information and communications technologies;
- a Policing with the Community Policy and Implementation plan has been drawn up and there are now Community Police Teams in each district. More than 200 officers have completed the Community Beat Officers course. A comprehensive training, education and development programme for crime analysts is in place. Analysts are in post supporting districts and crime operations department;

- the three holding centres at Castlereagh, Gough and Strand Road have been closed and a new PACE/Terrorist facility at Antrim opened in April 2003. The refurbishment/re-branding of enquiry offices has also commenced, and there is also a plan to improve the external appearance of stations across NI; and
- at the end of June 2004, 5,700 'common terminals' had been installed across the Service. The PSNI's own Intranet system, 'Policenet' was launched on 26 March 2003.

From a capital investment perspective, new build projects were completed during 2003-2004 at Coleraine, and development work is continuing at Omagh and Magherafelt. Development is planned for the existing Craigavon Station and new DCU HQ Stations at Ballymoney and Cookstown.

Although there has been a reduction in the level of attacks on the police since the ceasefires, it is clear that the totally peaceful scenario envisaged by the International Commission has not yet materialised. The capability of the PSNI as it exists today is fully committed to counteracting the terrorist threat, dealing with the public order demands and dealing with a high number of major crime investigations.

### Post balance sheet event

On 9 September 2004, the Chief Constable announced his decision to downsize the Full Time Reserve. This will have an expected cost of £112m in 2004-2005. Please see note 13 on page 44 for further detail.

### Disabled persons

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

### Employee involvement

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

### Fixed assets

Details of the movement in fixed assets are set out in Note 9 to the Financial Statements. There were no significant changes between market value and book values of any fixed assets during the year.

### Research and development

PSNI has no activities that would be classified under research and development.

### Political and charitable contributions

During the year £20,000 was contributed to the NSPCC's Young Abusers Project. PSNI made no other charitable donations or political donations during the year.

### Chief Officers

The posts held by the Chief Officers who are members of the Chief Constable's Forum are detailed on page 38.

## Health and Safety

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

## Chief Constable's Annual Report

A certified copy of these Annual Financial Statements will be included on the PSNI's website as an addendum to the Chief Constable's 2003-2004 Annual Report in February 2005.

## Audit Services

The Police Service of Northern Ireland Accounts are required to be audited by the Comptroller and Auditor General who is responsible for laying the accounts before both Houses of Parliament at Westminster. The fees for this year are £56,000 (2002-2003 - £50,000). This includes the audit fees in respect of the Police Pension Scheme, the Police Fund and the Police Property Fund.

## Police Fund, Police Property Fund and Police Pension Scheme

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

*Hugh Orde*  
Chief Constable  
Police Service of Northern Ireland

26 January 2005

# Statement of responsibilities of the Police Service of Northern Ireland and the Chief Constable

## Main Financial Statements

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

- observe the accounts direction issued by NIO, 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 have been followed and disclose and explain any material departures in the annual financial statements; and
- prepare the annual financial statements on the going concern basis.

## Role of the Chief Constable of Police Service of Northern Ireland as Accounting Officer for Police Grant

The Accounting Officer for the Northern Ireland Office designated the Chief Constable of the Police Service of Northern Ireland as Accounting Officer for the Police Service of Northern Ireland. The Chief Constable's relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum issued by HM Treasury and published in Government Accounting.

# Statement on Internal Control, Police Service of Northern Ireland

## Scope of responsibility

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

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

## The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of organisational policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in PSNI for the year ended 31 March 2004 and up to the date of approval of the annual financial statements, and accords with Treasury guidance.

## Capacity to handle risk

All Chief Officers and Senior Managers, together with the Audit and Risk Management Committee, have played an important role in providing leadership to the risk management process. Risk management workshops were held at the outset, attended by a number of representatives of various ranks and grades of staff throughout the organisation, to ensure that staff are trained and equipped to manage risk. The risks impacting on the achievement of objectives were identified and a control strategy was determined for each of the significant risks.

## The risk and control framework

With the publication of the Policing Plan and as part of the development of a fully integrated planning process, all Departments and District Command Units (DCU's) reviewed their risk registers in light of priorities selected for 2004-2005. The key corporate business risks for the organisation have been identified and included in a Corporate Risk Register. The key risk priorities facing the organisation are in the generic areas of ICT infrastructure, estate management, impact of new legislation, funding and communication.

A Risk Framework document has been prepared which explains the underlying approach to risk management, documents the roles and responsibilities of Chief Officers and others, including line management, and which also includes details of management and reporting arrangements.

All Chief Officers are required to sign stewardship statements on a half yearly basis, confirming that they have reviewed the risks for their areas of responsibility and assessed the management of the risks identified.

The Audit and Risk Management Committee 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.

A significant Change Programme is still underway and the risk and control framework will continue to develop to reflect a changing environment. In particular, risk management is being 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 in the organisation.

### Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Chief Officers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. 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 Management 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 Management Committee concerning internal control. PSNI has developed a framework to give assurance in management of risk across the organisation.

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

Significant weaknesses were identified in the allowances system which governs the terms and conditions of services for police and civilian staff. In addition there were a number of instances identified in relation to non-compliance with procurement regulations. Management action plans to address these issues are currently being developed and will be implemented during 2004-2005.

*Hugh Orde*  
Chief Constable  
Police Service of Northern Ireland

26 January 2005

# Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on pages 32 to 48 under the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 35 to 37.

## Respective responsibilities of the Chief Constable and Auditor

As described on page 27, the Chief Constable of the Police Service of Northern Ireland is responsible for the preparation of 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. The Chief Constable is also responsible for the preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

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

I review whether the statement on pages 28 and 29 reflects the Police Service of Northern Ireland's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Police Service of Northern Ireland's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

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

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



## Opinion

### In my opinion

- the financial statements give a true and fair view of the state of affairs of the Police Service of Northern Ireland at 31 March 2004 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003 and directions made thereunder by the Secretary of State for Northern Ireland; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

23 February 2005

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

## Income and Expenditure Account for the year ended 31 March 2004

|                                               | Notes | Year ended<br>31 March<br>2004<br>£000 | Year ended<br>31 March<br>2003<br>Restated<br>£000 |
|-----------------------------------------------|-------|----------------------------------------|----------------------------------------------------|
| <b>Income</b>                                 |       |                                        |                                                    |
| Grant from Northern Ireland Office            |       |                                        |                                                    |
| Request for resources 1                       |       |                                        |                                                    |
| Core grant                                    | 2     | <b>653,782</b>                         | 615,162                                            |
| Patten grant – severance                      | 2     | <b>10,191</b>                          | 42,221                                             |
| Patten grant – non severance                  | 2     | <b>13,322</b>                          | 24,721                                             |
|                                               |       | <b>677,295</b>                         | 682,104                                            |
| <b>Other income</b>                           |       |                                        |                                                    |
| Release from capital grant reserve            | 14    | <b>25,232</b>                          | 20,245                                             |
| Operating income*                             | 3     | <b>3,843</b>                           | 4,757                                              |
|                                               |       | <b>706,370</b>                         | 707,106                                            |
| <b>Expenditure</b>                            |       |                                        |                                                    |
| Staff costs                                   | 4     | <b>537,651</b>                         | 531,284                                            |
| Other operating costs                         | 5     | <b>170,368</b>                         | 143,523                                            |
| Notional cost of capital                      | 6     | <b>10,975</b>                          | 20,223                                             |
| Depreciation                                  | 9     | <b>23,140</b>                          | 20,474                                             |
|                                               |       | <b>742,134</b>                         | 715,504                                            |
| <b>Deficit before exceptional item</b>        |       | <b>(35,764)</b>                        | (8,398)                                            |
| <b>Exceptional item: pension liability</b>    | 7     | <b>(24,810)</b>                        | (44,200)                                           |
| <b>Deficit before interest</b>                |       | <b>(60,574)</b>                        | (52,598)                                           |
| <b>Interest paid and similar charges</b>      | 8     | <b>(1,663)</b>                         | (3,509)                                            |
| <b>Deficit for the year</b>                   |       | <b>(62,237)</b>                        | (56,107)                                           |
| Credit in respect of notional cost of capital | 6     | <b>10,975</b>                          | 20,223                                             |
| <b>Amount transferred from reserves</b>       | 14    | <b>(51,262)</b>                        | (35,884)                                           |

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2004

|                                                   |    |                 |          |
|---------------------------------------------------|----|-----------------|----------|
| <b>Deficit for the year</b>                       |    | <b>(62,237)</b> | (56,107) |
| Unrealised surplus on revaluation of fixed assets | 14 | <b>15,897</b>   | 3,801    |
| <b>Total recognised losses for the year</b>       |    | <b>(46,340)</b> | (52,306) |

The notes on pages 35 to 48 form part of this account.

All amounts above relate to continuing activities.

\* 2003 figures restated to reflect revised disclosure requirements.

## Balance Sheet as at 31 March 2004

|                                                                | Notes | <b>31 March<br/>2004</b> | 31 March<br>2003<br>Restated |
|----------------------------------------------------------------|-------|--------------------------|------------------------------|
|                                                                |       | <b>£000</b>              | £000                         |
| <b>Fixed assets</b>                                            | 9     | <b>473,847</b>           | 454,940                      |
| <b>Current assets</b>                                          |       |                          |                              |
| Stocks                                                         | 10    | <b>5,925</b>             | 11,639                       |
| Debtors                                                        | 11    | <b>15,082</b>            | 16,816                       |
| Bank and cash                                                  | 15.2  | <b>6,683</b>             | 6,816                        |
|                                                                |       | <b>27,690</b>            | 35,271                       |
| <b>Creditors: amounts falling due within one year</b>          | 12    | <b>(41,845)</b>          | (47,540)                     |
| <b>Net current liabilities</b>                                 |       | <b>(14,155)</b>          | (12,269)                     |
| <b>Total assets less current liabilities</b>                   |       | <b>459,692</b>           | 442,671                      |
| <b>Creditors: amounts falling due after more than one year</b> |       |                          |                              |
| Provision for liabilities and charges                          | 13    | <b>(161,877)</b>         | (113,327)                    |
| <b>Total assets less total liabilities</b>                     |       | <b>297,815</b>           | 329,344                      |
| <b>Financed by</b>                                             |       |                          |                              |
| <b>Capital and reserves</b>                                    |       |                          |                              |
| General fund                                                   | 14    | <b>(176,032)</b>         | (125,596)                    |
| Capital grant reserve                                          | 14    | <b>473,847</b>           | 454,940                      |
|                                                                |       | <b>297,815</b>           | 329,344                      |

*The notes on pages 35 to 48 form part of this account.*

Hugh Orde  
Chief Constable  
Police Service of Northern Ireland

26 January 2005

## Cash Flow Statement for the year ended 31 March 2004

|                                                            | Notes | <b>31 March<br/>2004<br/>£000</b> | 31 March<br>2003<br>Restated<br>£000 |
|------------------------------------------------------------|-------|-----------------------------------|--------------------------------------|
| <b>Net cash inflow/(outflow) from operating activities</b> | 15.1  | <b>(803)</b>                      | (5,349)                              |
| <b>Capital expenditure</b>                                 |       |                                   |                                      |
| Purchase of tangible fixed assets                          | 15.3  | <b>(29,230)</b>                   | (36,341)                             |
| Proceeds from disposal of fixed assets                     |       | <b>832</b>                        | 513                                  |
| <b>Net cash outflow from capital expenditure</b>           |       | <b>(28,398)</b>                   | (35,828)                             |
| <b>Financing*</b>                                          |       |                                   |                                      |
| Capital grant to acquire fixed assets                      | 15.3  | <b>29,068</b>                     | 36,906                               |
| <b>Net cash inflow from financing</b>                      |       | <b>29,068</b>                     | 36,906                               |
| <b>Decrease in cash</b>                                    | 15.2  | <b>(133)</b>                      | (4,271)                              |

*The notes on pages 35 to 48 form part of this account.*

\* 2003 figures restated to reflect revised disclosure requirements.

