
Armed Forces Pension Scheme

(Incorporating the Armed Forces Compensation Scheme)

Annual Accounts 2017-18

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Annual Accounts

2017-18

(For the year ended 31 March 2018)

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Report of the Managers

This report provides a summary of the arrangements to ensure the Armed Forces Pension Scheme (AFPS) affairs are managed effectively and gives a broad outline of the major benefits offered by the individual Schemes.

1. Background to the Schemes

1.1 The Armed Forces Pension Scheme 2015 (AFPS 15)

On 1 April 2015 the AFPS 15 was introduced for all new members of the Armed Forces. All serving Service personnel who were members of an AFPS were automatically transferred to the AFPS 15, unless they qualified for Transitional Protection. The AFPS 15 is a voluntary, non-contributory, Career Average Revalued Earnings (CARE), unfunded, defined benefit, occupational pension scheme.

The Scheme rules are set out in the Armed Forces Pension Regulations Statutory Instrument Order 2014, the Armed Forces Early Departure Payment (EDP) Scheme Regulations Statutory Instrument 2014 and the Armed Forces (Transitional Provisions) Pensions Regulations Statutory Instrument 2015.

Pensions are paid immediately if an individual serves to age 60 with at least two years' qualifying service. Those who have at least two years' service who leave before age 60 will have their pensions preserved until State Pension Age. The Scheme also includes an EDP for those who leave before age 60 providing they have at least 20 years' service and are at least 40 years of age. The EDP is paid from the date of the individual's departure from the Armed Forces until State Pension Age, at which time the EDP stops and is replaced by the preserved pension. Pensions may be payable to the spouse, civil partner, partner or to eligible children. Death-in-service lump sums are payable to nominated recipients or eligible dependants.

1.2 The Armed Forces Pension Scheme 2005 (AFPS 05)

From 6 April 2005 until 31 March 2015, the AFPS 05 was the primary scheme for all new members of the Armed Forces. The Armed Forces (Pension & Compensation) Act 2004 is the primary legislation covering the AFPS 05 and the EDP Scheme 05. The AFPS 05 is a voluntary, non-contributory, final salary, unfunded, defined benefit, occupational pension scheme.

Pensions are paid immediately if an individual serves to age 55 with at least two years' qualifying service. 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 is paid from the date of the individual's departure from the Armed Forces until age 65, at which time the EDP stops and is replaced by the preserved pension. Pensions may be payable to the spouse, civil partner, partner or to eligible children. Death-in-service lump sums are payable to nominated recipients or eligible dependants.

On 1 April 2015 all active AFPS 05 members were transferred to AFPS 15, unless they qualified for Transitional Protection. Those members who transferred to the AFPS 15 had their AFPS 05 accrued pensions protected.

1.3 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 Armed Forces (Pension & Compensation) Act 2004 is the primary legislation covering the AFCS. 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.

1.4 The Armed Forces Pension Scheme 1975 (AFPS 75)

The AFPS 75 was the primary Scheme for Armed Forces personnel prior to 6 April 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 a voluntary, non-contributory, salary related, unfunded, defined benefit, occupational pension scheme. It provides immediate pension benefits to those 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 (AFAB) Scheme 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 pension 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.

On 1 April 2015 all active AFPS 75 members were transferred to AFPS 15, unless they qualified for Transitional Protection. Those members who transferred to the AFPS 15 had their AFPS 75 accrued pensions protected.

1.5 The Armed Forces Attributable Benefits (AFAB) 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, and death benefits to dependants.

1.6 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 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.

On 1 April 2015 all active FTRSPS 97 and RFPS 05 members were transferred to AFPS 15, unless they qualified for Transitional Protection. Those members who transferred to the AFPS 15 had their FTRSPS 97 and RFPS 05 accrued pensions protected.

1.7 Non Regular Permanent Staff Pension Scheme (NRPSPS)

The 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. The

NRPSPS closed to new entrants effective 31 August 2011 with any new appointments being FTRS appointments covered under the RFPS 05.

On 1 April 2015 all active NRPSPS members were transferred to AFPS 15, unless they qualified for Transitional Protection. Those members who transferred to the AFPS 15 had their NRPSPS accrued pensions protected.

1.8 Gurkha Pension Scheme (GPS)

The GPS was established by Royal Warrant in 1949. It is a voluntary, non-contributory pension scheme that 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 either the AFPS 75 or AFPS 05, from October 2007.

From 1 April 2015 all new members of the Brigade of Gurkhas have joined the AFPS 15.

