
Armed Forces Pension Scheme

(Incorporating the Armed Forces Compensation Scheme)

Annual Accounts 2012-13

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Annual Accounts

2012-13

(For the year ended 31 March 2013)

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Any enquiries regarding this publication should be sent to us at The Scheme Administrator, Service Personnel and Veterans Agency, Tomlinson House, Norcross, Blackpool, FY5 3WP

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Report of the Managers

History and Statutory Background

The Armed Forces Pension and Compensation Schemes

The Armed Forces (Pension & Compensation) Act 2004 is the primary legislation covering the Armed Forces Pension Scheme 2005 (AFPS 05), Early Departure Payment (EDP) Scheme and Armed Forces Compensation Scheme (AFCS). These Schemes were introduced on 6 April 2005.

The Armed Forces Pension Scheme 2005 (AFPS 05)

From 6 April 2005, the AFPS 05 was introduced for all new members of the Armed Forces. The AFPS 05 is an unfunded, defined benefit, salary-related, contracted out, occupational Pension Scheme. The Scheme is designed to meet the special requirements of Service life. Pensions are paid immediately if an individual serves to age 55. Those who have at least two years service who leave before age 55 will have their pensions preserved until age 65. The Scheme also includes an EDP for those who leave before age 55 providing they have at least 18 years service and are at least 40 years of age. The EDP Scheme pays a tax-free lump sum and income of between 50% and 75% of preserved pension between the date of the individual's departure from the Armed Forces and age 55. The income rises to 75% of preserved pension at age 55 and is index linked. At age 65 the EDP stops and the preserved pension and preserved pension lump sum are paid. Pensions may be payable to the spouse, civil partner, partner or to eligible children. Death-in-service lump sums are payable subject to nomination.

The Armed Forces Compensation Scheme (AFCS)

The AFCS was introduced on 6 April 2005, replacing two separate compensation arrangements under the Armed Forces Pension Scheme 1975 and the War Pension Scheme. The AFCS covers injury, illness and death that are caused by service on or after 6 April 2005. The AFCS is a tariff-based compensation Scheme, which has been designed to be simple to understand and to produce consistent and equitable decisions, using an evidence-based approach.

The Armed Forces Pension Scheme 1975 (AFPS 75)

The Armed Forces Pension Scheme 1975 (AFPS 75) was the primary Scheme for Armed Forces personnel prior to 2005. The Scheme rules are set out in "Prerogative Instruments" that derive their authority from Her Majesty The Queen and are not subject to approval, annulment or amendment by Parliament. The current prerogative instruments are the Naval and Marine (AFPS 75 and Attributable Benefits Scheme) Order 2010, the Army Pensions (AFPS 75 and Attributable Benefits Scheme) Warrant 2010 and the Air Force (AFPS 75 and Attributable Benefits Scheme) Order 2010. The AFPS 75 regulations are set out in Schedule 1 to the prerogative instruments.

The AFPS 75 is an unfunded, defined benefit, salary-related, contracted-out occupational Pension Scheme.

It provides immediate pension benefits to many of those who leave without completing a full career but who have completed at least 16 years reckonable service for Officers and 22 years reckonable service for Other Ranks. The full career pension can be earned relatively early, at age 55, and invaliding and death benefits are available in the event of illness, injury or death at different rates depending upon whether or not these are caused by service. From 6 April 2005, unless already in payment at that date, these benefits are not provided for service related illness, injury or death but are provided by the Armed Forces Attributable Benefits Scheme (AFABS) where the cause is service prior to that date and the AFCS where the cause is service after that date. For those who leave without entitlement to immediate pensions but who have completed at least two years reckonable service a preserved pension is payable at the age of 60 for service before 6 April 2006 and age 65 for service from that date.

The AFPS 75 was closed to new members from 6 April 2005. Members of the AFPS 75 were given the opportunity to transfer to the AFPS 05 from this date.

The Armed Forces Attributable Benefits Scheme

The current Scheme Rules are set out in Schedule 2 to the following prerogative instruments; the Naval and Marine (AFPS 75 and Attributable Benefits Scheme) Order 2010, the Army Pensions (AFPS 75 and Attributable Benefits Scheme) Warrant 2010 and the Air Force (AFPS 75 and Attributable Benefits Scheme) Order 2010.

The Scheme provides invaliding benefits to those discharged from the Services on medical grounds in respect of injuries caused by service on or before 5 April 2005, who have been awarded a benefit under the War Pensions Scheme and whose degree of disablement due to the disabling condition is 20% or more.

Reserve Forces Pension Schemes

There are two non contributory Reserve Forces occupational Pension Schemes for members of the Reserve Armed Forces: Full Time Reserve Services Pension Scheme (FTRSPS 97) and the Reserve Forces Pension Scheme (RFPS 05).

FTRSPS 97 is the scheme applicable to those who gave Full Time Reserve Service as a member of the Reserve Forces before 6 April 2005. It was closed to new entrants and those starting new commitments from 6 April 2005.

RFPS 05 is the scheme applicable to those starting or renewing a Full Time Reserve Service (FTRS) commitment, including those on Additional Duties Commitment (ADC) terms on or after 6 April 2005. Personnel mobilised under parts 4, 5 or 6 of the Reserve Forces Act 1996, (or corresponding provisions of the Reserve Forces Act 1980) from that date may choose to become members of RFPS 05. Members of FTRSPS 97 were given an opportunity to transfer to RFPS 05 from this date.

Non Regular Permanent Staff Pension Scheme

The Non Regular Permanent Staff Pension Scheme (NRPSPS), which covers non regular personnel in support of the Territorial Army, is a non contributory pension scheme available to all members of the Non Regular Permanent Staff (NRPS). The NRPS pension scheme closed to new entrants effective 31st August 2011 with any new appointments being FTRS appointments covered under the RFPS 05.

Gurkha Pension Scheme

The Gurkha Pensions Scheme (GPS) was established by Royal Warrant in 1949. It provides pensions for former members of the Brigade Of Gurkhas, who have completed 15 years or more service, at rates based on those of the Indian Army.

In March 2007, the Government announced the outcome of a Review of Gurkha Terms and Conditions of Service. It was announced that serving Gurkhas, and those who left service on or after 1 July 1997, would be given the right to transfer to one of the two Armed Forces Pension Schemes for members of the Regular Armed Forces, from October 2007, under the following conditions:

- Gurkhas recruited after 1 December 2006 will join the AFPS 05.
- Gurkhas serving on 1 October 2007 who joined on or after 6 April 2005 but before 6 April 2006 (the 2006 intake) were offered the option to transfer from the GPS to AFPS 05.
- Gurkhas serving on 1 October 2007 who were serving before 6 April 2005 were offered the option to transfer from GPS to AFPS 75 or AFPS 05.
- Gurkhas who retired between 1 July 1997 and 5 April 2006 were offered the option to transfer to AFPS 75 or remain in the GPS. Those who retired from 6 April 2006 but before 1 October 2007 were offered the option to transfer to AFPS 75 or AFPS 05 or remain in the GPS.
- Gurkhas transferring from GPS to AFPS are given actuarial value for any service before 1 July 1997, but service given on or after 1 July 1997 is transferred on a year-for-year basis.

Minor Pension Schemes

In addition to the above Schemes, the AFPS also manages a number of minor pension schemes covering Locally Employed Military Personnel in places such as Malta, Gibraltar, Singapore, Hong Kong, Seychelles, Sri Lanka, India/Pakistan (Hong Kong Singapore Royal Artillery).

With the exception of Gibraltar these schemes are now closed to new members.

Management of the Schemes

The AFPS and AFCS are managed and operated by the Service Personnel and Veterans Agency (SPVA), a business unit within the Ministry of Defence (MOD). The costs of administering the Schemes are borne by the MOD and are reflected in the Department's Annual Report and Accounts.

The Chief Executive of SPVA has been designated by the Departmental Accounting Officer to be the Scheme Administrator for both the AFPS and AFCS. The Deputy Head of Corporate Services for SPVA has been designated by the Departmental Accounting Officer to be the Senior Finance Officer for both the AFPS and AFCS.

In administering the AFPS and AFCS on behalf of the MOD, the SPVA aims to ensure that all pension and compensation payments due to entitled pensioners and members of the Armed Forces are made in a timely and accurate fashion.

The SPVA Management Board meets regularly to determine strategy, set objectives and review performance towards strategic goals. The Management Board consists of:

SPVA Management Board

Air Vice-Marshal R Paterson	Chief Executive (Chair)
Mr J Parkin	Head Veterans Services
Air Commodore C Bray	Head Military Operations and Development
Brigadier G Nield	Head Strategy Programmes & Resources (from 1 Oct 12)
	Head Strategy & Programmes (until 30 Sep 12)
Mr D Allen (until 31 Dec 12)	Acting Head Corporate Services
Mr D Hadlington (from 1 Feb 13)	Deputy Head Corporate Services
Mrs L Clinton (from 1 Oct 12)	Non Executive Director
Mrs H Pernelet (from 1 Oct 12)	Non Executive Director

Changes during the year

During the year the following changes were made to the Schemes:

Armed Forces Pension Schemes

The Pensions increase rate was 5.2% (3.1% in 2011-12) with effect from 9 April 2012 (11 April 2011).

Membership Statistics

The HM Treasury standard format for membership disclosure has been expanded due to the complexity of the Armed Forces Pension Schemes. The membership data below has moved away from an “individual” being synonymous with a “member”. Members of the AFPS 75 Scheme who leave the Armed Forces before they can claim an Immediate Pension receive a pension at age 60 (for service before 6 April 2006) and an additional pension at age 65 (for service post this date). For example, a Deferred Member on attaining age 60, becomes a Pensioner but also remains as a Deferred Member until the age of 65. To reflect this, and to be able to show the movements within each category, the membership table shows Deferred Benefits instead of Deferred Members and Benefits in payment instead of Pensioners in payment.