# Notes to the Annual Financial Statements

## 1 Statement of accounting policies

### 1.1 Accounting convention

The financial statements have been prepared in accordance with the historical cost convention, modified to include the revaluation of fixed assets at their value to the business by reference to their current costs. Without limiting the information given, the financial statements comply with the accounting and disclosure requirements of the Companies (Northern Ireland) Order 1986, the accounting standards issued or adopted by the Accounting Standards Board and accounting and disclosure requirements issued by HM Treasury.

### 1.2 Fixed assets and depreciation

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

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

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

### 1.3 Intangible assets

There are no intangible assets. Software licences are treated as revenue expenditure.

### 1.4 Notional cost of capital

The income and expenditure account bears a non-cash charge for interest relating to the use of capital. The basis of the charge is 3.5% (6% in 2002-2003) of the average capital employed during the year, defined as total assets less total liabilities.

### 1.5 Pension costs

Pension benefits are provided through three defined benefit pension schemes.

Direct civilian employees were ordinary members of the PSNI (Civilian) Pension Scheme that was analogous to the Principal Civil Service Pension Scheme (NI). Legislation was approved on 8 March 2004 to add PSNI civilian direct recruits to the PCSPS(NI) as Schedule 1 members, with effect from 30 September 2002. It is expected the PSNI Scheme will be wound up and the transfer made during 2004-2005. This is in keeping with current HM Government policy to close all 'by analogy' schemes and transfer them into the main PCSPS schemes.

A number of PSNI's employees are Civil Servants seconded from the Department of Finance and Personnel (NI). The Principal Civil Service Pension Scheme Northern Ireland (PCSPS - NI) is an unfunded defined benefit scheme which produces its own resource accounts, but PSNI was unable to identify its share of the underlying assets and liabilities. The most up to date actuarial valuation was carried out as at 31 March 2003.

Police officers are members of the PSNI Pension Scheme. PSNI contributes a percentage of pensionable earnings towards their superannuation, at the Accruing Superannuation Liability Charge (ASLC) rates, determined by the Government Actuary and advised by HM Treasury. The ASLC rate is fixed at 20.25%.

Separate pension scheme statements have been prepared for the PSNI (Police) Pension Scheme for the year ended 31 March 2004.

#### *1.6 Value Added Tax*

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

#### *1.7 Stock*

Stock is stated at the lower of cost and net realisable value.

#### *1.8 Provision for voluntary severance*

Provision is made for the costs of providing severance payments to police officers leaving the force under the Voluntary Severance Scheme for PSNI Regular and Full Time Reserve Officers based on anticipated numbers of leavers, their age and length of service.

#### *1.9 Provision for compensation claims*

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

#### *1.10 Provision for early retirement costs*

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

#### *1.11 Provision for pension liability*

Legislation was approved on 8 March 2004 to add PSNI civilian direct recruits to the PCSPS(NI) as Schedule one members, with effect from 30 September 2002. It is expected the PSNI Scheme will be wound up and the transfer made during 2005-2006. This is in keeping with current HM Government policy to close all 'by analogy' schemes and transfer them into the main PCSPS schemes.

A full actuarial valuation of the scheme was carried out at 31 March 2002 and was updated to 30 September 2002, the effective date of transfer. The present value of the scheme liabilities at 30 September 2002 has been estimated at £69.0 million. PSNI has provided for this cost as an exceptional item.

#### *1.12 Provision for stock*

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

#### *1.13 Leases*

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

#### *1.14 Government grants*

Grants for capital purposes are credited to a Capital Grant Reserve and released to the Income and Expenditure Account over the expected useful lives of the assets.

### 1.15 Third party assets

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

## 2 Reconciliation of grants

|                                                    | <b>Year ended<br/>31 March<br/>2004<br/>£000</b> | Year ended<br>31 March<br>2003<br>Restated<br>£000 |
|----------------------------------------------------|--------------------------------------------------|----------------------------------------------------|
| Main Grant from Northern Ireland Office            | <b>668,686</b>                                   | 652,068                                            |
| Patten Grant – severance                           | <b>10,191</b>                                    | 42,221                                             |
| Patten Grant – non severance                       | <b>27,486</b>                                    | 24,721                                             |
|                                                    | <b>706,363</b>                                   | 719,010                                            |
| Less transferred to deferred capital (see note 14) | <b>(29,068)</b>                                  | (36,906)                                           |
|                                                    | <b>677,295</b>                                   | 682,104                                            |

## 3 Operating income\*

|                                                              |              |       |
|--------------------------------------------------------------|--------------|-------|
| Fees for firearms certificates, permits and accident reports | <b>1,124</b> | 1,299 |
| Police transport                                             | <b>313</b>   | 89    |
| Profit on disposal of fixed assets                           | <b>0</b>     | 213   |
| Other                                                        | <b>2,406</b> | 3,156 |
|                                                              | <b>3,843</b> | 4,757 |

## 4 Staff costs

|                                       |                |         |
|---------------------------------------|----------------|---------|
| Wages and salaries                    | <b>430,679</b> | 439,765 |
| Social security costs                 | <b>39,379</b>  | 34,622  |
| Pension costs (employer contribution) | <b>59,233</b>  | 53,770  |
| Secondments/Agency                    | <b>8,360</b>   | 3,127   |
|                                       | <b>537,651</b> | 531,284 |

The average number of employees over the year is as follows

|                          | <b>Number</b> | Number |
|--------------------------|---------------|--------|
| Chief Officers           | <b>12</b>     | 13     |
| PSNI (civilian)          | <b>3,234</b>  | 3,413  |
| PSNI (police officers)   | <b>8,900</b>  | 9,150  |
| PSNI (part-time reserve) | <b>902</b>    | 882    |
| Secondments              | <b>2</b>      | 0      |
| Agency                   | <b>383</b>    | 192    |
|                          | <b>13,433</b> | 13,650 |

\* 2003 figures restated to reflect revised disclosure requirements.

*Chief Officer Remuneration*

Remuneration and pension information for the year ended 31 March 2004 is provided for Chief Officers of the PSNI as follows

|                                                                           | Sex | <b>Pay and allowances 2003-2004</b> | Pay and allowances 2002-2003 |
|---------------------------------------------------------------------------|-----|-------------------------------------|------------------------------|
| Chief Constable (appointed 1 September 2002)                              | M   | <b>151,631</b>                      | 78,583                       |
| Deputy Chief Constable (appointed 1 April 2003)                           | M   | <b>130,418</b>                      | 0                            |
| Deputy Chief Constable (left 9 November 2002)                             | M   | <b>0</b>                            | 83,605                       |
| ACC South (left on secondment 18 August 2003)                             | M   | <b>36,893</b>                       | 88,878                       |
| Acting ACC South ** (period 14 July 2003 – 5 October 2003)                | M   | <b>20,226</b>                       | 0                            |
| ACC Crime (left 17 August 2003)                                           | M   | <b>44,524</b>                       | 92,363                       |
| ACC Crime (appointed 18 August 2003)                                      | M   | <b>52,851</b>                       | 0                            |
| ACC Crime (left 30 April 2002)                                            | M   | <b>0</b>                            | 11,112                       |
| Acting ACC Urban (period 1 April 2003 – 5 October 2003)                   | F   | <b>43,907</b>                       | 15,817                       |
| ACC Urban (appointed 6 October 2003)                                      | M   | <b>45,668</b>                       | 0                            |
| ACC Urban (left 31 January 2003)                                          | M   | <b>0</b>                            | 82,778                       |
| ACC Corporate Development (appointed 1 September 2002)                    | M   | <b>96,929</b>                       | 46,954                       |
| ACC North (transferred to ACC Crime 17 August 2003)                       | M   | <b>36,893</b>                       | 88,878                       |
| Acting ACC North ** (Period 18 August 2003 – 5 October 2003)              | M   | <b>13,129</b>                       | 0                            |
| ACC Rural (appointed 6 October 2003)                                      | M   | <b>45,389</b>                       | 0                            |
| Acting ACC Criminal Justice (period 6 October 2003 – 31 March 2004)       | *   | *                                   | 0                            |
| ACC Operations (transferred to ACC Urban 5 October 2003)                  | M   | <b>44,076</b>                       | 46,437                       |
| Acting ACC Operations (period 6 October 2003 – 31 March 2004)             | M   | <b>32,514</b>                       | 0                            |
| Acting ACC Operations (period 1 May 2002 – 19 September 2002)             | M   | <b>0</b>                            | 27,690                       |
| ACC on Strategic Command Course (period 1 May 2003 – 5 October 2003)      | M   | <b>34,834</b>                       | 0                            |
| ACC involved in training project (period 16 January 2004 – 31 March 2004) | M   | <b>19,601</b>                       | 0                            |
| Legal Adviser                                                             | M   | <b>71,580</b>                       | 65,676                       |
| Chief Administrative Officer (retired 12 February 2003)                   | M   | <b>0</b>                            | 63,691                       |
| Director of Finance ***                                                   | M   | <b>71,562</b>                       | 64,525                       |
| Head of Media & PR ***                                                    | M   | <b>65,674</b>                       | 66,949                       |
| Senior Director of Human Resources ***                                    | M   | <b>87,220</b>                       | 87,220                       |

\* Denotes consent to disclosure withheld

\*\* ACC North and ACC South amalgamated to ACC Rural on 5 October 2003 following a reorganisation.

\*\*\* These salary figures do not include pay increments which had not been approved at the date of signing.

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

None of the Chief Officers listed above received any benefits in kind during the year to 31 March 2004.