1.9 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.

1.10 Further Details

Further details on the above Schemes can be found at:

<https://www.gov.uk/government/publications/armed-forces-and-reserve-forces-pension-schemes-guidance-booklets>

2. Management of the Schemes

2.1 Organisations Responsible for Managing the Schemes

The AFPS and AFCS are managed and operated by Defence Business Services (DBS), 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. This includes Comptroller and Auditor General's notional audit fee of £145k.

The Chief Executive Officer (CEO) of DBS has been designated by myself as the Departmental Accounting Officer to be the Scheme Administrator for both the AFPS and AFCS. The DBS CEO has sub-delegated the administrative management of the Schemes to DBS Head of Veterans UK. The DBS Head of Resources has been designated by the Director General Finance to be the Senior Finance Officer for both the AFPS and AFCS. In administering the AFPS and AFCS on behalf of the MOD, DBS 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 manner.

The DBS Executive Leadership Team meets regularly and is responsible for managing DBS within agreed financial limits. It has primary authority for day-to-day management of DBS. Details of the Executive Leadership Team appointments can be found in the Governance Statement on page 20.

2.2 Corporate Governance of the Schemes

The governance arrangements of the DBS, who are responsible for the administration of the Schemes, can be found in the Governance Statement on pages 18 to 26.

2.3 Arrangements Governing Determination of Contribution Rates and Benefits

Employer contributions provide funding for Scheme benefits at rates determined by the Secretary of State for Defence, taking advice from the Government Actuary's Department (GAD). The balance of funding required to meet Scheme benefits is provided by Parliament.

The last full actuarial valuation undertaken of the AFPS was as at 31 March 2012 published in February 2015. The primary purpose of the 2012 actuarial valuation was to set the employer contribution rate payable from April 2015, in light of the introduction of the new pension arrangements from 1 April 2015, and the initial employer cost cap (baseline employer cost) which is required by the Public Service Pensions Act 2013.

The next full actuarial valuation is underway using data extracted as at 31 March 2016. Once complete, it will set the employer contribution rate payable from April 2019 and consider the cost of the Scheme relative to the employer cost cap. There are provisions in the Public Service Pension Act 2013 to adjust AFPS member benefits or AFPS employer contribution rates if the cost of the Scheme as assessed under the 'cost cap' mechanism changes by more than 2% of pay. Subject to this 'employer cost cap' assessment, any required revisions to member benefits or employer contribution rates will be determined by the Secretary of State for Defence after consultation with the relevant stakeholders.

3. Key Developments In Year

3.1 Changes to Scheme Contribution Rates

The AFPS is financed through the payment of employer contributions made in respect of serving members of the Scheme. Employer contributions are set as a percentage of Pensionable Pay, and different rates apply for Officers and Other Ranks. The contribution rates were last reviewed as part of the actuarial valuation as at 31 March 2012, which set the applicable rates for the period 1 April 2015 to 31 March 2019. The contribution rate for Officers is 52.4% and for Other Ranks 49.6%. These rates are unchanged from those payable during 2016-17.

Additional employer contributions are also payable in respect of the AFCS. The rates applicable during 2017-18 were 1.0% of Pensionable Pay for Officers and 2.4% of Pensionable Pay for Other Ranks. These rates are unchanged from those payable during 2016-17.

3.2 Changes in Benefits

There have been no changes to benefits during 2017-18.

3.3 Changes in Accounting Standards

Below are a list of accounting standards issued at the reporting date but not yet effective:

IFRS 9 Financial Instruments – the effect of applying the new IFRS on the financial statements of the AFPS is not expected to be material.

IFRS 15 Revenue from Contract with Customers – there are no material balances within the AFPS financial statements affected by the changes to IFRS 15.

IFRS 16 Leases – there are no material balances within the AFPS financial statements affected by the changes to the IFRS 16.

3.4 Events after the Reporting Period

There are no adjusting or non-adjusting events after the reporting period. See note 19 to the accounts, page 46.

3.5 Membership Statistics (Movement in Year)

Due to the complexity of the AFPS, the membership data below has moved away from an 'individual' being synonymous with a 'member'. In order to show the movements within each category, the membership table shows 'Benefits' instead of 'Members'.

Individual members may be a member of more than one Scheme. A member may be entitled to more than one benefit under a Scheme.

Where a member is divorced and the ex-spouse is entitled to a proportion of the benefit, the deferred figures show both benefits when notified to AFPS post March 2006. Benefits in payment show both benefits.