There are three groups, defined as follows:

- Active members: personnel who are in service which is reckonable for pension purposes.
- Deferred and unclaimed benefits: benefits due at some future date or that have not been claimed that are attributable to former active members or their divorced spouses/civil partners.
- Benefits in Payment: payments to former active members or divorced spouses/civil partners plus other beneficiaries such as widow(er)s, survivors and other dependants of former active members.

Active members

	Active members brought forward from 31 March 2012	192,015
	Adjustment (see Membership Statistics note 6)	226
	Total active members at 1 April 2012	<u>192,241</u>
<i>Add:</i>	New entrants in year	19,076
	Transfers in	39
<i>Less:</i>	Deaths in service	(122)
	Left active service with under two years service and no benefits	(4,242)
	Left active service with deferred benefits	(15,176)
	Left active service and received benefits	(8,819)
	Active members at 31 March 2013	<u>182,997</u>

Deferred and unclaimed benefits

	Deferred members brought forward from 31 March 2012	434,542
	Adjustments (see Membership Statistics note 6)	1,254
		<u>435,796</u>
	Being:	
	Deferred benefits	419,367
	Benefits due but unclaimed	16,429
	Total deferred and unclaimed benefits at 1 April 2012	<u>435,796</u>
<i>Add:</i>	Benefits not immediately payable	21,336
	New benefit on divorce	393
<i>Less:</i>	Transfers out	(1,054)
	Benefits taken up	(3,985)
	Benefits elapsed (see Membership Statistics note 5)	(1,575)
		<u>450,911</u>
	Being:	
	Deferred benefits	433,297
	Benefits due but unclaimed	17,614
	Total deferred and unclaimed benefits 31 March 2013 (417,533 members)	<u>450,911</u>
	(see Membership Statistics note 4)	

Benefits in payment

Benefits brought forward from 31 March 2012	
- Members	332,826
- Dependants	<u>73,438</u>
Total	406,264
Adjustments due to data received post 31 March 2012	
- Members	(186)
- Dependants	<u>330</u>
Total benefits at 1 April 2012	<u>406,408</u>
<i>Add:</i> Benefits that became payable in the year	
- Members	12,570
- Dependants	<u>3,779</u>
<i>Less:</i> Benefits that have ceased in the year	
- Members	(6,352)
- Dependants	<u>(4,003)</u>
	<u>412,402</u>
Being:	
- Members	338,858
- Dependants	<u>73,544</u>
Total benefits in payment at 31 March 2013	<u>412,402</u>

Membership Statistics Notes

1. Individuals may be a member of more than one Scheme.
2. A member may be entitled to more than one benefit under a scheme (see above).
3. Where a member is divorced or their civil partnership is dissolved and the ex-spouse/partner is entitled to a proportion of the benefit, the deferred figures show both benefits when notified to the Scheme administrators post March 2006. Benefits in payment show both benefits.
4. Comparison of movements between tables cannot be made due to the use of members in one table and benefits in the other tables, as explained above.
5. Where a member has not claimed benefits within seven years of eligible pension age they are assumed not to claim.
6. The active and deferred members brought forward from 31 March 2012 have been restated to account for better information obtained from the membership database. The database used to manage active and deferred members is a dynamic system that allows records to be updated retrospectively. It is therefore accepted that the opening balance will not reconcile to the previous years closing balance.
7. The Government Actuary's Department (GAD) valuation includes approximately 30,000 members with estimated benefits. This is due to one or more of the elements required to determine the benefit being missing from the database.
8. The Minor Pension Schemes' membership data, equating to 202 active members, 32 deferred benefits and 3,015 benefits in payment are excluded from the these figures. The Minor Scheme figures are as at 31 March 2012.

Increase in the total liability of the AFPS

The total liability of the AFPS is £118.0Bn as at 31 March 2013 (£105.6Bn as at 31 March 2012). The total change in liability represents an increase of £12.4Bn (2012: £5.0bn) and resulted in an actuarial loss of £9.24Bn (2012: £1.0bn). £9.2bn of the actuarial loss (2012: £0.3bn) is due to changes in financial assumptions underlying the Scheme liability, represented by the decrease in the discount rate net of pension increases to 2.35% from 2.8% (2012: 2.9% to 2.8%). The discount rate change reflects the fact that the value of having cash now is greater than for the same amount in the future. The remaining £0.04Bn of the actuarial loss (2012: £0.7bn) is as a result of an experience loss. An experience loss reflects the extent to which events over the reporting period have not coincided with the actuarial assumptions made for the last assessment. A full reconciliation of the change in liability over the year is provided in Note 15.4, page 35.

Changes in Accounting standards

There are no changes in International Accounting Standards that have an impact on the AFPS or the AFCS.

National Fraud Initiative

On a biennial basis, the AFPS takes part in the National Fraud Initiative (NFI), which commenced in 1998 and is co-ordinated by the Audit Commission. This initiative allows the Scheme to submit approved data to the Audit Commission who match it against other data sources to ensure the payments are still being made to the individual originally entitled to the pension. This exercise was in addition to the Scheme's normal procedure of regularly confirming entitlement with individual pensioners. The table below provides an update of the position for the exercises conducted since 2002 and lists the outstanding amounts which are still being actively pursued.

NFI Exercise	Total Cases	Total Identified £000	Prior Years		2012-13		Outstanding at 31/03/2013 £000
			Recovered £000	Written-off £000	Recovered £000	Written-off £000	
NFI 2002	252	1,071	762	275	1	0	33
NFI 2004	257	426	354	66	1	0	5
NFI 2006	297	789	693	82	2	0	12
NFI 2008	175	959	849	30	14	0	66
NFI 2010	126	695	268	6	332	0	89
NFI 2012*	225						

*The NFI 2012 exercise is ongoing. It is anticipated that additional cases will be identified. Overpayments have not yet been calculated for this exercise.

Issues arising during 2012-13

Future Armed Forces Pension Scheme

A new Armed Forces Pension Scheme will be introduced in April 2015. It is currently known as the Future Armed Forces Pension Scheme (FAFPS). All Service personnel who are members of an armed forces pension scheme and who will be serving beyond April 2015 will be automatically transferred to the new scheme, unless they qualify for transitional protection.

The government has offered transitional protection for those who were within 10 years of their respective scheme's Normal Pension Age (NPA) on 1 April 2012. AFPS 75, AFPS 05 and FTRS 97 (Full Commitment) have a NPA of 55. RFPS, FTRS 97 (on Limited or Home Commitment) and NRPS have a NPA of 60.

This means members of AFPS 75, AFPS 05 or FTRS 97 (FC) who were aged 45 or over on 1 April 2012, will stay on their current pension scheme and their benefits will be unaffected. Members of the RFPS (including those on Additional Duties Commitment), FTRS 97 (on LC or HC) or NRPS who were aged 50 or over on 1 April 2012, will remain in their current pension scheme and their benefits will be unaffected.

This transitional protection was a government decision for all public service schemes, for those personnel who were nearest to their NPA and who will, therefore, have less time to adjust their financial plans in response to the changes to their pension scheme. Approximately 7,800 officers and 7,000 other ranks will benefit from transitional protection.

The Defence Secretary announced in October 2012 that final agreement with the government on the overall design of the new Armed Forces Pension Scheme has been reached.

The key features of the new scheme remain unchanged from the Outline Scheme Design published at the end of July 2012 but will now also include additional choice in how the Early Departure Payment (EDP) may be taken, depending on individual needs.

The EDP will normally be paid as a monthly income and one-off lump sum. However, in light of views expressed by Service personnel during consultation, the new scheme will also offer the choice to forego the lump sum and convert it into additional monthly income. This additional option is not currently available to members of any current armed forces pension scheme.

Further information is available at: www.gov.uk/pensions-and-compensation-for-veterans

No allowance for any future change in respect of FAFPS has been made in these financial statements.

Disclosure of information to auditors

So far as I am aware, there is no relevant audit information of which the Scheme's auditor is unaware. I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Scheme's auditor is aware of that information.

Information for members

Freestanding Additional Voluntary Contributions (FSAVC)

Active members may contribute to a FSAVC. The contribution is passed to the relevant institution and is a private arrangement between the member and the institution.

Enhancements

Active members may, under certain circumstances, and at the discretion of and at rates agreed from time to time by the Secretary of State for Defence, and in accordance with Inland Revenue rules, pay Additional Voluntary Contributions (AVCs) for:

- additional years of service,
- the pension to be based on actual (rather than representative) salary,
- an increased death-in-service lump sum,
- enhanced dependants' benefits.

Stakeholder Pensions

The Stakeholder pension is a private pension that was introduced by the Government to help people save for their retirement. Scottish Widows has been designated as the preferred provider of Stakeholder pensions to the Armed Forces.