*Chief Officer Pension Benefits*

|                                                                              | Real<br>pension<br>increase at<br>age 60 | Accrued<br>pension<br>at age 60 | CETV at<br>31 March<br>2004 | CETV at<br>31 March<br>2003 | Real<br>increase<br>in CETV |
|------------------------------------------------------------------------------|------------------------------------------|---------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Chief Constable (Appointed 1 September 2002)                                 | 19,114                                   | 83,969                          | 936,017                     | 682,969                     | 198,418                     |
| Deputy Chief Constable (Appointed 1 April 2003)                              | 19,647                                   | 54,643                          | 724,410                     | 452,663                     | 233,347                     |
| ACC South (Left on Secondment 18 August 2003)                                | 4,977                                    | 43,650                          | 547,424                     | 512,956                     | (5,123)                     |
| Acting ACC South (Period 14 July 2003 -<br>5 October 2003)                   | 4,125                                    | 36,856                          | 447,845                     | 378,217                     | 42,775                      |
| ACC Crime (Left 17 August 2003)                                              | 5,515                                    | 56,666                          | 715,510                     | 643,308                     | 65,852                      |
| ACC Crime (Appointed 18 August 2003)                                         | 4,682                                    | 38,162                          | 551,680                     | 471,992                     | 42,532                      |
| ACC Urban (Appointed 6 October 2003)                                         | 6,650                                    | 28,228                          | 393,366                     | 298,155                     | 69,547                      |
| Acting ACC Urban (Period 1 April 2003 -<br>5 October 2003)                   | 3,941                                    | 35,141                          | 406,355                     | 353,075                     | 27,122                      |
| ACC Corporate Development (Appointed<br>1 September 2002)                    | 7,498                                    | 33,639                          | 406,448                     | 311,809                     | 70,639                      |
| ACC Rural (Appointed 6 October 2003)                                         | 11,369                                   | 41,012                          | 443,242                     | 302,601                     | 115,047                     |
| Acting ACC Criminal Justice (Period 6 October 2003 -<br>31 March 2004)       | *                                        | *                               | *                           | *                           | *                           |
| ACC North (Transferred to ACC Crime 17 August 2003)                          | 4,682                                    | 38,162                          | 551,680                     | 471,992                     | 42,532                      |
| Acting ACC North (Period 18 August 2003 -<br>5 October 2003)                 | 3,882                                    | 45,076                          | 614,844                     | 532,532                     | 45,786                      |
| ACC Operations (Transferred to ACC Urban<br>5 October 2003)                  | 6,650                                    | 28,228                          | 393,366                     | 298,155                     | 69,547                      |
| Acting ACC Operations (Period 6 October 2003 -<br>31 March 2004)             | 3,424                                    | 38,689                          | 499,504                     | 430,811                     | 37,230                      |
| ACC on Strategic Command Course<br>(Period 1 May 2003 - 5 October 2003)      | 4,977                                    | 43,650                          | 547,424                     | 512,956                     | (5,123)                     |
| ACC involved in training project<br>(Period 16 January 2004 - 31 March 2004) | 11,369                                   | 41,012                          | 443,242                     | 302,601                     | 115,047                     |
| Legal Adviser                                                                | 1,133                                    | 25,709                          | 463,062                     | 424,826                     | 19,507                      |
| Director of Finance                                                          | 3,382                                    | 22,406                          | 338,598                     | 271,726                     | 50,032                      |
| Head of Media & PR                                                           | 972                                      | 3,784                           | 62,345                      | 43,938                      | 15,063                      |
| Senior Director of Human Resources                                           | 851                                      | 9,509                           | 139,467                     | 120,866                     | 11,214                      |

\* Denoted consent to disclosure withheld.

Pension benefits are provided through three pension schemes depending on the employment status of the individual. Details are set out overleaf.

The Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by an officer at a particular point in time. The benefits valued are the officer's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the officer leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the officer has accrued as a consequence of their total PSNI service. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

The real increase in the value of the CETV takes account of the increase in accrued pension due to inflation and contributions paid by the officer and is calculated using common market valuation factors for the start and end of the period.

### *Principal Civil Service Pension Scheme (NI)*

Pension benefits for Civil Servants seconded from DFP are provided through the Principal Civil Service Pension Scheme (NI) (PCSPS (NI)). From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account).

For 2003-2004, employers' contributions of £6,541,958 were paid to the PCSPS(NI) (2002-2003 £3,693,542) at one of four rates in the range 12 to 18% of pensionable pay, based on salary bands. The figure for 2003-2004 includes pension contributions in respect of all employees in contrast to the 2002-2003 figure which shows contributions in respect of civil servants only. It is anticipated that these rates will remain the same next year, subject to revalorisation of the salary bands, but may change from 2005-2006 depending on the result of the current actuarial valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. No employers' contributions were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, no employer contributions of 0.8% of pensionable pay, were payable to the PCSPS(NI) to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

### *Police Service of Northern Ireland (Civilian) Pension Scheme*

Pension benefits for direct recruits of PSNI were provided through the PSNI (Civilian) pension scheme, which was analogous to the PCSPS (NI) scheme, which is described in the above paragraph.

Legislation was approved on 8 March 2004 to add PSNI civilian direct recruits to the employments listed in Schedule 1 to the Superannuation (Northern Ireland) Order 1972 with effect from 30 September 2002 however it is expected the scheme will be wound up and the transfer made during 2004-2005.

A full actuarial valuation of the Police Service of Northern Ireland (Civilian) Pension Scheme was carried out at 31 March 2002 and has been updated to 30 September 2002, the effective date of the transfer, by the Government Actuary. The present value of the scheme liabilities has been estimated at 30 September 2002 at £69.0 million. In accordance with the NDPB Accounting Guidance, the scheme liability has been discounted at 3.5%.

Direct Recruits joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. No employers' contributions were paid to one or more of a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, no employer contributions of 0.8% of pensionable pay, were payable to the PCSPS(NI) to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees.

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

### PSNI Pension Scheme

Pension benefits for PSNI officers including full time reserves are provided through the PSNI Pension Scheme. This is a statutory scheme that provides benefits on an 'Average Pensionable Pay (APP)' basis at the retirement age, which is compulsory depending on the officer's rank. Every officer is required to retire on attaining the age of 55 for rank Constable/Reserve Constable/ Sergeant (age 57 for officers serving before 5.7.72), on an increasing scale up to age 65 for rank above Chief Superintendent. Constable/Sergeant ranks may however apply for up to five yearly extensions on attaining compulsory retirement age.

For 2003-2004, employers' contributions of £52,695,167 were paid to the PSNI Pension Scheme (2002-2003 £50,076,458). To qualify for an ordinary retirement pension, an officer has to complete 25 years service and attain 50 years of age. Benefits accrue at the rate of 1/60th of APP for each year of service up to 20 years, and 2/60th for each year thereafter, up to a maximum of 40/60th of APP. There is an option for a lump sum to be paid on retirement, if the officer elects to give up (commute) up to 25% of the pension. Actuarial tables are used to calculate the lump sum. Members pay contributions of 11% of basic pay. Pensions increase in line with the Retail Prices Index. On death, pensions are payable to the surviving spouse or children, subject to provisions within the scheme. On death in service, that is not as a result of an injury on duty (IOD), the scheme pays a lump sum benefit of twice pensionable pay, and there are also pension benefits for the spouse and/or children of the deceased. On death as a result of IOD, or death within 12 months of retiring as a result of an injury, a lump sum benefit of 5 times pensionable pay is payable, subject to scheme conditions. Medical retirement is possible in the event of serious ill health. Officers with less than 2 years service receive a lump sum benefit (gratuity), and those with more than 2 years service receive an ill-health pension, depending on the number of years of actual pensionable service.

### Severance payments

Severance Payments were made from 1 January 2001 to officers leaving the PSNI under the Voluntary Early Retirement and Severance Scheme for the PSNI. The Scheme was developed in line with the recommendations of the Independent Commission on Policing (Patten) and it was necessary, in order to fulfil Government commitments, to permit officers to leave from the planned date of 1 January 2001. The total of payments made in the year to 31 March 2004 was £9m. HM Treasury approved the payments.

## 5 Other operating costs

|                                                                                              | <b>Year ended<br/>31 March<br/>2004</b> | Year ended<br>31 March<br>2003<br>Restated |
|----------------------------------------------------------------------------------------------|-----------------------------------------|--------------------------------------------|
|                                                                                              | <b>£000</b>                             | £000                                       |
| Transport                                                                                    | <b>16,838</b>                           | 15,065                                     |
| IT & communications                                                                          | <b>31,037</b>                           | 20,458                                     |
| Accommodation services                                                                       | <b>29,102</b>                           | 32,305                                     |
| General expenses                                                                             | <b>44,691</b>                           | 38,605                                     |
| Travel, subsistence & relocation                                                             | <b>11,286</b>                           | 15,796                                     |
| Audit fees (Actual fee for 2002-2003 was £50,000, although £64,000 was provided for)         | <b>42</b>                               | 64                                         |
| Hospitality                                                                                  | <b>88</b>                               | 107                                        |
| Loss on disposal fixed assets                                                                | <b>24</b>                               | 0                                          |
| Downward revaluation in fixed assets (see note 9)                                            | <b>2,068</b>                            | 0                                          |
| Net Increase in Provisions excluding exceptional item for pensions liability (see note 13) * | <b>34,294</b>                           | 20,329                                     |
| Charges for operating leases: photocopiers                                                   | <b>480</b>                              | 274                                        |
| property                                                                                     | <b>418</b>                              | 520                                        |
|                                                                                              | <b>170,368</b>                          | 143,523                                    |

\* 2003 figures restated to reflect revised disclosure requirements.

## 6 Notional cost of capital

|                                                      | <b>Year ended<br/>31 March<br/>2004<br/>£000</b> | Year ended<br>31 March<br>2003<br>Restated<br>£000 |
|------------------------------------------------------|--------------------------------------------------|----------------------------------------------------|
| Total assets less total liabilities at 31 March 2003 | <b>329,344</b>                                   | 344,766                                            |
| Total assets less total liabilities at 31 March 2004 | <b>297,815</b>                                   | 329,344                                            |
| Cost of capital (3.5% of 2003-2004 average)          | <b>10,975</b>                                    | 20,223                                             |

## 7 Exceptional item

Legislation was approved on 8 March 2004 to add PSNI civilian direct recruits to the employments listed in Schedule 1 to the Superannuation (Northern Ireland) Order 1972 with effect from 30 September 2002, however it is expected the scheme will be wound up and the transfer made during 2005-2006. The accruing cost of the PSNI Civilian Pension Scheme has been estimated by the Government Actuaries as £69.0 million at 30 September 2002. This amount includes interest of £6.8 million which will continue to accrue until the date of payment to the Department of Finance & Personnel (DFP). The accruing cost has been recalculated since 31 March 2003 when it stood at £44.2 million, an increase of £24,810,000. In accordance with the NDPB Accounting Guidance, the scheme liability has been discounted at 3.5%.

## 8 Interest paid and similar charges

|                                  | <b>Year ended<br/>31 March<br/>2004<br/>£000</b> | Year ended<br>31 March<br>2003<br>£000 |
|----------------------------------|--------------------------------------------------|----------------------------------------|
| Unwind of discount on provisions | 1,663                                            | 3,509                                  |

## 9 Fixed assets

|                                   | Land &<br>Buildings<br>£000 | Assets in<br>Course of<br>Construction<br>£000 | Operational<br>(inc Plant &<br>Equip)<br>£000 | Vehicles<br>(inc Aircraft)<br>£000 | IT &<br>Comms<br>£000 | Total<br>£000  |
|-----------------------------------|-----------------------------|------------------------------------------------|-----------------------------------------------|------------------------------------|-----------------------|----------------|
| <b>Cost or valuation</b>          |                             |                                                |                                               |                                    |                       |                |
| At 1 April 2003                   | 413,395                     | 35,072                                         | 8,448                                         | 42,844                             | 52,518                | 552,277        |
| Additions                         | 6,280                       | 10,472                                         | 530                                           | 8,241                              | 3,545                 | 29,068         |
| Disposals                         | (455)                       | 0                                              | (124)                                         | (4,366)                            | (420)                 | (5,365)        |
| Transfers                         | 13,363                      | (32,669)                                       | 0                                             | 0                                  | 19,306                | 0              |
| Revaluation below historical cost | 0                           | 0                                              | (50)                                          | 0                                  | (4,418)               | (4,468)        |
| Revaluation                       | 16,654                      | 0                                              | 159                                           | 83                                 | (559)                 | 16,337         |
| <b>At 31 March 2004</b>           | <b>449,237</b>              | <b>12,875</b>                                  | <b>8,963</b>                                  | <b>46,802</b>                      | <b>69,972</b>         | <b>587,849</b> |
| <b>Depreciation</b>               |                             |                                                |                                               |                                    |                       |                |
| At 1 April 2003                   | 29,380                      | 0                                              | 4,696                                         | 24,448                             | 38,813                | 97,337         |
| Charged in year                   | 11,692                      | 0                                              | 586                                           | 5,613                              | 5,249                 | 23,140         |
| Disposals                         | 0                           | 0                                              | (116)                                         | (4,043)                            | (356)                 | (4,515)        |
| Revaluation below historical cost | 0                           | 0                                              | (31)                                          | 0                                  | (2,369)               | (2,400)        |
| Revaluation                       | 0                           | 0                                              | 89                                            | 90                                 | 261                   | 440            |
| <b>At 31 March 2004</b>           | <b>41,072</b>               | <b>0</b>                                       | <b>5,224</b>                                  | <b>26,108</b>                      | <b>41,598</b>         | <b>114,002</b> |
| <b>Net book value</b>             |                             |                                                |                                               |                                    |                       |                |
| <b>At 31 March 2004</b>           | <b>408,165</b>              | <b>12,875</b>                                  | <b>3,739</b>                                  | <b>20,694</b>                      | <b>28,374</b>         | <b>473,847</b> |
| At 31 March 2003                  | 384,015                     | 35,072                                         | 3,752                                         | 18,396                             | 13,705                | 454,940        |

The Valuation and Lands Agency carried out an interim valuation of land and buildings on 31 March 2004. The basis of valuation was as follows:

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

The Valuation and Lands Agency is considered an external valuer as defined by the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual, and the valuations have been made in accordance with this Manual. The last full valuation of land, buildings and assets in the course of construction was carried out on 31 March 2000.