Where a member has not claimed benefits within seven years of pension age, the member is out of time to claim. This is an assumption for membership reporting and actuarial valuation purposes only.

The databases used to manage Active and Deferred Members are dynamic systems that allow records to be updated retrospectively. Therefore, the opening balances in the membership table will not match to the previous year's closing balances. Active and Deferred benefits are held on a separate system to Benefits in Payment. Therefore, the movements between these categories will not reconcile due to timing differences.

The actuarial valuation includes a number of members with estimated benefits. This is due to one or more of the elements required to determine the benefit being missing from the database. This will be reviewed as part of the AFPS Membership Data Improvement Project.

The Minor Pension Schemes' membership data as at 31 March 2018, equating to 144 active members, 65 deferred members and 1,783 benefits in payment, is excluded from the membership table.

There are three groups, defined as follows:

- Active members' benefits: benefits for personnel who are in service and which are 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' benefits

	Active members brought forward from 31 March 2017	333,310
	Adjustment (see Membership Statistics note 1)	(15)
	Total active members' benefits at 1 April 2017	<u>333,295</u>
<i>Add:</i>	New entrants in year	15,927
	Transfers in	19
<i>Less:</i>	Death in service benefits	(84)
	Left active service with under two years' service and no benefits	(3,160)
	Left active service with deferred benefits	(2,655)
	Left active service and received benefits	(3,946)
	Total active members' benefits at 31 March 2018	<u>339,396</u>
	Active Full Time members at 31 March 2018	162,464
	Active Voluntary Reservist members at 31 March 2018	35,819

Deferred and unclaimed benefits

	Deferred and unclaimed benefits brought forward from 31 March 2017	478,380
	Adjustments (see Membership Statistics notes 1)	693
	Total deferred and unclaimed benefits at 1 April 2017	479,073
<i>Add:</i>	Benefits not immediately payable	2,916
	New benefit on divorce	318
<i>Less:</i>	Benefits transferred out	(188)
	Benefits taken up	(5,518)
	Benefits elapsed	(1,133)
	Death in deferment benefits	(429)
	Rejoiners	(20)
	Total deferred and unclaimed benefits at 31 March 2018	475,019
	Being:	
	Deferred benefits	456,586
	Benefits due but unclaimed	18,433
	Total deferred and unclaimed benefits at 31 March 2018	475,019
	Deferred and unclaimed members at 31 March 2018	430,926
	Deferred and unclaimed Voluntary Reservist members at 31 March 2018	2,769

Benefits in payment

	Benefits brought forward from 31 March 2017	
	- Members	354,907
	- Dependants	73,315
	Total	428,222
	Adjustments (see Membership Statistics note 1)	
	- Members	(165)
	- Dependants	6
	Total benefits at 1 April 2017	428,063
<i>Add:</i>	Benefits that became payable in the year	
	- Members	10,571
	- Dependants	4,053
<i>Less:</i>	Benefits that have ceased in the year	
	- Members	(7,064)
	- Dependants	(3,956)
	Total benefits in payment at 31 March 2018	431,667

Membership Statistics Notes

1. The brought forward balances from 31 March 2017 have been restated to account for better information obtained from the membership databases. The databases used to manage member data records are dynamic systems that allow records to be updated retrospectively. It is, therefore, accepted that the opening balances will not reconcile to the previous year's closing balances, hence the adjustment lines present in the membership table.

3.6 Financial Position as at 31 March 2018

As at 31 March 2018 the pension liability of the AFPS was valued at £195.5 billion (£191.8 billion as at 31 March 2017). The total change in liability represents a net increase of £3.7 billion, which includes an actuarial gain of £1.6 billion. The £1.6 billion consists of:

- £2.2 billion gain due to changes in actuarial assumptions; and
- £0.6 billion loss due to experience items arising on pension liabilities.

The £2.2 billion gain due to changes in actuarial assumptions includes changes in financial assumptions (£6.7 billion loss) and demographic assumptions (£8.9 billion gain).

An experience gain/loss reflects the extent to which events over the reporting period have not coincided with the actuarial assumptions made for the assessment.

A full reconciliation of the change in liability over the year is provided in note 13.4 to the accounts.

3.7 Contingencies Fund Drawdown

The scheme submitted a request for £120 million to HM Treasury to draw money from the Contingencies Fund (under section 5.14d of the Supply and Estimate Guidance manual). The funds were required to cover an expected shortfall in the net cash requirement amount as a result of pension payments payable before the additional funds requested in the Supplementary Estimate 2017–18 became available.