Managers, Advisers and Employers

Managers

Accounting Officer:
Jon Thompson
Permanent Under-Secretary of State for Defence
Ministry of Defence
Whitehall
London SW1A 2HB

Director General of Finance:
Mr D Williams
Ministry of Defence
Whitehall
London SW1A 2HB

AFPS & AFCS Scheme Administrator:
Air Vice-Marshal Ross Paterson
Chief Executive
Service Personnel & Veterans Agency
Centurion Building
Gosport PO13 9XA

Pension Policy:
Brigadier C Tickell
Head of Remuneration
Ministry of Defence
Whitehall
London SW1A 2HB

Advisers

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

Bankers:
Government Banking Service
Southern House
Wellesley Grove
Croydon CR9 1WW

Legal Advisers:
MOD Central Legal Services
Ministry of Defence
Whitehall
London SW1A 2HB

Medical Advisers:
SPVA Medical Services Team
Service Personnel & Veterans Agency
Tomlinson House, Norcross
Thornton-Cleveleys FY5 3WP

Auditor:
Comptroller and Auditor General
National Audit Office
157 – 197 Buckingham Palace Road
Victoria
London SW1W 9SP

Employer

Ministry of Defence

Further information

Any enquiries about the AFPS or AFCS should be addressed to:
The Scheme Administrator
Service Personnel and Veterans Agency
Tomlinson House, Norcross
Blackpool FY5 3WP

Jon Thompson
Accounting Officer for the Armed Forces Pension Scheme
and Armed Forces Compensation Scheme

1 July 2013

**Report of the Actuary for the Armed Forces Pension Scheme
for Accounts for the Year Ended 31 March 2013**

Introduction

1. This statement has been prepared by the Government Actuary's Department (GAD) at the request of the Ministry of Defence (MOD). It summarises the pensions disclosures required for the 2012-13 Accounts of the Armed Forces Pension Scheme (AFPS).
2. The AFPS is a final salary defined benefit scheme, the rules of which are set out in the Army Pensions (Armed Forces Pension Scheme 1975 and Attributable Benefits Scheme) Warrant 2010 (and Naval and Marine, and Royal Air Force equivalents), and the Armed Forces Pension Scheme Order 2005 (SI 2005/438), and subsequent amendments. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation (under IAS 19 constructive obligations should be included in the measurement of the actuarial liability). The liabilities disclosed in this statement also include an allowance for the benefits accrued by personnel who are in the Reserve Forces Pension Scheme (RFPS), the Full-Time Reserve Service Pension Scheme (FTRS), the Non-Regular Permanent Staff Pension Scheme (NRPS) and the Gurkha Pension Scheme (GPS) and benefits payable from the Early Departure Payments (EDP) arrangement. The liability as at 31 March 2013 also includes an allowance for the other minor overseas schemes that are included in the AFPS accounts.
3. The statement is based on the results of an interim valuation of the scheme's liabilities as at 31 March 2008, with an approximate updating to 31 March 2013 to reflect known changes. This is the same approach that has been adopted for previous exercises as at 31 March 2010, 31 March 2011 and 31 March 2012.

Membership data

4. The data used to prepare this assessment was provided by the Service Personnel and Veterans Agency (SPVA). Total Pensionable Pay and Total Pensions in Payment at 31 March 2013 are based on data provided as at 28 February 2013. SPVA has indicated that the number of deferred members provided for the assessment as at 31 March 2013 (417,497 as at 28 February 2013) corresponds with the number of benefit records (451,292 as at 28 February 2013), including members of NRPS, disclosed in the accounts. Data as at 28 February 2013 has been used to prepare the accounting liabilities as at 31 March 2013. SPVA have confirmed the corresponding figures in these accounts which are stated as at 31 March 2013 are consistent with those provided as at 28 February 2013. GAD has no independent means of verifying the data provided for the assessment, particularly the number of deferred members. GAD has therefore relied on the assurances provided by SPVA. Any subsequent revisions to this data may cause consequential changes in the liabilities as at 31 March 2013 disclosed in this assessment.
5. Tables A to C summarise the principal membership data as at 31 March 2008 and 31 March 2013 used to prepare this statement.

Table A – Active members

31 March 2008		31 March 2013
Number (thousands)	Total Pensionable Pay † (£ million pa)	Total Pensionable Pay * (£ million pa)
198	5,922	5,971

† Including increases applying in April of year

* Estimated using data as at 28 February 2013.

Table B – Deferred members

31 March 2008	28 February 2013
Number (thousands)	Number (thousands)
356	417

Table C – Pensions in payment

31 March 2008	31 March 2013	
Number (thousands)	Total pension † (£ million pa)	Total pension * (£ million pa)
361	2,673	3,395

† Including increases applying in April of year

* Estimated using data as at 28 February 2013

Methodology

6. The present value of the liabilities has been determined using the Projected Unit Method, with allowance for expected future pay increases in respect of active members which also includes full allowance for expected short-term future salary increases effective from April 2013, 2014 and 2015, and the principal financial assumptions applying to the 2012-13 Accounts. The contribution rate for accruing costs in the year ended 31 March 2013 was determined using the Projected Unit Method and the principal financial assumptions applying to the 2011-12 Accounts.
7. This statement takes into account the benefits normally provided under the AFPS, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes pensions already in payment in respect of such cases. It does not include the cost of additional death benefits or injury benefits provided through the Armed Forces Compensation Scheme (in excess of ill-health benefits).
8. The liabilities disclosed in this statement include the benefits accrued by personnel who are in the Gurkha Pension Scheme (GPS). Full data was not available for this group of personnel and therefore only a very approximate allowance has been made. The liabilities disclosed also include an approximate allowance in respect of past service costs for current GPS members resulting from the Gurkha Offer to Transfer. The combined liabilities calculated in respect of these benefits total £0.6bn which is approximately 0.5% of the overall liabilities disclosed in these accounts.
9. The liabilities disclosed in this statement as at 31 March 2013 include the benefits accrued by personnel who are in the minor overseas schemes covered by the AFPS accounts. Full data was not available for this group of personnel and therefore only a very approximate allowance has been made. The liabilities associated with these schemes total £0.2bn which is approximately 0.2% of the overall liabilities disclosed in these accounts.

Principal financial assumptions

10. The principal financial assumptions adopted to prepare this statement are shown in Table D. With effect from 31 March 2013, the assumed rate of return in excess of prices was decreased from 2.8% a year to 2.35% a year, and the assumed rate of return in excess of earnings was decreased from 0.6% a year to 0.15% a year. In addition, with effect from 31 March 2013, the assumed rate of future pension increases is 1.7% a year and the assumed nominal rate of salary growth is 3.95% a year (changed from 2.0% and 4.25% respectively as at 31 March 2012).

Table D – Principal financial assumptions

Assumption	31 March 2013	31 March 2012
Rate of return (discount rate)	4.10%	4.85%
Rate of return in excess of:		
Earnings increases*	0.15%	0.6%
Pension increases	2.35%	2.8%
Expected return on assets:	n/a	n/a

* Excluding effect of short-term adjustments.

11. The pension increase assumption as at 31 March 2013 is based on the Consumer Price Index (CPI) expectation of inflation.
12. When considering the assumed rate of future earnings growth, we have been instructed to include an allowance to reflect the period of pay restraint in the years 2013/14, 2014/15 and 2015/16.

Demographic assumptions

13. The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.
14. The standard mortality tables known as PXA-92 are used but with adjustments derived from recent scheme experience. An age rating of -1 year applies to officers, both current and future pensioners (that is they are assumed to experience the mortality rates given in the standard tables but at ages one year younger than their actual age). An age rating of +1 years applies to other ranks, both current and future pensioners. Mortality improvements are in accordance with those incorporated in the 2010-based principal population projections for the United Kingdom. These assumptions are the same as adopted for the 2011-12 Accounts.
15. The reforms to the scheme due to be implemented in April 2015 may affect the actual demographic experience of the scheme. For example, changes to the generosity or timing of pension and EDP benefits may cause behavioural changes in the timings of exits from service. Given the uncertainty surrounding these changes and their potential impact on member behaviour, the MOD has decided to make no allowance for them for the purposes of the 2012-13 Accounts.
16. The contribution rate used to determine the accruing cost in 2012-13 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2011-12 Accounts.

Liabilities

17. Table E summarises the assessed value as at 31 March 2013 of benefits accrued under the scheme prior to 31 March 2013 based on the data, methodology and assumptions described in paragraphs 3 to 15. The corresponding figures for the previous four year ends are also included in the table.

Table E – Statement of Financial Position

£ billion

	31 March 2013	31 March 2012	31 March 2011	31 March 2010	31 March 2009
Total market value of assets	nil	nil	nil	nil	Nil
Value of liabilities	(118.0)	(105.6)	(100.6)	(121.9)	(91.8)
Surplus/(Deficit)	(118.0)	(105.6)	(100.6)	(121.9)	(91.8)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Accruing costs

18. The cost of benefits accruing in the year ended 31 March 2013 (the Current Service Cost) is based on a standard contribution rate of 45.2% of Officer pensionable salaries, and 34.5% of Other Ranks pensionable salaries. The AFPS is non-contributory for members. Table F shows the cost of benefits accruing for each year of service, which is met fully by the employer. The corresponding figures for 2011-12 are also included in the table.

Table F – Contribution rate

Percentage of pensionable pay	1 April 2012 to 31 March 2013	1 April 2011 to 31 March 2012
	Officers	45.2%
Other Ranks	34.5%	32.8%

19. For the avoidance of doubt the employers' share of the standard contribution rate determined for the purposes of the Accounts is not the same as the actual rate of contributions payable by employers, currently 41.8% for Officers and 28.4% for Other Ranks, which was determined based on the methodology and the financial and demographic assumptions adopted for the funding of the scheme. (Note this excludes the cost of the Armed Forces Compensation Scheme). The most significant difference between the actuarial assessments for Accounts and for scheme funding purposes is the discount rate net of price increases, which was 2.8% pa for the 2012-13 Current Service Cost (for the 2011-12 Current Service Cost it was 2.9%) compared with 3.5% pa for the existing scheme funding rate (note that the discount for scheme funding purposes has been reviewed and reduced to 3% but this does not affect the current rate of contributions). A higher discount rate for scheme funding purposes results in a lower assessed cost of benefit accrual. The discount rate for scheme funding is set by HM Treasury, and is expected to stay the same for an extended period so as to provide a stable budgeting mechanism for pension accrual within government. The discount rate for Accounts is set each year by HM Treasury to reflect the requirements of IAS19.
20. The pensionable payroll for the financial year 2012-13 was £6.0 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2012-13 (of 45.2% of Officer pensionable salaries, and 34.5% of Other Ranks pensionable salaries) is assessed to be £2.2 billion. There is no past service cost and so this is the total pension cost for 2012-13.