Other tangible fixed assets were revalued on 31 March 2004 using latest available indices.

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

Included within land and buildings is long leasehold property with a net book value of £31,050,052 and surplus assets with a net book value of £4,581,390.

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

|                                  |             |
|----------------------------------|-------------|
| Land                             | £76,821,500 |
| Assets in course of construction | £12,875,000 |
| Aircraft                         | £600,000    |

## 10 Stocks

|                                               | <b>Year ended<br/>31 March<br/>2004<br/>£000</b> | Year ended<br>31 March<br>2003<br>£000 |
|-----------------------------------------------|--------------------------------------------------|----------------------------------------|
| General stores                                | <b>3,702</b>                                     | 6,751                                  |
| Transport Services stores                     | <b>840</b>                                       | 962                                    |
| Information and Communication Services stores | <b>514</b>                                       | 2,953                                  |
| Heating oil                                   | <b>339</b>                                       | 413                                    |
| Petrol, diesel, etc                           | <b>530</b>                                       | 560                                    |
|                                               | <b><u>5,925</u></b>                              | <u>11,639</u>                          |

## 11 Debtors

|                                     |                      |               |
|-------------------------------------|----------------------|---------------|
| Amounts falling due within one year |                      |               |
| Trade debtors                       | <b>1,400</b>         | 662           |
| Other debtors                       | <b>12,942</b>        | 12,186        |
| Prepayments and accrued income      | <b>740</b>           | 3,968         |
|                                     | <b><u>15,082</u></b> | <u>16,816</u> |

## 12 Creditors

|                                     |                      |               |
|-------------------------------------|----------------------|---------------|
| Amounts falling due within one year |                      |               |
| Trade creditors                     | <b>13,468</b>        | 19,336        |
| Taxation & social security          | <b>12,536</b>        | 12,256        |
| Payroll accrual                     | <b>12,537</b>        | 13,011        |
| Other creditors                     | <b>3,304</b>         | 2,937         |
|                                     | <b><u>41,845</u></b> | <u>47,540</u> |

**13 Provisions for liabilities and charges**

|                                  | Voluntary<br>severance<br>£000 | Compensation<br>claims<br>£000 | Early<br>retirement<br>£000 | Pension<br>liability<br>£000 | Stock<br>£000 | Total<br>£000  |
|----------------------------------|--------------------------------|--------------------------------|-----------------------------|------------------------------|---------------|----------------|
| At 31 March 2003                 | 17,632                         | 51,420                         | 75                          | 44,200                       | 0             | 113,327        |
| Utilised in Year                 | (9,102)                        | (3,090)                        | (25)                        | 0                            | 0             | (12,217)       |
| Provision not utilised           | (7,264)                        | (9,922)                        | (2)                         | 0                            | 0             | (17,188)       |
| Discount                         | 926                            | 736                            | 1                           | 0                            | 0             | 1,663          |
| Increase/(decrease) in provision | 75,920                         | (24,823)                       | (49)                        | 24,810                       | 434           | 76,292         |
| <b>At 31 March 2004</b>          | <b>78,112</b>                  | <b>14,321</b>                  | <b>0</b>                    | <b>69,010</b>                | <b>434</b>    | <b>161,877</b> |

*Voluntary severance*

The Secretary of State for Northern Ireland established a Voluntary Severance Scheme for PSNI Regular and Full Time Reserve Officers in July 2000. 82 officers left the service during the current year. The provision is in respect of a further 897 officers estimated to leave during 2004-2005 to 2006-2007. As these schemes for future years have been approved but have not yet commenced, the provision in respect of these years is subject to uncertainty and is based on estimates of numbers, ranks and profiles of officers who may apply and an average amount they may receive. HM Treasury is committed to funding the scheme. Please also refer to note 18 on contingent liabilities.

*Full Time Reserve*

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

In line with an undertaking given to the NIPB, the Chief Constable carried out a substantial security review and announced his decision on the future of the Full Time Reserve on 9 September 2004.

In summary, out of the existing 1,487 Full Time Reserve officers, 680 will be retained on the basis of a three year contract from 1 April 2005. The remaining officers will be released in a phased manner across an 18 month period from the termination of their contracts.

The cost of this decision will be accounted for in full in the 2004-2005 financial year and is estimated to be approximately £112m (no provision has been included in this year's financial statements for the downsizing of the Full Time Reserve). The decision will also lead to a reduction in PSNI salary costs in excess of £35m per year.

*Compensation claims*

The compensation claim provision is in respect of three types of claim: injury claims, damage claims and legal fees. The following table shows the breakdown of the provision between these types of claim.

|                                  | Injury<br>claims<br>£000 | Damage<br>claims<br>£000 | Legal<br>fees<br>£000 | Total<br>£000 |
|----------------------------------|--------------------------|--------------------------|-----------------------|---------------|
| At 31 March 2003                 | 32,055                   | 131                      | 19,234                | 51,420        |
| Utilised in year                 | (1,902)                  | (160)                    | (1,028)               | (3,090)       |
| Provision not utilised           | (6,171)                  | 65                       | (3,816)               | (9,922)       |
| Discount                         | 457                      | 5                        | 274                   | 736           |
| (Decrease)/increase in provision | (15,550)                 | 57                       | (9,330)               | (24,823)      |
| <b>At 31 March 2004</b>          | <b>8,889</b>             | <b>98</b>                | <b>5,334</b>          | <b>14,321</b> |

At the 31 March 2004 there were 3,254 'live' wrongful acts/ injury claims, which can take up to 6 years to settle. There were also 158 'live' damage to property claims, the majority of which will be settled in 2004-2005. Legal fees are also provided for. Claims have varying life spans with most claims for damage to property being concluded within 1 or 2 years of receipt and claims involving personal injury mostly concluded within 6 years of receipt. In deriving the above figures, assumptions have been made relating to the number of outstanding claims likely to attract compensation, the average claim value for the different claim types and likely timing of settlement. The data assumes that past trends will persist with only marginal fluctuations and any deviations from this may have a material impact on actual claims settled. The provision for years 1 to 6 has been discounted at the HM Treasury rate of 3.5% ( 2002-2003 6%).

#### *Early retirement*

PSNI is required to meet the additional cost of benefits beyond the normal PCSPS(NI) benefits in respect of employees who retire early, from the date of their retirement until they reach normal pensionable age. The responsibility for payment of Civilian pensions passed to DFP on 1 April 2004; therefore PSNI has no future liability for early retirement payments.

#### *Pension liability*

As noted under the exceptional item, legislation was approved on 8 March 2004 to add PSNI civilian direct recruits to the employments listed in Schedule 1 to the Superannuation (Northern Ireland) Order 1972 with effect from 30 September 2002; however it is expected the scheme will be wound up and the transfer made during 2005-2006.

The accruing cost of the PSNI Civilian Pension Scheme has been estimated by the Government Actuaries as £69.0 million at 30 September 2002. This amount includes interest of £6.8 million which will continue to accrue until the date of payment to Department of Finance and Personnel (DFP). The accruing cost has been recalculated since 31 March 2003 when it stood at £44.2 million. In accordance with the NDPB Accounting Guidance, the scheme liability has been discounted at 3.5%.

#### *Stock*

PSNI entered into a managed service contract for the ordering, supply, handling and accounting of uniform related items. The contractor purchased the total amount of uniform stock held by PSNI during the financial year. However as part of the contract, PSNI has agreed to purchase any stock in possession of the contractor at the end of the contract. It has been estimated, based on usage levels of the stock transferred, that £434,000 of stock initially transferred may not be issued by the end of the contract, and therefore this amount has been provided for in full.

## **14 Reconciliation of Government funds**

|                                              | General<br>Fund<br>£000 | Capital Grant<br>Reserve<br>£000 |
|----------------------------------------------|-------------------------|----------------------------------|
| At 31 March 2003                             | (125,596)               | 454,940                          |
| Transfer from income and expenditure account | (51,262)                | 0                                |
| Adjustment for fixed asset disposal          | 826                     | (826)                            |
| Additions in year                            | 0                       | 29,068                           |
| Surplus on revaluation of fixed assets       | 0                       | 15,897                           |
| Release to Income and Expenditure account    | 0                       | (25,232)                         |
| <b>At 31 March 2004</b>                      | <b><u>(176,032)</u></b> | <b><u>473,847</u></b>            |

**15 Notes to Cash Flow Statement****15.1 Reconciliation of operating deficit to net cash outflow from operating activities**

|                                                          | <b>Year ended<br/>31 March<br/>2004<br/>£000</b> | Year ended<br>31 March<br>2003<br>Restated<br>£000 |
|----------------------------------------------------------|--------------------------------------------------|----------------------------------------------------|
| Deficit for the year before interest & exceptional item* | <b>(35,764)</b>                                  | (8,398)                                            |
| Interest*                                                | <b>(1,663)</b>                                   | (3,509)                                            |
| Depreciation                                             | <b>23,140</b>                                    | 20,474                                             |
| Loss/(Profit) on disposal of fixed assets                | <b>24</b>                                        | (213)                                              |
| Notional cost of capital                                 | <b>10,975</b>                                    | 20,223                                             |
| Release from capital grant reserve                       | <b>(25,232)</b>                                  | (20,245)                                           |
| Revaluation below historical cost                        | <b>2,068</b>                                     | 0                                                  |
| Decrease/(increase) in stock                             | <b>5,714</b>                                     | (3,299)                                            |
| Decrease/(increase) in debtors                           | <b>1,383</b>                                     | (4,499)                                            |
| (Decrease)/increase in creditors                         | <b>(5,188)</b>                                   | 14,872                                             |
| Increase in provisions*                                  | <b>59,104</b>                                    | 64,528                                             |
| Provisions used*                                         | <b>(12,217)</b>                                  | (44,592)                                           |
| Unwinding of discount*                                   | <b>1,663</b>                                     | 3,509                                              |
| Adjustment for pension provision (see note 13)           | <b>(24,810)</b>                                  | (44,200)                                           |
| Net cash inflow/(outflow) from operating activities      | <b><u>(803)</u></b>                              | <u>(5,349)</u>                                     |

\* 2003 figures restated to reflect revised disclosure requirements.