Stephen Humphrey
Government Actuary's Department
27 June 2013

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, the Ministry of Defence, with the consent of HM Treasury, has directed the Armed Forces Pension Scheme to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction.

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

In preparing the financial statements, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- Observe the accounts direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the FReM have been followed, and disclose and explain any material departures in the financial statements; and
- Prepare the financial statements on a going concern basis.

HM Treasury has appointed the Permanent Head of the Department as Accounting Officer for the Armed Forces Pension Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the Pension Scheme are set out in the Accounting Officers' Memorandum issued by HM Treasury and published in Annex 1 of the FReM.

The Governance Statement

Scope of responsibilities

1. As the Accounting Officer for the Armed Forces Pension Scheme (AFPS) and the Armed Forces Compensation Scheme (AFCS), collectively “the Schemes”, I have responsibility for maintaining a sound system of governance that supports the achievement of the Schemes’ policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money. Where necessary I, or officials on my behalf, engage with Treasury officials on funding and policy issues pertaining to these Schemes.
2. In discharging this responsibility, I am responsible for putting in place proper arrangements for the governance of the Schemes’ affairs which facilitate the effective discharge of their statutory functions, and which include arrangements for the management of risk.
3. The Schemes have adopted the Corporate Governance Code for Central Government as far as is practicable.

The purpose of the governance framework

4. The governance framework comprises the systems and processes, and culture and values, by which the Schemes are administered and controlled. It also includes the activities by which they account to Parliament.
5. The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and therefore can 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 the Schemes’ 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.
6. The governance framework has been in place for the Schemes for the year ended 31 March 2013 and up to the date of approval of the annual report and accounts.

The Schemes’ Governance Framework

7. I have delegated responsibility for day to day administration of the Schemes to the Chief Executive of the Service Personnel & Veterans Agency (SPVA) and I have delegated the role of Senior Finance Officer for the Schemes to SPVA Deputy Head of Corporate Services.
8. Administration of the Schemes is currently delivered through a combination of Ministry of Defence (MoD) Civilian and Service Personnel within SPVA and its contractors CSC Computer Sciences Ltd (CSC) via a commercial partnering agreement which came into effect on 11 November 2012. This replaced the previous partnering agreement with Hewlett Packard Enterprise Services Ltd. The arrangement for joint working with CSC is governed by commercial agreements and managed by SPVA’s Management Board (MB). The Service Delivery Management Team within SPVA actively monitors the performance of CSC against a number of Measures of Performance (MOPs). Any failure to meet MOPs and actions to ensure future compliance are discussed at the monthly Service Delivery Working Group attended by representatives from both SPVA and CSC, and reported to the MB.
9. The MB is chaired by the Chief Executive, and consists of the Executive Heads of Department, the Senior Finance Officer, and SPVA’s Non-Executive Directors (NEDs). The Board determines strategy, sets objectives and reviews performance, and provides direction for the management of Risks and Issues. It meets monthly (except August) and has convened 11 times between April 2012 and March 2013.

MB Members Composition (MOD & NEDs)¹	Meetings attended
Chief Executive: AVM Ross Paterson (Chair)	11 of 11
Non-Executive Directors: Helen Pernelet (from 1 Oct 12)	5 of 6
Lorraine Clinton (from 1 Oct 12)	4 of 6
Executives:	
Brigadier Geoff Nield Hd of Strategy & Programmes (until 30 Sep 12) Hd of Strategy Programmes & Resources (from 1 Oct 12)	10 of 11
Jon Parkin Hd of Veterans Services	11 of 11
Air Cdre Christopher Bray Hd of Military Operations & Development	8 of 11
David Allen Acting Hd of Corporate Services and Senior Finance Officer (SFO) (until 31 Dec 12)	4 of 5
David Hadlington Acting DH of Corporate Services and SFO and Assurance Lead (an attendee at MB meetings from Sep 12, becoming a formal MB member from 1 Feb 13).	2 of 2

10. The Audit & Scrutiny Committee (ASC) is a sub-committee of the MB. It supports CE SPVA in discharging his responsibilities for Risk control and Governance by reviewing the comprehensiveness, reliability and integrity of SPVA's Risk and Assurance framework.

ASC Members Composition (SPVA MOD & NEDs)	Meetings attended
Members:	
Non-Executive Directors:	
Helen Pernelet (Chair) (temporary NED from May 12, permanent from 1 Oct 12)	5 of 5
Lorraine Clinton (from 1 Oct 12)	2 of 2

Risk Assessment

11. Risk assessment processes within SPVA have been in place throughout the year. Risks are identified and recorded on the SPVA risk registers. These risks are reviewed on a monthly basis by the Operations Board. The most critical are escalated to the MB where the impacts are assessed and appropriate mitigating action taken. Any risks not capable of being managed at Board level are escalated to the Chief of Defence Personnel and/or DG Finance, and ultimately to me.

The Risk and Control Framework

12. Within the Scheme's day to day operations a framework of internal controls (e.g. authorisations, reconciliations, separation of duties, etc) control the risks of fraud or error, the framework is fully documented to current best practice standards and is incorporated within the process guides provided for staff. This framework is maintained, updated and reviewed on an annual basis by the Agency's Process Controls Management Team.

13. Risk owners and managers are identified as part of the risk management process. Formal risk management training is provided to SPVA project and operational teams. Risk management information and guidance is available to all on the SPVA intranet.

14. Oversight of the Schemes' rules and policies and advice on their application is provided by the Chief of Defence Personnel's (CDP) Service Personnel Policy branch.

¹ CSC's Account and Delivery Directors also attend the Management Board.

15. The Schemes' financial management arrangements conform to the requirements of HM Treasury as laid out in "Managing Public Money". The SPVA Deputy Head of Corporate Services is Senior Finance Officer for the Schemes and is a key member of the MB. The Scheme's financial management reports, which have improved over the year to provide full visibility of outturn, cash, control accounts and write offs, now provide the level of detail for effective oversight and are reviewed by the MB on a monthly basis.

Information Assurance

16. Data is managed in accordance with the principles of HM Government's Information Assurance Maturity Model (IAMM)². The Chief Executive is Senior Information Risk Owner (SIRO) for SPVA. Information Assurance (IA) training is provided and is mandatory up to Level 2 for all SPVA staff. Level 3 is required for those with specific Information Asset Owner/Custodian (IAO/C) responsibilities. Following achievement of IAMM Level 3 for SPVA in March 2012, work has now commenced on reviewing SPVA's current Level 3 maintenance position, to identify any current or recently developed gaps against the revised IAMM (Levels 1-3) requirements detailed in Good Practice Guide 40 V2.0 (issued Oct 12). The initial assessment is indicating a number of resolution targets in SPVA's L1-3 portfolio. Resolution activity will subsequently be captured in a revised IAMM Go to Green plan, and progressed under existing SPVA IA Governance structures. SPVA remains aspirational to IAMM Level 4, and initial scoping work on the significantly revised IAMM Level 4 requirements set out in Good Practice Guide 40 V2.0 is expected to be triggered during second quarter FY 2013. In parallel, the SPVA continues to monitor the development of the Single Information Maturity Model (SIMM), and will assess any changes to the overall MOD IA approach under SIMM as this matures. SPVA has continued to exercise full internal IA assurance reporting during the reporting period utilising the established IA Reporting Manager and IAO Quarterly Returns. This has enabled SPVA SIRO to be appraised of current issues (including completion of Privacy Impact Assessments, Delivery Partner Memoranda of Understanding and the need for IA Infrastructure reviews).

17. There have been no data losses reported during the year.

Business Continuity

18. AFPS/AFCS output from SPVA Norcross and Glasgow, and the development and implementation of future Compensation and Pensions System (CAPS) pensions and allowances solutions at Gosport, is governed by Business Continuity measures outlined in the SPVA Business Continuity Management Strategy 2009-2012 (v2.0) and the SPVA Pandemic Flu (and general staff loss) Contingency Plan (v2.0). This includes the obligation to produce both Business Impact Analysis (BIA) and Critical Service Level Assessments (CSLA) for those business areas, the former identifying criticality and risk, and the latter contingency in the event of serious staff loss.

19. The Disaster Recovery (DR) Plan for CAPS was issued on 11 May 2012 (v1.0). This plan is subject to test at least annually.

20. Tests undertaken against the CAPS DR Plan include; simulation of equipment loss and restoration (2-5 Jun 12), SPVA Glasgow back office pensions processes undertaken from an alternative site (at SPVA Gosport) (20 Jun 12) and SPVA Glasgow Pensions Pay and Process team undertaking tasks from alternative site (at SPVA Gosport) (25 Oct 12).

21. There have been no significant Business Continuity incidents affecting the delivery of AFPS/AFCS recorded during 2012-13.

Review of Effectiveness

22. As Accounting Officer, I have responsibility for reviewing the effectiveness of the governance framework. My review of the effectiveness of the governance framework is informed by the work of the MoD internal auditors Defence Internal Audit (DIA), the executive managers within the SPVA 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 governance framework by the SPVA Management Board and ASC, and a plan to address weaknesses and ensure continuous improvement of the framework is in place.

² <http://www.cesg.gov.uk/Publications/Documents/iamm-assessment-framework.pdf>

23. This financial year has again seen SPVA face several significant and competing challenges. These include, inter alia, the continuing financial pressures imposed upon MOD; the consequential restructuring of SPVA and the resulting reduction in staffing levels by 20% for Civil Servants and 40% for Military Staff so far, with more to follow by March 2015 (to about 25% and 60% respectively); the transition between commercial suppliers (HP to CSC) for the delivery of many of SPVA's outputs and the management of a significant change programme, including preparations for a JPA system technology refresh. These have all had very significant attention throughout the year in the MB and supporting governance structures, such as the Operations and Strategic Programmes and Change Management Boards, among others, which oversee performance across the SPVA. During this period the Board has ensured 7 key principles have been used to underpin the way Risks and Issues are managed within SPVA:

- Emphasis on the benefits of Risks and Issues Management throughout SPVA – as an individual and within SPVA Risks and Issues Governance Tiers.
- Defining Risk appetite within SPVA.
- Ensuring the Risks and Issues scoring criteria is consistent across the SPVA Governance Tiers.
- The Roles and Responsibilities and escalation routes are clearly defined within a formalised structure. The Minutes of the MB record Actions/Decisions/Escalations and are used as a vehicle to provide feedback to the Risk Owner/manager and to update the Risk Register.
- A tiered approach to Risks and Issues management ensures they are analysed, assessed and owned by the business at the appropriate level, with each Governance Tier taking responsibility for mitigation actions within their scope of responsibility.
- A tiered Risks and Issues structure ensures control over the number of Risks and Issues being escalated through the Governance Tiers.
- Shared (MOD/Commercial Partner) Risks and Issues are identified and managed through the Risk Register. MOD Risks and Issues transferring between or linking business areas are identified, monitored and managed.

The SPVA ASC is a sub-committee of the MB. It comprises 2 Non-Executive Directors (NEDs), of whom one is the Chair. Both NEDs were appointed by the Chief Executive. The Committee supports CE SPVA in discharging his responsibilities for Risk control and Governance by reviewing the comprehensiveness, reliability and integrity of SPVA's Risk and Assurance framework. The Committee meets 5 times a year, with additional focus group meetings being held whenever the Chair considers it appropriate.

A temporary SPVA NED (Helen Pernelet) was employed from May 2012, replacing the previous NED (Bronwen Curtis) who resigned in January 2012. Both Helen Pernelet and Lorraine Clinton have been employed as SPVA NEDs from October 2012. During this period the NEDs have reviewed issues raised by Assurance providers such as DIA and NAO, and they have also provided independent advice to the Chief Executive and MB.

DIA has completed one full scope audit of the AFCS compensation payments and abatements during the year, which received a Full Assurance opinion. The audit opinion concluded that an extensive Governance framework had been put in place by CDP and SPVA which effectively managed the uplift of AFCS Awards required by the Boyce Review. DIA have also commenced an audit into Cash Equivalent Transfer Values. However, it is recognised by the ASC that the DIA programme of assurance this year has been insufficient. In discussions with the ASC DIA has confirmed that it will further develop its programme of assurance over the AFPS and from 2013-14 its programme will provide sufficient coverage to enable it to provide a full assurance programme and internal audit opinion on the Scheme.

More recently, the Committee has ensured it has an effective forward programme of meetings for Financial Year 2013/14. The purpose of this work is to ensure that the Committee is able to constructively challenge the adequacy of the systems of internal control relating to the administration of the Schemes. A great deal of work has also been undertaken this year to assemble an effective Audit Programme for Financial Year 2013/14 to support both the SPVA Process Owner requirements and that of the Pensions Schemes. DIA has elicited the services of PwC to assist them in scoping the

activities that should be looked at in order to assure the processes that deliver the disbursements made under the AFPS.

The Agency has a fraud focal point offering advice and guidance on fraud related matters, additionally all staff have direct access to the Defence Irregularity Cell to escalate any suspicions of irregularity. In addition to the work of the DIA, the Agency continued to utilise the National Fraud Initiative (NFI) to identify potential AFPS fraudulent claims and a small internal team is resourced to investigate any potential fraudulent AFCS claims. The Report of the Managers on pages 2 to 9 contains details of the results of the NFI exercises since 2002. Also during 2012-13 the Agency canvassed 76,000 pensioners to confirm their continuing entitlement to pension under the Scheme rules. The exercise is still ongoing. Two management reviews of selected AFPS pension payments and related procedures were also undertaken in respect of the payment and accounting services provided by Equiniti Paymaster; no significant weaknesses were identified. Additionally, the Quality Assurance Team undertook financial accuracy post-payment checks on a sample of AFCS payments and found no significant errors or omissions.

24. As a result of these reviews I have concluded that the governance framework is well established and is working effectively although with some minor weaknesses. These will continue to be addressed over the coming year.

Significant Governance Issues

25. I am pleased to report that there have been no significant governance issues arising during 2012/13.

Future Improvements

27. Under the new contractual arrangements CSC are due to provide an upgraded version of CAPS during 2013. As part of this upgrade the hardware on which the system runs will be replaced and relocated to a new MOD-approved Data Centre. DR procedures will also be updated. This upgrade will provide additional functionality which will improve the efficiency of Scheme administration. In addition it will enable delivery of the new Armed Forces Pension Scheme from 2015.

28. The Independent Public Service Pensions Commission made a number of recommendations about the future governance of public service pension schemes. In particular:

- that all public sector schemes should have a properly constituted, trained and competent Pensions Board, with member nominees, responsible for meeting good standards of governance including effective and efficient administration;
- that the Government should establish a framework that ensures independent oversight of the governance, administration and data transparency of public service pension schemes;
- that the Government should introduce primary legislation to adopt a new common UK legal framework for public service schemes.

My officials are working with HM Treasury and the Pensions Regulator to consider how best these recommendations might be met in respect of the Armed Forces Pension Schemes. I intend that the Armed Forces Pension Schemes Pension Board will be created in 2014, in order to meet the Independent Public Sector Pensions Commission deadline of April 2015. The Public Service Pensions Act 2013 received Royal Assent on 25th April.

Jon Thompson
Accounting Officer for the Armed Forces Pension Scheme
and Armed Forces Compensation Scheme

1 July 2013

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Armed Forces Pension Scheme for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Combined Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against Parliamentary control totals and that those totals have not been exceeded. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2013 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2013 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London, SW1W 9SP

3 July 2013

Statement of Parliamentary Supply

Summary of Resource Outturn 2012-13

£000								2012-13	2011-12
	Estimate				Outturn			Voted outturn compared with Estimate: saving/ (excess)	Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total		
Annually Managed Expenditure									
- Resource	3	5,666,897	-	5,666,897	5,493,446	-	5,493,446	173,451	7,071,710
Total Budget		5,666,897	-	5,666,897	5,493,446	-	5,493,446	173,451	7,071,710
Non-Budget									
-Resource	3	-	-	-	-	-	-	-	-
Total		5,666,897		5,666,897	5,493,446	-	5,493,446	173,451	7,071,710

Net Cash Requirement 2012-13

£000	Note	2012-13	2012-13		2011-12
		Estimate	Outturn	Outturn compared with Estimate savings/ (excess)	Outturn
	4	2,303,511	2,253,929	49,582	1,816,738

Administration Costs 2012-13

2012-13	2012-13	2011-12
Estimate	Outturn	Outturn
-	-	-

Figures in the areas outlined in bold are voted totals or other totals subject to Parliamentary control

Analysis of net resource outturn

The figures in the Statement of Parliamentary Supply are net figures, further detail on the gross figures for income and expenditure can be found in the Statement of Comprehensive Net Expenditure on page 23.

Explanation of variances between estimate and outturn

The Outturn is less than the Estimate due, in the main, to a lower movement than anticipated in the valuation of the Armed Forces Compensation Scheme.

Explanation of the variation between estimate net cash requirement and outturn net cash requirement

The Outturn is less than the Estimate as benefits paid were lower than anticipated.

The Notes on pages 27 to 38 form part of these accounts.

Combined Statement of Comprehensive Net Expenditure

for the year to 31 March 2013

		2012-13	2011-12
	Note	£000	£000
Principal Arrangements – Armed Forces Pension Scheme			
Income			
Contributions receivable	5	(2,023,671)	(2,107,085)
Transfers in	6	(1,921)	(1,636)
Other pension income	7	(409)	-
Expenditure			
Current service cost	8	2,196,989	2,196,407
Enhancements	9	667	698
Transfers in	10	1,921	1,636
Interest on Scheme liabilities	11	5,077,295	5,591,089
Net Expenditure		5,250,871	5,681,109
Armed Forces Compensation Scheme			
Movement in provision for AFCS	18	200,093	456,369
Interest on Scheme liabilities	18	42,482	34,232
Net Expenditure		242,575	490,601
Combined Net Expenditure	3	5,493,446	6,171,710
Other Comprehensive Net Expenditure			
Recognised gains and losses for the financial year:			
Actuarial loss – Armed Forces Pension Scheme	15.7	9,242,737	1,046,322
Actuarial loss – Armed Forces Compensation Scheme	18	75,900	14,200
Total Comprehensive Net Expenditure for the year ended 31 March 2013		14,812,083	7,232,232

The Notes on pages 27 to 38 form part of these accounts.