**15.2 Reconciliation of net cash outflow to movement in net debt**

|                               |                     |                |
|-------------------------------|---------------------|----------------|
| Cash in bank at 31 March 2003 | <b>6,816</b>        | 11,087         |
| Net cash outflow              | <b><u>(133)</u></b> | <u>(4,271)</u> |
| Cash in bank at 31 March 2004 | <b>6,683</b>        | 6,816          |

**15.3 Reconciliation of capital grant to acquire fixed assets to purchase of tangible fixed assets**

|                                       |                      |               |
|---------------------------------------|----------------------|---------------|
| Purchase tangible fixed assets        | <b>29,230</b>        | 36,341        |
| Opening capital creditors             | <b>(2,806)</b>       | (1,944)       |
| Closing capital creditors             | <b>2,299</b>         | 2,806         |
| Opening capital debtors               | <b>345</b>           | 48            |
| Closing capital debtors               | <b>0</b>             | (345)         |
| Capital grant to acquire fixed assets | <b><u>29,068</u></b> | <u>36,906</u> |

**16 Capital commitments**

|                               |                      |               |
|-------------------------------|----------------------|---------------|
| Contracted                    | <b>40,856</b>        | 29,780        |
| Authorised but not contracted | <b>29,870</b>        | 31,810        |
|                               | <b><u>70,726</u></b> | <u>61,590</u> |



## 17 Obligations under leases

Annual commitments under non-cancellable operating leases are as follows

|                               | Land and Buildings                     |                                        | Other                                  |                                        |
|-------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|----------------------------------------|
|                               | Year ended<br>31 March<br>2004<br>£000 | Year ended<br>31 March<br>2003<br>£000 | Year ended<br>31 March<br>2004<br>£000 | Year ended<br>31 March<br>2003<br>£000 |
| Operating leases which expire |                                        |                                        |                                        |                                        |
| Within one year               | 102                                    | 44                                     | 194                                    | 5                                      |
| In two to five years          | 265                                    | 321                                    | 14                                     | 262                                    |
| In over five years            | 109                                    | 106                                    | 22                                     | 6                                      |
|                               | <u>476</u>                             | <u>471</u>                             | <u>230</u>                             | <u>273</u>                             |

## 18 Contingent liabilities

### *Voluntary severance*

Details of the voluntary severance schemes beyond 2006-2007 have not yet been announced and are subject to a further degree of uncertainty, including levels of recruitment, levels of natural wastage and other operational circumstances.

Although uncertainty exists about future years, it is estimated that the voluntary severance scheme will extend to 2010-2011 with an additional 1,217 officers leaving under the scheme at an estimated cost of approximately £109 million. HM Treasury is committed to funding future agreed schemes.

### *Post Traumatic Stress Disorder Class Action*

The PSNI and the Northern Ireland Policing Board are named defendants in a class action by 3,973 former and serving police officers. The case is listed for hearing in November 2005 and it is intended that there will be approximately 6 lead cases.

### *Working time regulation cases*

Approximately 6,200 former and serving police officers and civilian staff have issued Industrial Tribunal Applications against the Chief Constable claiming that he has breached the terms of the working time regulations. A test case has been adjourned until 31 January 2005 to decide on whether the applications have been brought in time.

The cost upon losing is difficult to determine as each employee was paid overtime for the extra hours worked. Any costs would therefore be likely to be based on the loss of family life etc.

### *Claims resulting from security breaches*

The Chief Constable is named defendant from 321 current and ex-police officers, members of civilian staff and family members, arising out of a breach of security. It is being treated as a class action, based on negligence, breach of contract and breach of statutory duty. There is also an allegation that there was no provision for after care for these individuals.

There is no date for hearing fixed as yet for these claims.

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

**19 Losses and special payments**

| <b>Type</b>                               | <b>No of cases</b> | <b>£000</b> |
|-------------------------------------------|--------------------|-------------|
| Overpayments                              | 30                 | 7           |
| Stores                                    | 1524               | 553         |
| Claims waived or abandoned                | 509                | 332         |
| Special payments - compensation           | 542                | 1,727       |
| Special payments – compensation           | 1                  | 125         |
| Special payments – compensation           | 1                  | 230         |
| Special payments – compensation           | 1                  | 150         |
| Fruitless payment and constructive losses | 1                  | 90          |

**20 Related party disclosures**

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

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

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

**21 Third party assets**

PSNI hold a number of bank accounts and sealed packages which contain evidence or proceeds of criminal activities.

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

|                                                 | <b>Year ended<br/>31 March<br/>2004<br/>£000</b> | Year ended<br>31 March<br>2003<br>£000 |
|-------------------------------------------------|--------------------------------------------------|----------------------------------------|
| Bank balances and monetary sealed packages held | 1,643                                            | 1,672                                  |

# Report of the Police Pension Scheme

## Introduction

The Police Service of Northern Ireland (PSNI) Police Pension Scheme is an unfunded defined benefit scheme. The regulations under which the 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.

Every police trainee joining the PSNI becomes a member of the Pension Scheme as provided under the Police Trainee Regulation (Northern Ireland) 2001, and subsequently on appointment as a police officer will automatically become a member of the Pension Scheme. However, membership is not compulsory and officers may make other pension arrangements.

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

This is the first standalone Pension Scheme Statement for the Police Pension Scheme. The rationale of preparing pension scheme 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 Scheme Statements, a Revenue Account and FRS 17 information was disclosed as part of the PSNI Annual Financial Statements.

The PSNI Police Pension Scheme is administered by the PSNI.

The Managers, advisers and employers for the Scheme are as follows

### Managers

#### *Accounting Officer*

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

#### *Pension Scheme Administrator*

Head of Pensions Branch  
Police Service of Northern Ireland  
River House  
48 High Street  
Belfast BT1 2RU

### 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  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP

#### *Bankers*

Northern Bank  
Donegall Square West  
Belfast

The Scheme has no separate bank account. It uses the banking arrangements of the Police Service of Northern Ireland.

### Employers

#### *Principal Employer*

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

## Changes to the Scheme

Pensions were increased by 1.7 % with effect from 1 April 2003. There have been no other changes to the scheme during the year.

## Additional Voluntary Contributions and Stakeholder Pensions

The Secretary of State appointed Equitable Life and Standard Life as providers of the in-house Additional Voluntary Contribution (AVC) Scheme for Police Officers. This is legislated in Statutory Rules of Northern Ireland for the PSNI Pension Scheme. PSNI designated Standard Life as Stakeholder Pension Provider. PSNI have made known to staff the arrangements and provide a facility for staff to contribute through payroll if they so wish. £147,000 contributions have been made by members of PSNI to the scheme during the year.

## Membership statistics

Details of the current membership of the Pension Scheme are as follows

### Active members

|                         |              |
|-------------------------|--------------|
| At 1 April 2003         | 8,992        |
| New entrants            | 476          |
| Transfers in            | 18           |
| Retirements in the year | (518)        |
| Transfers out           | (2)          |
| Deaths                  | (4)          |
| Other leavers           | (30)         |
| <b>At 31 March 2004</b> | <b>8,932</b> |

### Deferred members

|                                                  |            |
|--------------------------------------------------|------------|
| At 1 April 2003                                  | 531        |
| Members leaving who have deferred pension rights | 16         |
| Members taking up deferred pension rights        | (16)       |
| <b>At 31 March 2004</b>                          | <b>531</b> |

### Pensioners in payment

|                                                   | Members      | Dependants   | Total        |
|---------------------------------------------------|--------------|--------------|--------------|
| At 1 April 2003                                   | 7,065        | 1,393        | 8,458        |
| Members retiring in year at normal retirement age | 51           | 0            | 51           |
| Other retirements                                 | 412          | 0            | 412          |
| New dependants                                    | 0            | 76           | 76           |
| Cessations                                        | (87)         | (48)         | (135)        |
| <b>At 31 March 2004</b>                           | <b>7,441</b> | <b>1,421</b> | <b>8,862</b> |

### Compensation payments

|                                                        |            |          |            |
|--------------------------------------------------------|------------|----------|------------|
| At 1 April 2003                                        | 107        | 0        | 107        |
| Members leaving under early retirement                 | 9          | 0        | 9          |
| Members reaching normal retirement age during the year | (3)        | 0        | (3)        |
| Other movements                                        | 0          | 0        | 0          |
| <b>At 31 March 2004</b>                                | <b>113</b> | <b>0</b> | <b>113</b> |

### Going concern

The Balance Sheet at 31 March 2004 shows net liabilities of £3,206,433,000. 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 2004-2005 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 adopt a going concern basis for the preparation of these pension scheme statements.

### Post balance sheet events

There are no post balance sheet events to be noted.

### Further information

Any enquiries regarding the PSNI Police Pension Scheme should be addressed to Head of Pensions Branch.

# Report of the Actuary

To the Administrators of the Police Service of Northern Ireland Police Pension Scheme

At the request of the Police Service of Northern Ireland (PSNI), I have carried out an assessment of the scheme in accordance with the requirements of the Financial Reporting Standard 17 (FRS17).

I am now pleased to submit my report on this assessment.

(Please refer to Annex 1)

*Andrew Johnston*  
Fellow of the Institute of Actuaries

August 2004

## Statement of Accounting Officer's 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 show a true and fair view of the financial transactions of the Scheme 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 these statements, the Chief Constable of the PSNI is required to

- observe the accounts direction issued by NIO, 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 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 designated the Chief Constable of the Police Service of Northern Ireland as Accounting Officer for the Police Service of Northern Ireland. The Chief Constable's relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances and for the keeping of proper financial records, are set out in the Non-Departmental Public Bodies' Accounting Officer Memorandum by HM Treasury and published in Government Accounting.

## Statement on Internal Control

### Scope of responsibility

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

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

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of organisational policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in PSNI for the year ended 31 March 2004 and up to the date of approval of the annual financial statements, and accords with Treasury guidance.

### Capacity to handle risk

All Chief Officers and Senior Managers, together with the Audit and Risk Management Committee, have played an important role in providing leadership to the risk management process. Risk management workshops were held at the outset, attended by a number of representatives of various ranks and grades of staff throughout the organisation, to ensure that staff are trained and equipped to manage risk. The risks impacting on the achievement of objectives were identified and a control strategy was determined for each of the significant risks.

### The risk and control framework

With the publication of the Policing Plan and as part of the development of a fully integrated planning process, all Departments and District Command Units (DCU's) reviewed their risk registers in light of priorities selected for 2004-2005. The key corporate business risks for the organisation have been identified and included in a Corporate Risk Register. The key risk priorities facing the organisation are in the generic areas of ICT infrastructure, estate management, impact of new legislation, funding and communication.

A Risk Framework document has been prepared which explains the underlying approach to risk management, documents the roles and responsibilities of Chief Officers and others, including line management, and which also includes details of management and reporting arrangements.

All Chief Officers are required to sign stewardship statements on a half yearly basis, confirming that they have reviewed the risks for their areas of responsibility and assessed the management of the risks identified.

The Audit and Risk Management Committee 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.



A significant Change Programme is still underway and the risk and control framework will continue to develop to reflect a changing environment. In particular, risk management is being 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 in the organisation.

### Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Chief Officers within the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. 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 Management 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 Management Committee concerning internal control. PSNI has developed a framework to give assurance in management of risk across the organisation.