Combined Statement of Financial Position

as at 31 March 2013

		2012-13	2011-12
	Note	£000	£000
Principal arrangements – Armed Forces Pension Scheme			
Current assets:			
Receivables	12	171,322	5,243
Cash and cash equivalents	13	49,582	92,344
Total current assets		<u>220,904</u>	<u>97,587</u>
Current liabilities:			
Payables (within 12 months)	14	(603,369)	(572,344)
Total current liabilities		<u>(603,369)</u>	<u>(572,344)</u>
Net current liabilities, excluding pension liability		<u>(382,465)</u>	<u>(474,757)</u>
Pension liability	15.4	(118,000,000)	(105,600,000)
Net liabilities, including pension liabilities		<u>(118,382,465)</u>	<u>(106,074,757)</u>
Armed Forces Compensation Scheme			
Receivables	16	95	67
Payables (within 12 months)	17	(2,694)	(2,390)
Provisions for liabilities and charges	18	(1,081,190)	(831,020)
Net liabilities		<u>(1,083,789)</u>	<u>(833,343)</u>
Combined Schemes – Total net liabilities		<u>(119,466,254)</u>	<u>(106,908,100)</u>
Taxpayers' equity:			
General fund		(119,466,254)	(106,908,100)
		<u>(119,466,254)</u>	<u>(106,908,100)</u>

Jon Thompson
Accounting Officer for the Armed Forces Pension Scheme
and Armed Forces Compensation Scheme

1 July 2013

The Notes on pages 27 to 38 form part of these accounts.

Combined Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2013

		2012-13	2011-12
	Note	<u>£000</u>	<u>£000</u>
Balance at 31 March		(106,908,100)	(101,492,606)
Net Parliamentary Funding – draw down		2,211,167	1,868,682
Net Parliamentary Funding – deemed		92,344	40,400
Consolidated Fund Standing Services		-	-
Supply payable/(receivable) adjustment	13	(49,582)	(92,344)
Excess Vote – Prior Year		-	-
Excess Vote - Appropriations-in-Aid		-	-
CFERs payable to the Consolidated Fund		-	-
Contingencies Fund Advance		200,000	340,000
Repayment to the Contingencies Fund		(200,000)	(340,000)
Combined Net Expenditure for the Year	3	(5,493,446)	(6,171,710)
Actuarial (loss) / gain – Armed Forces Pension Scheme	15.7	(9,242,737)	(1,046,322)
Actuarial (loss) / gain – Armed Forces Compensation Scheme	18	(75,900)	(14,200)
Net change in Taxpayers' Equity		(12,558,154)	(5,415,494)
Balance at 31 March		(119,466,254)	(106,908,100)

The Notes on pages 27 to 38 form part of these accounts.

Combined Statement of Cash Flows

for the year ended 31 March 2013

		2012-13	2011-12
	Note	£000	£000
Cash flows from operating activities			
Combined net expenditure for the year	3	(5,493,446)	(6,171,710)
Adjustments for non-cash transactions:			
Increase in receivables – principal arrangements	12	(166,079)	(862)
(Increase) / Decrease in receivables - AFCS	16	(28)	133
Increase in payables – principal arrangements	14	73,787	52,901
Increase / (Decrease) in payables - AFCS	17	304	(3)
Increase in pension provision	15.4	7,274,284	7,787,496
Increase in pension provision – enhancements and transfers in	15.4	2,588	2,334
Use of provisions – pension liability	15.5	(4,070,749)	(3,810,509)
Use of provisions – refunds and transfers	15.6	(48,860)	(25,643)
Increase in provisions – compensation Scheme	18	242,575	490,601
Use of provisions – compensation Scheme	18	(68,305)	(141,476)
Net cash outflow from operating activities		(2,253,929)	(1,816,738)
Cash flows from financing activities			
From the Consolidated Fund (Supply): current year		2,211,167	1,868,682
From the Contingencies Fund		200,000	340,000
Repayment to the Contingencies Fund		(200,000)	(340,000)
Net Parliamentary financing		2,211,167	1,868,682
Adjustments for payments and receipts not related to Supply:			
Payments to the Consolidated Fund		-	-
Net Financing		2,211,167	1,868,682
Net (Decrease) / Increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(42,762)	51,944
Payments of amounts due to the Consolidated Fund		-	-
Amounts due to the Consolidated Fund, received and not paid over - excess appropriations in aid relating to current year		-	-
Net Increase / (Decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	13	(42,762)	51,944
Cash and cash equivalents at the beginning of the period	13	92,344	40,400
Cash and cash equivalents at the end of the period	13	49,582	92,344

The Notes on pages 27 to 38 form part of these accounts.

Notes to the Scheme Statements

1. Basis of Preparation of the Scheme Statements

1.1 The financial statements of the combined Scheme have been prepared in accordance with the relevant provisions of the 2012-13 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. IAS 19 Employee Benefits and IAS 26 Accounting and Reporting by Retirement Benefit Plans are of particular relevance to these statements.

1.2 In addition to the primary statements prepared under IFRS, the FReM also requires the Scheme to prepare an additional statement – a Statement of Parliamentary Supply. This, and its supporting notes, show outturn against estimate in terms of the net resource requirement and the net cash requirement.

1.3 The Armed Forces Pension Scheme (AFPS) is a contracted-out, unfunded, defined benefit pay-as-you-go occupational pension Scheme operated by the Ministry of Defence (MOD) on behalf of members of the Armed Forces who satisfy certain membership criteria.

1.4 The employer's charge to the pension Scheme is met by payment of a Superannuation Contribution Adjusted for Past Experience (SCAPE), calculated as a percentage of military pay based on rank. The SCAPE contribution made by the MOD partially funds the payments made by the AFPS in year.

1.5 Funding from the Consolidated Fund is required to meet the difference between the payments to pensioners and the amounts receivable from MOD. In addition, funding is required to finance movements in working capital including increases or decreases in bank balances.

1.6 The administrative expenses (staff, office facilities, etc.) associated with the operation of the Scheme are borne by MOD and are reported in the Department's Statement of Comprehensive Net Expenditure.

1.7 The Scheme Statements summarise the transactions of the AFPS incorporating the Armed Forces Compensation Scheme (AFCS). The Statement of Financial Position shows the unfunded net liabilities of the Schemes; the Statement of Comprehensive Net Expenditure shows, amongst other things, factors contributing to the change in the net liabilities analysed between the pension cost, enhancements and transfers in, and the interest on the Schemes' liabilities. Further information about the actuarial position of the Scheme is dealt with in the Report of the Actuary, and the Scheme financial statements should be read in conjunction with that Report.

1.8 The Scheme Statements summarise the transactions of not only the AFPS but also the Reserve Forces Pension Scheme (RFPS), Gurkha Pension Scheme (GPS), Non-Regular Permanent Staff (NRPS) Pension Scheme, Full-Time Reserve Service (FTRS) Pension Scheme, several minor pension schemes and the AFCS. These are administered and managed in a similar way to the AFPS.

1.9 Members have no choice over the allocation of benefits between the lump sum and the annual pension. However, there are two forms of commutation for existing pensioners – resettlement commutation and life commutation, where the pensioner has the option to abate their pension in return for a lump sum. Members of the AFPS 05 also have the option to reverse-commute their lump sum. Benefit payments are accounted for on an accruals basis.

1.10 The Report of the Actuary, shown on pages 10 to 13, which takes account of future obligations, has been prepared by the Government Actuary's Department and should be read in conjunction with the Scheme Statements. The Report of the Actuary has been prepared using the projected accrued benefit method.

1.11 The accounting policies adopted by the Scheme are described below. They have been applied consistently in dealing with items that are considered material in relation to the Scheme Statements.

1.12 In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that "the period between formal actuarial valuations shall be four years, with

approximate assessments in intervening years". Approximate actuarial assessments in intervening years between formal valuations using updated membership data (referred to as 'roll forward data') are accepted as providing suitably robust figures for financial reporting purposes.

As set out in the Statement by the Actuary, the recognised defined benefit obligations reflected in the financial statements have been calculated using the data that was collected for an actuarial assessment as at 1 April 2008. This data has formed the basis of the defined benefit obligations first recognised in the accounts as at 31 March 2010, and has been updated each year since in accordance with accounting standards using roll forward data, including year-end 31 March 2013. To comply with the FReM, in line with our interpretation of the requirement for formal valuations every four years, a new formal valuation is due to be included in the 2013-14 accounts. Although the "as at" date of the data being used in this year's accounts is now five years old, the age, gender and rank profile of the active Scheme membership at 31 March 2013 did not differ materially compared to the position as at 1 April 2008. As a result, the use of roll forward data based on the 1 April 2008 data as described above is therefore considered to provide a sound basis for the actuarial assessment recognised in the financial statements as at 31 March 2013 and the basis for the valuation has been fully considered by management and the Audit and Risk Committee.

In undertaking this valuation, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

Formal actuarial valuations for unfunded public service pension schemes were suspended by HM Treasury whilst reforms to public service pension provisions were discussed. The Pensions Act 2013 provides a framework to enact these reforms to the AFPS, and also sets out a requirement for future actuarial valuations of the reformed pension schemes. The Treasury have now reinstated formal actuarial valuations. The next formal actuarial valuation which will be based on 31 March 2012 data will set employer and employee contribution rates in the Scheme, and will also be used to introduce an 'employer cost cap' which is intended to limit Department's exposure to future increases in pension cost.

2. Statement of accounting policies

The accounting policies contained in the FReM follow IFRS to the extent that they are meaningful and appropriate in the public sector context.

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

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Pension contributions receivable

2.2.1 Employer's normal pension contributions (SCAPE) are accounted for on an accruals basis.

2.2.2 Employees' pension contributions and Additional Voluntary Contributions (AVCs) are accounted for on an accruals basis. Contributions deducted from employees' salaries are in respect of 'in-Scheme' enhancements. Neither Free-Standing Additional Voluntary Contributions (FSAVCs) nor payments to providers of stakeholder pensions are brought into account in this statement. The associated increase in the Scheme liability is recognised as expenditure.