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

*Hugh Orde*  
Chief Constable  
Police Service of Northern Ireland

26 January 2005

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements on pages 58 to 66 under the Police (Northern Ireland) Act 2000, as amended by the Police (Northern Ireland) Act 2003. These financial statements have been prepared under the accounting policies set out on pages 61 to 63.

## Respective responsibilities of the Chief Constable and Auditor

As described on page 53, the Chief Constable of the Police Service of Northern Ireland is responsible for the preparation of 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 transactions. The Chief Constable is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the 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 whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I report whether the contributions payable to the scheme have been paid in accordance with the Scheme rules and the recommendations of the actuary. I also report if, in my opinion, the Report of the Scheme Manager is not consistent with the financial statements, if the Police Service of Northern Ireland has not kept proper accounting records for the Scheme, or if I have not received all the information and explanations I require for my audit.

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

I review whether the statement on pages 54 and 55 reflects the Police Service of Northern Ireland's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Chief Constable's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Police Service of Northern Ireland's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Police Service of Northern Ireland in the preparation of the financial statements, and of whether the accounting policies are 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 error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the financial statements give a true and fair view of the financial transactions of the Police Pension Scheme for the year ending 31 March 2004, recognised gains and losses and cash flows for the year and the amount and disposition at that date of its assets and liabilities, and 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;
- 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; and
- the contributions payable to the Scheme during the year ended 31 March 2004 have been paid in accordance with the Scheme rules and the recommendations of the Actuary.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

23 February 2005

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

## Revenue Account for the year ended 31 March 2004

|                                                          | Notes    | <b>Year ended<br/>31 March<br/>2004<br/>£000</b> |
|----------------------------------------------------------|----------|--------------------------------------------------|
| <b>Income</b>                                            |          |                                                  |
| Contributions receivable                                 | 3        | 81,537                                           |
| <b>Other income</b>                                      |          |                                                  |
| Payments from NIO                                        | 4        | 14,020                                           |
| Total                                                    |          | <u>95,557</u>                                    |
| <b>Outgoings</b>                                         |          |                                                  |
| Increase in Scheme liabilities from Current service cost | 5 & 10.1 | <u>(80,000)</u>                                  |
| Total                                                    |          | <u>(80,000)</u>                                  |
| <b>Surplus for the year before interest</b>              |          | <b>15,557</b>                                    |
| Interest on Scheme liabilities                           | 6 & 10.1 | <u>(164,690)</u>                                 |
| <b>Net outgoings for the year</b>                        |          | <b><u>(149,133)</u></b>                          |

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2004

|                                             |      |                         |
|---------------------------------------------|------|-------------------------|
| <b>Net outgoings for the year</b>           |      | <b>(149,133)</b>        |
| Actuarial loss                              | 10.3 | <u>(696,950)</u>        |
| <b>Total recognised losses for the year</b> |      | <b><u>(846,083)</u></b> |

*The notes on pages 61 to 66 form part of these accounts.*

## Balance Sheet as at 31 March 2004

|                                             | Notes | Year ended<br>31 March<br>2004<br>£000 |
|---------------------------------------------|-------|----------------------------------------|
| <b>Current assets</b>                       |       |                                        |
| Debtors                                     | 8     | <u>3,681</u>                           |
| <b>Creditors due within one year</b>        |       |                                        |
| Amounts due to PSNI main accounts           | 9     | <u>(3,680)</u>                         |
| <b>Net current assets</b>                   |       | <b>1</b>                               |
| <b>Provisions for liability and charges</b> |       |                                        |
| Provision for pension liability             | 10.1  | <u>(3,206,434)</u>                     |
| <b>Net liabilities</b>                      |       | <b>(3,206,433)</b>                     |
| <b>Financed by</b>                          |       |                                        |
| Opening balance                             |       | (2,360,350)                            |
| Net outgoings for the year                  |       | (149,133)                              |
| Actuarial loss                              |       | <u>(696,950)</u>                       |
| <b>Closing balance</b>                      |       | <b><u>(3,206,433)</u></b>              |

*The notes on pages 61 to 66 form part of these accounts.*

Hugh Orde  
Chief Constable  
Police Service of Northern Ireland

26 January 2005

## Cash Flow Statement for the year ended 31 March 2004

|                                                                | Notes | <b>Year ended<br/>31 March<br/>2004<br/>£000</b> |
|----------------------------------------------------------------|-------|--------------------------------------------------|
| <b>Reconciliation of net outgoings to operating cash flows</b> |       |                                                  |
| Net outgoings for the year                                     |       | (149,133)                                        |
| Adjustments for movements in working capital                   |       | (1)                                              |
| Increase in pension provision                                  |       | 244,690                                          |
| Use of provision                                               | 10.1  | (95,556)                                         |
| <b>Net cash outflow from operating activities</b>              |       | <b>0</b>                                         |
| Financing                                                      |       | 0                                                |
| <b>Increase/(decrease) in cash in the period</b>               |       | <b>0</b>                                         |

*The notes on pages 61 to 66 form part of these accounts.*

# Notes to the Scheme Statements

## 1 Basis of preparation of the scheme statement

The PSNI Pension scheme statement has been prepared in accordance with the relevant provisions of the Resource Accounting Manual for 2003-2004 issued by the Treasury which reflects the requirements of Financial Reporting Standard (FRS) 17 Retirement Benefits. These accounts show the unfunded pension liability and movements in that liability during the year. The accounts also have regard to the recommendations of the Statement of Recommended Practice 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 scheme statement summarises the transactions of the PSNI Pension Scheme. The balance sheet shows the deficit on the scheme; the revenue account shows the movements in the liability analysed between the pension cost, enhancements and transfers in, and the interest on the scheme liability. The actuarial position of the pension scheme is dealt with in the Report of the Actuary, and the scheme statement should be read in conjunction with that report.

## 2 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.

### 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 discount rate of 3.5% real (i.e. 6.5% including inflation).

### 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 *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 discount rate of 3.5% real (i.e. 6.5% including inflation).

### 2.7 *Other payments*

Other payments are accounted for on an accruals basis.

### 2.8 *Scheme liability*

Provision is made for liabilities to pay pensions and other benefits in the future. The scheme liability is measured on an actuarial basis using the projected unit method and is discounted at 3.5% real (i.e. 6.5% including inflation).

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.

### 2.9 *Pension benefits payable*

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

### 2.10 *Pension payments to those retiring at their normal retirement age*

Where a retiring member of the 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 the 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.

### 2.11 *Pension payments to and on account of leavers before their normal retirement age*

Where a member of the 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 the 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.

### 2.12 *Injury benefits*

Injury benefits are accounted for on an accruals basis. They are not funded through the normal pension contributions (accruing superannuation liability contributions) and in respect of injuries sustained on or before 31 March 1998 the amounts payable are a charge on the pension scheme and shown on the Revenue Account. Those payable after that date are recoverable from employers.



### 2.13 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.

### 2.14 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 Total Recognised Gains and Losses for the year.

### 2.15 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.

## 3 Contributions receivable

|                          | <b>Year ended<br/>31 March<br/>2004<br/>£000</b> |
|--------------------------|--------------------------------------------------|
| Employers' contributions | 52,822                                           |
| Employees' contributions | 28,715                                           |
|                          | <b><u>81,537</u></b>                             |

## 4 Payments from NIO

Grant-in-Aid provided from the Northern Ireland Office.

## 5 Increase in Scheme liabilities from current service cost

|                      | <b>£000</b>   |
|----------------------|---------------|
| Current service cost | <u>80,000</u> |

## 6 Interest on Scheme liabilities

|                          | <b>Year ended<br/>31 March<br/>2004<br/>£000</b> |
|--------------------------|--------------------------------------------------|
| Interest charge for year | <u>164,690</u>                                   |

## 7 Administration fees and expenses

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

**8 Debtors**

|                      | <b>£000</b>         |
|----------------------|---------------------|
| Amounts due from NIO | 3,603               |
| Pension overpayments | 78                  |
|                      | <b><u>3,681</u></b> |

**9 Creditors**

|                                   | <b>£000</b>  |
|-----------------------------------|--------------|
| Amounts due to PSNI main accounts | <u>3,680</u> |

**10 Provision for pension liability**

The PSNI Police Pension Scheme is an unfunded defined benefit scheme. A full actuarial valuation was carried out as at 31 March 2004 by the Government Actuary's Department. The major assumptions used by the Actuary were

|                                         | <b>At<br/>31 March<br/>2004</b> | <b>At<br/>31 March<br/>2003</b> | <b>At<br/>31 March<br/>2002</b> |
|-----------------------------------------|---------------------------------|---------------------------------|---------------------------------|
| Rate of inflation                       | 2.9%                            | 3.4%                            | 3.4%                            |
| Rate of increase in salaries            | 4.4%                            | 4.9%                            | 4.9%                            |
| Rate of increase in pensions            | 2.9%                            | 3.4%                            | 3.4%                            |
| Rate for discounting scheme liabilities | 6.5%                            | 7.0%                            | 7.0%                            |

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 the 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 the 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.

**10.1 Analysis of movement in scheme liability**

|                                      | <b>Year ended<br/>31 March<br/>2004<br/>£000</b> |
|--------------------------------------|--------------------------------------------------|
| Scheme liability at 1 April          | (2,360,350)                                      |
| Pension payments (see 10.2 below)    | 95,556                                           |
| Current service cost                 | (80,000)                                         |
| Interest on pension scheme liability | (164,690)                                        |
| Actuarial loss (see 10.3 below)      | (696,950)                                        |
| <b>Scheme liability at 31 March</b>  | <b><u>(3,206,434)</u></b>                        |

During the year ended 31 March 2004, employee contributions represented an average of 11% of pensionable pay. Employer contributions represented an average of 20.25% of pensionable pay.

**10.2 Analysis of Pension payments**

|                                     | <b>Year ended<br/>31 March<br/>2004<br/>£000</b> |
|-------------------------------------|--------------------------------------------------|
| Pension payments                    | 82,275                                           |
| Gratuitues/Commutations             | 18,890                                           |
| Transfer values paid                | 332                                              |
| Refunds of transfer values paid     | 21                                               |
| Transfer values received            | (5,941)                                          |
| Refunds of transfer values received | (21)                                             |
|                                     | <b><u>95,556</u></b>                             |

**10.3 Analysis of actuarial loss**

|                                                                                | <b>£000</b>             |
|--------------------------------------------------------------------------------|-------------------------|
| Experience gains and losses arising on pension liabilities                     | (100,000)               |
| Changes in assumptions underlying the present value of the pension liabilities | (596,950)               |
| <b>Total actuarial loss</b>                                                    | <b><u>(696,950)</u></b> |

**11 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 Scheme 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 Scheme, key Managerial Staff of the PSNI or other related parties has undertaken any material transactions with the Scheme during the year.

## 12 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 Scheme is 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 Scheme relies 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.

## 13 Losses

| Type   | Description | No. Cases | £000 |
|--------|-------------|-----------|------|
| Losses | Cash        | 3         | 5    |

## 14 Additional voluntary contributions

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

The aggregate amounts of AVC investments are as follows

|                                                  | <b>Year ended<br/>31 March<br/>2004<br/>£000</b> |
|--------------------------------------------------|--------------------------------------------------|
| <b>Movements in the year</b>                     |                                                  |
| Balance at 1 April                               | 657                                              |
| New investments                                  | 147                                              |
| Sales of investments to provide pension benefits | (70)                                             |
| Changes in market value of investments           | 12                                               |
| <b>Balance at 31 March</b>                       | <b>746</b>                                       |
| Contributions received to provide life cover     | 0                                                |
| <b>Benefits paid on death</b>                    | <b>0</b>                                         |

## Annex 1

Actuarial Assessment of the Northern Ireland Police Pension Scheme as at 31 March 2004 for the purposes of FRS17

To the Administrators of the Police Service of Northern Ireland Police Pension Scheme

At the request of the Police Service of Northern Ireland (PSNI) I have carried out an assessment of the scheme in accordance with the requirements of the Financial Reporting Standard 17 (FRS17).