2.3 Transfers in

Transfers in to the Scheme in respect of individual members are accounted for as income and expenditure (representing the associated increase in the Scheme liability) on a cash basis.

2.4 Other income

Other income is accounted for on an accruals basis. To the extent that this income represents an increase in the Scheme liability, it is also reflected in expenditure.

2.5 Current service cost

The current service cost is the increase in the present value of the Scheme liabilities arising from current members' service in the current period and is recognised in the Statement of Comprehensive Net Expenditure. The cost is based on a discount rate of 2.8% real (i.e. 4.85% including inflation).

2.6 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 Statement of Comprehensive Net Expenditure on a straight line basis over the period in which increases in benefit vest.

2.7 Interest on Scheme liabilities

The interest cost is the increase during the period in the present value of the Scheme liabilities because the benefits are one period closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure. The interest cost is based on the discount rate of 2.8% real (i.e. 4.85% including inflation).

2.8 Other payments

Other payments are accounted for on an accruals basis.

2.9 Scheme liability

2.9.1 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 as at 31 March 2012 was discounted at 2.8% real (i.e. 4.85% including inflation). The discount rate changed on 31 March 2013 to 2.35% real (i.e. 4.1% including inflation) and the Scheme liability was discounted at this rate. Further details of the financial assumptions used are set out at Note 15 to these accounts and in the Report of the Actuary on pages 10 to 13.

2.9.2 Full actuarial valuations by a professionally qualified actuary are typically obtained at intervals not exceeding four years (although see note 1.12). The actuary reviews the most recent actuarial valuation at the Statement of Financial Position date and updates it to reflect current conditions.

2.10 Pension benefits payable

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

2.11 Pension payments to those retiring at their normal retirement age

A retiring member has no choice over the allocation of benefits awarded 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.

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

The AFPS is a non-contributory pension Scheme; therefore no refund will be made to members on leaving the Scheme. Members may request that the value of their service be transferred to a salary related occupational pension Scheme, or to a statutory Scheme. Transfers out of the Scheme are accounted for on a cash basis as a reduction in Scheme liability.

2.13 Lump sums payable on death in service

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

2.14 Actuarial gains and losses

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

2.15 Armed Forces Compensation Scheme

A provision is made within these accounts to provide for payments due to Scheme members in compensation for deaths and injuries, occurring on or after 6 April 2005 and which are considered to be attributable to service in the Armed Forces.

2.16 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to cash and are subject to insignificant risk of changes in value and have an original maturity of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents are stated net of bank overdrafts. Where relevant, bank overdrafts are included within payables on the Combined Statement of Financial Position, and separately disclosed within note 14.

3. Reconciliation of net resource outturn to net expenditure

		2012-13	2011-12
		Outturn	Outturn
		£000	£000
Total resource outturn in Statement of Parliamentary Supply	Budget	5,493,446	7,071,710
	Non-Budget	-	-
		5,493,446	7,071,710
Net Resource Outturn			
Add:	Non-Supply Expenditure	-	-
	Prior Period Adjustments	-	-
		-	-
Less:	Income Payable to the Consolidated Fund	-	-
	Prior Period Adjustments	-	(900,000)
		-	(900,000)
Net Expenditure in Consolidated Statement of Comprehensive Net Expenditure		5,493,446	6,171,710

4. Reconciliation of resources to net cash requirement

		Estimate	Outturn	Net Total outturn compared with Estimate: savings/ (excess)
	Note	£000	£000	£000
Net Resource Outturn	3	5,666,897	5,493,446	173,451
Accruals adjustments:				
Non cash items		(7,690,100)	(7,519,447)	(170,653)
Changes in working capital other than cash		86,196	92,016	(5,820)
Use of provision:				
Pension		4,173,345	4,119,609	53,736
Compensation Scheme		67,173	68,305	(1,132)
Net cash requirement		2,303,511	2,253,929	49,582

Statement of Comprehensive Net Expenditure – Armed Forces Pension Scheme

5. Pension contributions receivable

	2012-13	2011-12
	£000	£000
Employers	2,023,004	2,106,387
Employees:		
Purchase of additional years	667	698
	2,023,671	2,107,085

£1,972M contributions are expected to be payable to the Scheme in 2013-14.

6. Pensions transfers-in (see also Note 10)

The nature of the recruitment into the Armed Forces eliminates the opportunity for group transfers into the Scheme.

	2012-13	2011-12
	£000	£000
Individual transfers in from other Schemes	1,921	1,636
	1,921	1,636

7. Other pension income

	2012-13	2011-12
	£000	£000
Miscellaneous income (including refund of gratuities)	409	-
	409	-

8. Pension cost

	2012-13	2011-12
	<u>£000</u>	<u>£000</u>
Current service cost (see Note 15.4)	2,196,989	2,196,407
	<u>2,196,989</u>	<u>2,196,407</u>

9. Enhancements (see also Report of the Managers and Note 15.4)

	2012-13	2011-12
	<u>£000</u>	<u>£000</u>
Employees purchase of added years	667	698
	<u>667</u>	<u>698</u>

10. Transfers in – additional liability

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

	2012-13	2011-12
	<u>£000</u>	<u>£000</u>
Individual transfers in from other Schemes	1,921	1,636
	<u>1,921</u>	<u>1,636</u>

11. Interest on Scheme liabilities (see also Note 15.4)

	2012-13	2011-12
	<u>£000</u>	<u>£000</u>
Interest charge for the year	5,077,295	5,591,089
	<u>5,077,295</u>	<u>5,591,089</u>

Statement of Financial Position – Armed Forces Pension Scheme

12. Receivables

12.1 Analysis by type

Overpayments to pensioners are inherent in the nature of the Scheme. Payments to pensioners continue until notification of death is received or until non-return of a life certificate.

	2012-13	2011-12
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Overpaid pensions	4,825	3,633
Ministry of Defence – Bereavement Scholarship Scheme	-	200
Ministry of Defence – SCAPE & AVC receipts and Transfers In	165,302	143
	<u>170,127</u>	<u>3,976</u>
Amounts falling due after more than one year:		
Overpaid pensions	1,195	1,267
	<u>171,322</u>	<u>5,243</u>

12.2 Analysis by organisation

	Amounts falling due within one year		Amounts falling due after more than one year	
	2012-13	2011-12	2012-13	2011-12
	£000	£000	£000	£000
Balances with other central government bodies:				
Ministry of Defence	165,302	343	-	-
Balances with bodies external to government	4,825	3,633	1,195	1,267
Total receivables	170,127	3,976	1,195	1,267

13. Cash and cash equivalents

	2012-13	2011-12
	£000	£000
Balance at 1 April	92,344	40,400
Net change in cash balances	(42,762)	51,944
Balance at 31 March	49,582	92,344
The following balances at 31 March were held at:		
Government Banking Services	49,582	92,344
Balance at 31 March	49,582	92,344

14. Payables

14.1 Analysis by type

	2012-13	2011-12
	£000	£000
Amounts falling due within one year:		
Pensions	449,280	426,946
HM Revenue & Customs	56,772	52,300
Third party organisations	793	754
Ministry of Defence	46,819	-
Bereavement Scholarship Scheme	123	-
	553,787	480,000
Amounts issued from the Consolidated Fund for supply not spent at year end	49,582	92,344
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	-	-
	603,369	572,344

14.2 Analysis by organisation

	Amounts falling due within one year	
	2012-13	2011-12
	£000	£000
Balances with other central government bodies:		
HM Revenue & Customs	56,772	52,300
Consolidated Fund	49,582	92,344
Ministry of Defence	46,819	-
Department for Business, Innovation & Skills	123	-
Balances with bodies external to government	450,073	427,700
Total payables	603,369	572,344

15. Provisions for pension liabilities

15.1 Assumptions underpinning the provision for pension liability

The Armed Forces Pension Scheme is an unfunded defined benefit Scheme. The Report of the Actuary on pages 10 to 13 sets out the scope, methodology and results of the work the actuary has carried out.

The Scheme managers together with the actuary and the auditor have signed a Memorandum of Understanding that identifies, as far as practicable, the range of information that the Scheme managers should make available to the actuary in order to meet the expected requirements of the Scheme auditor. This information includes, but is not limited to, details of:

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

The major assumptions used by the actuary were:

	At 31 March 2013	At 31 March 2012	At 31 March 2011	At 31 March 2010	At 31 March 2009
Rate of increase on salaries*	3.95%	4.25%	4.9%	4.3%	4.3%
Inflation assumption	1.7%	2.0%	2.65%	2.75%	2.75%
Discount rate net of pension increases	2.35%	2.8%	2.9%	1.8%	3.2%
Mortality rate at age 60					
- Current Pensioners					
• Officers Men	29.2	29.0	29.2	29.1	28.6
• Officers Women	32.6	32.4	32.5	32.3	31.8
• Other Ranks Men	27.1	27.0	27.1	27.0	26.5
• Other Ranks Women	30.5	30.4	30.4	30.2	29.7
- Future Pensioners (from active status) **					
• Officers Men	31.7	31.5	31.1	31.0	30.2
• Officers Women	35.2	35.0	34.6	34.5	33.3
• Other Ranks Men	29.5	29.4	29.0	29.0	28.3
• Other Ranks Women	33.0	32.9	32.5	32.4	31.4

* The expected 2013-2015 Armed Forces pay awards (2013 1.45%, 2014 1.0%, 2015 1.0%) have been factored into the earnings assumptions as a short term adjustment to the long term rate given above.