I am now pleased to submit my report on this assessment.

*Andrew Johnston*  
Fellow of the Institute of Actuaries

August 2004

# Contents

|                                      | <b>Page</b> |
|--------------------------------------|-------------|
| <b>Section</b>                       |             |
| 1 Introduction                       | 69          |
| 2 Membership Data                    | 70          |
| 3 Valuation method and assumptions   | 71          |
| 4 Results and Disclosures            | 74          |
| <b>Appendices</b>                    |             |
| A Summary of scheme benefits         | 76          |
| B Summary of membership data         | 77          |
| C Summary of demographic assumptions | 78          |
| D Glossary of terms                  | 79          |

# Section 1

## Introduction

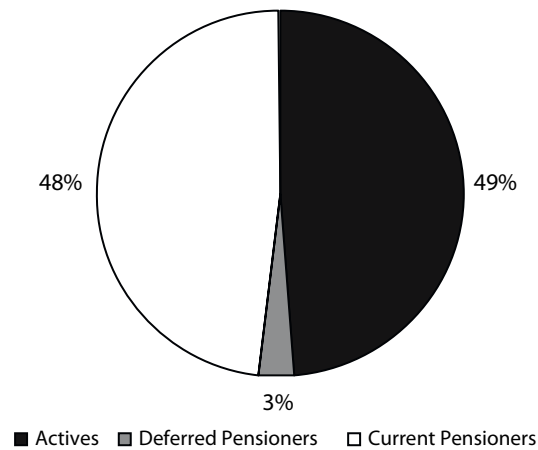
- 1.1 The purpose of this report is to set out the results of my assessment to be used to determine the disclosures in respect of the Northern Ireland Police Pension Scheme to be included in the financial accounts as at 31 March 2004.
- 1.2 This report is addressed to the Police Service of Northern Ireland (PSNI). However it has been prepared in the knowledge that it will also be of relevance to the Employer's auditors and other advisers.
- 1.3 These figures are prepared in accordance with my understanding of the Financial Reporting Standard 17 (FRS17) issued by the Accounting Standards Board (ASB) and the Statement of Recommended Practice (SORP) issued by the Chartered Institute of Public Finance and Accountancy governing local authority accounting in the UK. In addition, I have had regard to the requirements of Guidance Note 36: Accounting for Retirement Benefits under Financial Reporting Standard 17 issued by the Institute and Faculty of Actuaries. For convenience I refer to these requirements as FRS17 in this report.
- 1.4 The previous FRS17 valuation was carried out as at 31 March 2003 and the relevant accounting disclosures outlined in my certificate dated 19 June 2003. No formal report was produced in respect of the previous FRS17 valuation.
- 1.5 The Scheme is a final salary scheme providing a combination of pension and lump sum benefits on a range of contingencies: retirement, death and resignation. These benefits are related to each individual's salary on leaving the scheme and are increased annually in line with the rise in the Retail Price Index after leaving service. A summary of the main scheme benefits is outlined in Appendix A.
- 1.6 This report is not intended to comply with GN9 which outlines the requirements of a formal actuarial valuation report on the funding of the scheme.

## Section 2

### Membership data

- 2.1 Data on the current and former members of the pension scheme as at 31 March 2004 was provided by the authority. This data was provided in spreadsheet format using the data collection spreadsheet issued by GAD.
- 2.2 GAD has not carried out any detailed checking of the data provided as it is understood that the responsibility for the data rests ultimately with PSNI and their auditors. The data collection spreadsheet issued by GAD, however, included a check facility to enable the authority to test the data for “reasonableness” and “accuracy” and to confirm consistency with the data at the previous assessment in March 2003, where applicable. The reasonableness checks carried out on the data provided have not highlighted any concerns over the accuracy of the data and as such I can confirm that the data is adequate for the purpose of determining the FRS17 liabilities of the scheme as at 31 March 2004.

Membership distribution as at 31 March 2004



- 2.3 A summary of the data is provided in Appendix B.



## Section 3

### Valuation method and assumptions

#### Valuation method

3.1 In accordance with the requirements of FRS17, the liabilities under the Schemes have been valued using the standard actuarial technique known as the Projected Unit Method for all groups of staff.

#### 3.2 *Current Service Cost*

The *Current Service Cost* is calculated as the cost of benefits accruing to current active members over the accounting year (with salaries projected through to retirement or earlier expected leaving). This is expressed as a level percentage of expected pensionable pay over the same period. The method can be expected to result in a stable Current Service Cost at successive valuations as long as the profile by age, sex and salary of the active membership, as well as the benefits being valued, remain broadly unchanged at successive valuation dates. The Current Service Cost would increase if, for example, the average age of employees rose or the assumptions underlying the assessment of the cost were strengthened.

3.3 The value of the liabilities accrued for past service, as required for disclosure in the Employer's balance sheet, is calculated separately. The liabilities of the active staff are assessed by summing the present value of all the benefits accrued at the valuation date on a uniform accrual basis, based on earnings projected to retirement, or earlier exit, and pension increases thereafter. For pensions in payment and deferred pensions a similar calculation is carried out making allowance for future pension increases.

#### 3.4 *Deferred Tax*

No adjustment has been made for any deferred tax.

#### 3.5 *Past Service Costs*

Past service costs arise when an employer makes a commitment to provide a higher level of benefit than previously promised where such a benefit did not previously exist. Since no allowance has been made in reserving for future benefits awarded on injury, such awards over the accounting year are treated as past service costs. We have received no data from PSNI on such awards.

#### 3.6 *Settlements and Curtailments*

Where employees have the option under the scheme rules to retire early or transfer out of the scheme, the resulting settlements and curtailments are allowed for in the normal demographic assumptions adopted in the valuation. If experience differs from the rates assumed then the resulting costs will be recognised as an actuarial gain or loss. Some settlements which are subject to management control and are not susceptible to statistical analysis are not allowed for in the valuation assumptions, e.g. a redundancy exercise, and any gains or losses arising from these need to be disclosed in the employer's accounts.

#### 3.7 *Pre-74 Pensioners*

Some authorities may be responsible for funding the benefits of pensioners of other authorities who retired from the Scheme prior to 1974 or may be in receipt of such payments from other authorities under the 1974 arrangements. No data has been provided in respect of such arrangements and so no allowance has been made for costs in respect of such recharges in my assessment.

#### 3.8 *Scheme Administration Costs*

I have made no allowance for the ongoing administration costs in assessing the liabilities of the scheme. It is expected that these costs will be reflected elsewhere in the authority's accounts.

## Valuation assumptions

3.9 The assumptions adopted for the purpose of FRS17 are ultimately the responsibility of PSNI having taken advice from an actuary. There is a range of actuarial assumptions that are acceptable under the requirements of FRS17, particularly in respect of expected salary increases and demographic assumptions. The assumptions adopted in this report are, I believe, consistent with the requirements of FRS17 and are within what I would consider an acceptable range of assumptions for this purpose.

3.10 The elements of the actuarial basis for the valuation can be divided into the demographic elements and the financial elements.

### 3.11 *Demographic elements*

The demographic elements of the basis relate to assumptions which depend on details particular to individual members. They typically determine the incidence of the benefit outflow and include factors such as mortality (in service and in retirement), withdrawal from service, promotional salary scales, proportions married and ages of dependants.

### 3.12 *Demographic assumptions – during service*

In order to assess the value of liabilities and current service cost, assumptions are needed for such factors as rates of mortality, withdrawal from service and retirement and for the rate of promotional pay progression. As far as possible these assumptions have been derived from the aggregate experience across all authorities of officers in the Police Pension Scheme. Where scheme specific rates are not available we have adopted appropriate standard tables. The authority should confirm that it considers these assumptions to be appropriate for the assessment of FRS17 disclosures in 2003-2004.

### 3.13 *Demographic assumptions – in retirement*

Mortality improvements has been a continuing phenomenon for many years in studies of the population in the UK and abroad. For pensioners who retire on age grounds, the mortality experience of other similar groups continue to demonstrate improved longevity and the mortality rates adopted for this valuation reflect this lighter experience.

I have used the PMA92 table for males projected to year of use 2004 (rated down one year) for current pensioners and calendar year 2045 (rated down one year) for active members and deferred pensioners. The mortality rates adopted for ill-health retirement are based on the same tables but rated up three years in each case.

3.14 As 82% of the Scheme membership is male, all benefits are valued using the male demographic assumptions. In my view this simplifies the assessment, while not having a material impact on the results. The assumptions adopted for the main demographic features are given in Appendix C, together with some sample individual rates at specimen ages.

### 3.15 *Financial Elements*

The financial elements of the basis relate to assumptions which will apply to the membership as a whole. These include increases in pensionable salary due to general inflation and to pensions (both in payment and deferment), together with the rate of interest used to calculate the discounted value of the benefits and contributions.

3.16 The volatility of the financial elements makes it difficult to apply each assumption in isolation. However, experience over long periods has shown that many of the factors affecting the liabilities tend to bear a close relationship to each other. In setting an actuarial basis it is therefore appropriate to have regard to these relationships.

- 3.17 The most important assumptions for a pension scheme in which the main benefits are related to final salary and where pensions in payment are increased in line with prices, are those made for real investment yields. The term real investment yield is used in this context to mean the excess of the gross yield achieved on investments over the rate of increase in prices, or the rate of increase in average earnings.
- 3.18 The scheme liabilities should be discounted at a rate that reflects the time value of money and the characteristics of the liability. The SORP specifies that the appropriate rate is an assumed long-term real rate of return expected to be earned on a portfolio of long-dated index linked gilts and to be taken as 3.5% in excess of price inflation.
- 3.19 In accordance with the requirements of FRS17, we have derived our assumption for price inflation by considering market expectations as at 31 March 2004. I have therefore adopted an inflation assumption of 2.9% pa, being broadly the difference between the gross redemption yields on fixed interest bonds and index-linked bonds as at 31 March 2004.
- 3.20 With these considerations in mind the following assumptions have been adopted (the corresponding rates used in the previous FRS17 valuation as at 31 March 2003 are shown for comparison)

|                                         | <b>31 March 2004</b><br><b>% per annum</b> | <b>31 March 2003</b><br><b>% per annum</b> |
|-----------------------------------------|--------------------------------------------|--------------------------------------------|
| Rate of inflation                       | 2.9%                                       | 3.4%                                       |
| Rate of increase in salaries            | 4.4%                                       | 4.9%                                       |
| Rate of increase in pensions            | 2.9%                                       | 3.4%                                       |
| Rate for discounting scheme liabilities | 6.5%                                       | 7.0%                                       |

## Section 4

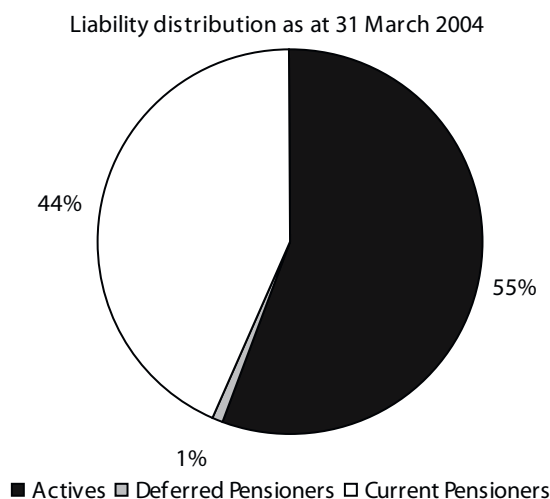
### Results and Disclosures

#### 4.1 Liabilities as at 31 March 2004

Based on the assumptions outlined in Section 3, I have assessed the liabilities of the Northern Ireland Police Pension Scheme as at 31 March 2004, together with the corresponding figures as at 31 March 2003, as

|                                            | 31 March 2004<br>£m | 31 March 2003<br>£m |
|--------------------------------------------|---------------------|---------------------|
| <b>Present value of Scheme Liabilities</b> |                     |                     |
| Actives                                    | 1,781.88            | 1,211.41            |
| Deferred pensioners                        | 21.96               | 17.11               |
| Current pensioners                         | 1,402.59            | 1,131.83            |
| <b>Total value of Scheme Liabilities</b>   | <b>3,206.43</b>     | <b>2,360.35</b>     |

Hence there is a net pension deficit as at 31 March 2004 of £3,206.43m.