** Life expectancies for active members have been calculated assuming members are aged 40 as at the accounting date.

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

The assumption that has the biggest impact on the amount of the reported liability is the discount rate net of price inflation. As set out in the FReM, and as required by IAS 19, the discount rate net of price inflation is based on yields on high quality corporate bonds. The rates are set out in the above table. Any decrease in the discount rate net of inflation leads to a significant increase in the reported liability.

In reality, the complexity and range of assumptions underlying the calculation of the pension liability are such that a change in one financial assumption is likely to have a knock-on effect on other financial assumptions. The Scheme managers do not consider it useful to attempt to reflect the impact of any changes in the range of assumptions, since this would result in giving a range of inherently uncertain figures. In the opinion of the Scheme managers, the actuary has used key assumptions that are the most appropriate for the Scheme in the light of current knowledge.

Analysis of the provision for pension liability

	At 31 March 2013 £Bn	At 31 March 2012 £Bn	At 31 March 2011 £Bn	At 31 March 2010 £Bn	At 31 March 2009 £Bn
Pensions in Payment	69.2	62.6	58.3	66.0	55.2
Deferred Pensions	17.2	14.4	13.8	18.3	11.6
Active Members (Past Service)	31.6	28.6	28.5	37.6	25.0
Total	118.0	105.6	100.6	121.9	91.8

15.2 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 into the future. These variables include not only the key financial assumptions noted in the table above, but also assumptions about the changes that will occur in the future in the mortality rate, the age of retirement and the age from which a pension becomes payable.

15.3 The value of the liability included on the Statement of Financial Position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rate of inflation, or increases in salaries, the value of the pension liability will increase or decrease. The managers of the Scheme 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 notes 15.7 and 15.8. The notes also disclose 'experience' gains or losses for the year, showing the amounts charged or credited for the year because events have not coincided with assumptions made for the last valuation.

15.4 Analysis of movements in the Scheme liability

	2012-13	2011-12
	£000	£000
Scheme liability as at 1 April	(105,600,000)	(100,600,000)
Current service cost (Note 8)	(2,196,989)	(2,196,407)
Interest on pension Scheme liability (Note 11)	(5,077,295)	(5,591,089)
Enhancements (Note 9)	(667)	(698)
Pension transfers in (Note 10)	(1,921)	(1,636)
	<u>(7,276,872)</u>	<u>(7,789,830)</u>
Benefits payable (Note 15.5)	4,070,749	3,810,509
Pension payments to and on account of leavers (Note 15.6)	48,860	25,643
	<u>4,119,609</u>	<u>3,836,152</u>
Actuarial (loss) / gain (Note 15.7)	(9,242,737)	(1,046,322)
Scheme liability at 31 March	(118,000,000)	(105,600,000)

15.5 Analysis of benefits paid

	2012-13	2011-12
	<u>£000</u>	<u>£000</u>
Pensions to retired employees and dependants (net of recoveries or overpayments)	3,474,565	3,241,851
Commutations and lump sum benefits on retirement	596,184	568,658
Per Combined Statement of Cash Flows	<u>4,070,749</u>	<u>3,810,509</u>

15.6 Analysis of payments to and on account of leavers

	2012-13	2011-12
	<u>£000</u>	<u>£000</u>
Individual transfers to other Schemes	48,860	25,643
Per Combined Statement of Cash Flows	<u>48,860</u>	<u>25,643</u>

15.7 Analysis of actuarial (loss) / gain

	2012-13	2011-12
	<u>£000</u>	<u>£000</u>
Experience (losses) / gains arising on Scheme liabilities	(42,737)	(746,322)
Changes in assumptions underlying the present value of Scheme liabilities	(9,200,000)	(300,000)
Per Statement of Combined Changes in Taxpayers Equity	<u>(9,242,737)</u>	<u>(1,046,322)</u>

15.8 History of experience (gains) / losses

	2012-13	2011-12	2010-11	2009-10	2008-09
Experience losses/(gains) on Scheme liabilities: (£000)	42,737	746,322	(1,505,444)	(1,728,368)	2,755,183
Percentage of the present value of the Scheme liabilities	0.04%	0.71%	(1.50%)	(1.42%)	3.00%
Losses/(gains) arising due to changes in actuarial assumptions: (£000)	9,200,000	300,000	(9,000,000)	28,100,000	(12,800,000)
Percentage of the present value of the Scheme liabilities	7.80%	0.28%	(8.95%)	23.05%	(13.94%)
Total amount recognised in Combined Statement of Comprehensive Net Expenditure: (£000)	9,242,737	1,046,322	(10,505,444)	26,371,632	(10,044,817)
Percentage of the present value of the Scheme liabilities	7.83%	0.99%	(10.44%)	21.63%	(10.94%)
Total cumulative actuarial loss/(gain): (£000)	44,534,972	35,292,235	34,245,913	44,751,357	18,379,725

Statement of Financial Position – Armed Forces Compensation Scheme

16. Receivables

	2012-13	2011-12
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Overpaid compensation	95	67
	<u>95</u>	<u>67</u>

17. Payables

	2012-13	2011-12
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Compensation	2,694	2,390
	<u>2,694</u>	<u>2,390</u>

18. Provision for liabilities and charges

Armed Forces Compensation Scheme

The Armed Forces Compensation Scheme (AFCS) was introduced from 6 April 2005 to provide compensation where service is the only or main cause of an injury, illness or death. As compensation for pain and suffering, the AFCS makes a lump sum payment for qualifying injuries and illnesses caused mainly by service. The value is determined by a tariff which has 15 levels. For more serious illnesses and injuries (within tariff levels 1-11) where a loss of earnings capacity may be expected, an ongoing Guaranteed Income Payment (GIP) is awarded.

The Scheme is required to provide for the injuries to military personnel that have occurred whilst in service. The provision reflects claims that have been made based on injuries that have occurred, including those incidents occurred but not yet reported. Military personnel have up to 7 years to make a claim under the AFCS.

Assumptions underpinning the provision for AFCS liability

As for previous years, the actuarial assumptions used in assessing liabilities for GIPs are consistent with those used for resource accounting in respect of the AFPS.

Assumptions fall into two categories, financial and demographic. The main financial assumptions adopted as prescribed by HM Treasury are set out below.

% per annum	31 March 2013	31 March 2012
Gross discount rate	4.10%	4.85%
CPI inflation	1.70%	2.00%
GIP increases	1.70%	2.00%
Discount rate net of CPI	2.35%	2.8%
Discount rate net of GIP increases	2.35%	2.8%

The key demographic assumption is in respect of mortality. The mortality assumptions adopted follow a consistent approach to the AFPS mortality assumptions for resource accounting as at 31 March 2013. The levels of future mortality improvement have been assumed in accordance with the improvements incorporated in the published 2010-based principal population projections for the United Kingdom (prepared by Office of National Statistics).

The projections have been adjusted for scheme-specific effects. Details of rank were not available, and for the purposes of determining the mortality assumption to be used it has been assumed that all the GIPs relate to other ranks rather than officers. Mortality for members is assumed to be consistent with the AFPS assumption for ill-health pensioners, and mortality for their spouses and children is assumed to be consistent with the AFPS assumption for pensioners in normal health.

Where members have been awarded a GIP but have not yet been discharged the liability has been estimated on the assumption that they are discharged on the accounting date.

For incidents incurred but not yet claimed the GIP and Lump Sum liability is estimated using the assumption that the amount to be awarded will be consistent with historical awards and rejections based on a comparable level of injury being sustained.

	2012-13	2011-12
	£000	£000
AFCS Provision		
Balance at 1 April	(831,020)	(467,695)
Use of provision in year	68,305	141,476
Interest on Scheme Liabilities	(42,482)	(34,232)
Revaluation at year end	(200,093)	(456,369)
Actuarial loss	(75,900)	(14,200)
Balance at 31 March	(1,081,190)	(831,020)
Breakdown of Balance at 31 March		
Incidents incurred but not yet claimed – Lump Sums and Guaranteed Income Payments	(230,290)	(252,920)
Guaranteed Income Payments – “In Payment”	(505,600)	(319,400)
Guaranteed Income Payments – “Underlying Entitlement”	(345,300)	(258,700)
	(1,081,190)	(831,020)

19. Financial Instruments

As the cash requirements of the Scheme are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector Scheme of a similar size. There are no material financial instruments in relation to the Scheme.

20. Losses

During the year, losses arose in 3,876 cases (2011-12; 4,818 cases). The total loss was £615,226.58 (2011-12; £727,548.08). The losses all relate to the write-off of pension overpayments. In addition, with the consent of HM Treasury, a total overpayment of £166,866.06 has been written-off in relation to 136 Pension Credit Members.

21. Related-party transactions

The Schemes fall within the ambit of the MOD, which is regarded as a related party. During the year, the Schemes received employers’ contributions (SCAPE) and employees’ contributions from MOD in respect of active members of the AFPS. These contributions totalled £2.02Bn (see Note 5), none of which were outstanding at year-end. None of the managers of the Schemes, key managerial staff or other related parties has undertaken any material transactions with the Schemes during the year.

Certain key managerial staff and members of the Management Board are members of the Scheme. The benefits they are entitled to are not different to other members of the Scheme.

22. IFRSs in issue but not yet effective

There are no IFRSs that have been issued but are not yet effective that impact on the Armed Forces Pension Scheme or Armed Forces Compensation Scheme.

Date of authorisation for issue

The accounts have been authorised for issue by the Accounting Officer on the same date as the C&AG’s Audit Certificate.



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