#### 4.2 Current service cost

Based on the assumptions outlined in Section 3, the current service cost (inclusive of member contributions) has been calculated as 31.4% of pensionable salaries. Based on the pensionable salary roll during the scheme year 2003-2004 this is equivalent to approximately £80.0 million.

#### 4.3 Movement in the net pensions deficit

The movement in the net pensions deficit for the scheme year 2003-2004 can be analysed as follows (all figures are shown in £ millions)

|                                                       |                   |
|-------------------------------------------------------|-------------------|
| Net surplus/(deficit) at the beginning of year        | (2,360.35)        |
| <b>Movement in the year</b>                           |                   |
| Current service cost (net of employee contributions)  | (53.15)           |
| Cost covered by employee contributions                | (26.85)           |
| Interest on pension liabilities (i.e. Finance Income) | (164.69)          |
| Pensions paid                                         | 95.56             |
| Past service cost                                     | 0                 |
| Curtailment and Settlements                           | 0                 |
| Actuarial gain/(loss)                                 | (696.95)          |
| <b>Net surplus/(deficit) at the end of year</b>       | <b>(3,206.43)</b> |

#### 4.4 The actuarial gain/(loss) can be further analysed as follows (all figures are shown in £millions and as a percentage of scheme liabilities as at 31 March 2004)

|                                                                                |                 |     |
|--------------------------------------------------------------------------------|-----------------|-----|
| Experience gains and losses arising on the pension liabilities                 | (100.00)        | 3%  |
| Changes in assumptions underlying the present value of the pension liabilities | (596.95)        | 19% |
| <b>Actuarial gain/(loss)</b>                                                   | <b>(696.95)</b> |     |

4.5 It is a requirement of the transitional arrangements for the 2003-2004 accounting year outlined in the SORP that the cost of spreading the unfunded accrued liability over an appropriate period be disclosed. Spreading the net scheme deficit over the expected future working lifetime of the current active membership (approximately 15 years) would result in an annual cost of 99% of pensionable pay (representing £253 million based on pensionable pay as at 31 March 2004).

4.6 The figures included in this report have been prepared for the purposes of FRS17 only and therefore cannot be considered appropriate for any other purpose. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

4.7 Having reviewed the information provided no issues have come to our attention which we expect could have a material effect on the results outlined above.

## Appendix A

### Summary of scheme benefits

|                                                                                                                |                                                                                                                                                                                                                                                                                                                                     |
|----------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Eligibility                                                                                                    | Permanent employees                                                                                                                                                                                                                                                                                                                 |
| Member Contributions                                                                                           | 11% of earnings                                                                                                                                                                                                                                                                                                                     |
| Normal Retirement Age                                                                                          | NRA is the age on attaining 25 years pensionable service, subject to a minimum age of 50 and a maximum of Compulsory Retirement Age dependent upon rank. Unreduced benefits may also be paid at age 55 with less than 25 years pensionable service.                                                                                 |
| Early Retirement                                                                                               | Retirement on the grounds of ill health and/or injury with enhanced benefits or under other circumstances with possibly reduced benefits is also allowed.                                                                                                                                                                           |
| Pension at Retirement                                                                                          | 1/60th of pensionable remuneration for each year of pensionable service up to 20 years and 1/30th of pensionable remuneration for each year of pensionable service thereafter subject to a maximum pension entitlement of 40/60. Pensionable remuneration is normally the average remuneration in the employee's final year.        |
| Lump Sum at Retirement                                                                                         | Maximum of ¼ of pension at retirement age may be commuted at the time of retirement for a lump sum that is calculated on an actuarially cost neutral basis related to the age of the member at retirement.                                                                                                                          |
| Ill Health Pension                                                                                             | An ill health pension with enhancement determined by length of pensionable service is paid immediately to members compulsorily retired early on medical grounds.                                                                                                                                                                    |
| Injury Awards                                                                                                  | An injury award, consisting of a lump sum and a pension, is paid when retirement results from injury on duty. The calculation of the award takes into account the extent to which the member's earnings capacity has been affected by the relevant injury, pensionable remuneration and length of service.                          |
| Pension Increases                                                                                              | All pensions in payment, deferred pensions and children's pensions are increased annually. Pensions for those aged 55 and over are increased each April by the same percentage as the increase in the Retail Price Index to the previous September.                                                                                 |
| Death in Service Benefits                                                                                      | A lump sum benefit of two times pensionable remuneration at date of death, plus, a spouse's pension of ½ of member's notional pension based on total service that the employee would have been able to reckon if he/she had retired on the grounds of ill-health at the date of death, plus children's pension may also be payable. |
| Death after Retirement Benefits                                                                                | A spouse's pension equal to one half of the member's actual pre-commutation pension.                                                                                                                                                                                                                                                |
| Benefits on Leaving Service                                                                                    | Members who leave service are entitled to either a refund of contributions, a preserved pension payable from age 60, or a transfer payment to another scheme or to an insurance company.                                                                                                                                            |
| The Scheme is contracted out of the State Second Pension (formerly the State Earnings Related Pension Scheme). |                                                                                                                                                                                                                                                                                                                                     |

## Appendix B

### Summary of membership data

A summary of the membership used for the valuation as at 31 March 2004 is as follows

#### Active Members

|              | <b>Number</b> | <b>Pension Pay</b>  | <b>Average Age</b> | <b>Accrued Pension</b> |
|--------------|---------------|---------------------|--------------------|------------------------|
| Males        | 7,553         | £220,003,244        | 41.2               | £87,641,008            |
| Females      | 1,379         | £34,609,655         | 36.1               | £10,287,609            |
| <b>Total</b> | <b>8,932</b>  | <b>£254,612,899</b> | <b>40.4</b>        | <b>£97,928,617</b>     |

#### Deferred Pensioner Members

|              | <b>Number</b> | <b>Average Age</b> | <b>Accrued Pension</b> |
|--------------|---------------|--------------------|------------------------|
| Males        | 415           | 43.7               | £1,731,488             |
| Females      | 116           | 46.9               | £369,887               |
| <b>Total</b> | <b>531</b>    | <b>44.4</b>        | <b>£2,101,375</b>      |

#### Current Pensioner Members

|              | <b>Number</b> | <b>Average Age</b> | <b>Current Pension</b> |
|--------------|---------------|--------------------|------------------------|
| Males        | 7,101         | 57.3               | £72,849,998            |
| Females      | 1,761         | 59.6               | £10,820,415            |
| <b>Total</b> | <b>8,862</b>  | <b>57.7</b>        | <b>£83,670,413</b>     |

## Appendix C

### Summary of demographic assumptions

#### Demographic assumptions – during service

Table 1 - Assumed number of leavers per 10,000 members in the year following the age stated

| Exact Age | Deaths | Ill-Health Retirement | Voluntary Resignations | Promotional Salary Scale |
|-----------|--------|-----------------------|------------------------|--------------------------|
| 20        | 5      | 1                     | 360                    | 100                      |
| 25        | 4      | 10                    | 342                    | 114                      |
| 30        | 3      | 19                    | 198                    | 130                      |
| 35        | 4      | 36                    | 108                    | 146                      |
| 40        | 6      | 70                    | 54                     | 160                      |
| 45        | 9      | 207                   | 25                     | 171                      |
| 50        | 16     | 441                   | 9                      | 177                      |
| 55        | 27     | 576                   | 0                      | 177                      |

Members are assumed to leave by age retirement after 30 years service or at age 55, whichever occurs earliest.

#### Demographic assumptions – in retirement

Table 2 – Expectation of Life of current pensioners – based on PMA92 projected to year of use 2004 (rated down one year)

| Exact Age | Expectation of Life (in years) for existing pensioners |
|-----------|--------------------------------------------------------|
| 55        | 30.3                                                   |
| 60        | 25.2                                                   |
| 65        | 20.3                                                   |
| 70        | 15.8                                                   |
| 75        | 11.9                                                   |
| 80        | 8.8                                                    |

Table 3 – Expectation of Life of current active/deferred pensioners – based on PMA92 calendar year 2045 (rated down one year)

| Exact Age | Expectation of Life (in years) for active/deferred members on retirement at age stated |
|-----------|----------------------------------------------------------------------------------------|
| 50        | 36.8                                                                                   |
| 55        | 31.8                                                                                   |
| 60        | 26.9                                                                                   |
| 65        | 22.2                                                                                   |
| 70        | 17.7                                                                                   |
| 75        | 13.6                                                                                   |



# Appendix D

## Glossary of Terms

The following terms are as defined under FRS17

### **Actuarial gains and losses**

Changes in actuarial deficits or surpluses that arise because

- a Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- b The actuarial assumptions have changed.

### **Current Service cost**

The increase in the present value of the scheme liabilities expected to arise from employee service in the current period.

### **Curtailement**

An event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their service.

### **Interest cost**

The expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

### **Past Service cost**

The increase 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.

### **Projected Unit Method**

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. The scheme liabilities at the valuation date relate to

- a The benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and
- b The accrued benefits for members in service on the valuation date.

### **Settlement**

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement.

For further information about the National Audit Office please contact:

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP  
Tel: 020 7798 7400  
Email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

DG Ref: D83703, D83729, D83707, D83702 5551WC, 5544WC

Printed in the UK for The Stationery Office Limited  
on behalf of the Controller of Her Majesty's Stationery Office  
08/05



Published by TSO (The Stationery Office) and available from:

**Online**

[www.tso.co.uk/bookshop](http://www.tso.co.uk/bookshop)

Mail, Telephone, Fax & E-mail  
TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Fax orders 0870 600 5533

Order through the Parliamentary Hotline

Lo-call 0845 702 3474

E-mail [book.orders@tso.co.uk](mailto:book.orders@tso.co.uk)

Textphone 0870 240 3701

**TSO Shops**

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

68-69 Bull Street, Birmingham B4 6AD

0121 236 9696 Fax 0121 236 9699

9-21 Princess Street, Manchester M60 8AS

0161 834 7201 Fax 0161 833 0634

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

18-19 High Street, Cardiff CF10 1PT

029 2039 5548 Fax 029 2038 4347

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

**The Parliamentary Bookshop**

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders 020 7219 3866

TSO Accredited Agents  
(see Yellow Pages)

and through good booksellers

ISBN 0-10-328530-X



9 780103 285306