The funds were repaid to the Contingencies Fund in full on 27 March 2018.

3.8 Results for the Year

The 2017-18 net resource outturn was £6.984 billion which was within the voted estimate of £7.010 billion. Details can be found in the Statement of Parliamentary Supply on page 27.

In cash terms, the Scheme recorded a Net Cash Requirement (NCR) of £1.573 billion against the voted estimate of £1.644 billion, resulting in surplus cash of £0.071 billion which will be returned to the HM Treasury Consolidated Fund during 2018-19.

4. Issues Arising and Key Activities During 2017-18

4.1 National Fraud Initiative

Commencing in 1998 and on a biennial basis the AFPS takes part in the National Fraud Initiative (NFI), co-ordinated by the Cabinet Office. This initiative allows the Scheme to submit approved data to the Cabinet Office 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		2017-18		Outstanding at 31/03/2018 £000
			Recovered £000	Written-off £000	Recovered £000	Written-off £000	
NFI 2002	252	1,071	770	281	3	6	20
NFI 2004	257	426	358	66	2	0	2
NFI 2006	297	789	706	82	4	0	1
NFI 2008	175	959	902	30	17	0	27
NFI 2010	126	695	668	6	38	0	21
NFI 2012	160	768	752	0	15	0	16
NFI 2014	215	826	824	0	258	0	2
NFI 2016	108	324	284	0	284	0	40

4.2 Tell Us Once

The Tell Us Once (TUI) service allows citizens on a voluntary basis to inform central and local government of bereavement in a single engagement. This can either be at the point of registering a death with a Registrar, by telephone or via the internet. It is hosted by the Department for Work and Pensions but is a cross-government resource.

The benefit of being part of the TUI is the provision of a better service to the bereaved at a difficult time and a reduction in the number of days between the death of a pensioner and the Scheme being informed. The aim is to stop or reduce the number and value of overpayments and associated activities and costs of recovery. During 2017-18 the service provided the AFPS with 5,905 death notifications.

4.3 Membership Data Quality

In response to recommendations made by the National Audit Office and the identification of some significant weaknesses by the Defence Internal Audit, an AFPS Membership Data Improvement Project was established in 2015-16 to focus on the quality, accuracy and reliability of underlying membership data. The programme of improvement work will span a number of years with a target completion of the end of 2019-20. During 2017-18 the project reviewed several thousand member records, with some requiring corrective action, focussing on those with a higher priority scoring. The project has now reviewed some 70,000 records, 49% of the total number of records to be investigated. To date there have been no material issues identified that would undermine the actuarial valuation of the scheme. The Army, Royal Navy and RAF are also engaged with the project and are assisting in the analysis of the scheme active membership data. The Pensions Board and the Pensions Regulator also regularly review project progress.

4.4 Quality Assurance

Since the establishment of the Scheme Authority 'Quality Assurance' team in October 2016, the Scheme Authority have maximised opportunities to not only increase the amount of process reviewing that is now undertaken, but also regain some of the 'intelligent customer' knowledge that was lost when many of the caseworkers transferred to the contractor at outsourcing. Through the 'Quality Assurance' team the Scheme Authority has been able to challenge the contractor more robustly when questionable issues have arisen and work with the contractor to improve the customer experience. Focus has been placed on the quality and availability of desk instructions during 2017-18, further ensuring a consistent level of service to the customer.

4.5 Gone Away and Unclaimed Pensions

An exercise commenced during 2017-18 to contact existing pensioners for whom a 'gone away' notification has been received following a postal communication attempt. The aim is to validate the last known address held on the pension administration system, or that obtained by undertaking a detailed tracing exercise, to ensure continuing entitlement to pension. Following attempts by Veterans UK to make contact with pensioners using reliable address matches 1,116 cases were withheld, of which 579 have since been put back into payment, a 52% reinstatement rate.

A similar exercise commenced during 2017-18 to contact a number of deferred scheme members that have reached scheme pension age but have not yet claimed their pension entitlement. Using information obtained by undertaking the detailed tracing exercise, members will be advised to contact Veterans UK to claim any pension that may be due. Using information obtained by undertaking the detailed tracing exercise, 1,056 members were written to and advised to contact Veterans UK to claim any pension that may be due. As at 31 March 2018 191 pensions have been put into payment as a result of the exercise.

4.6 Changes to Contracting-Out Rules and Single Tier New State Pension

The introduction of a new Single Tier State Pension from 6 April 2016 saw the end of contracting-out for Defined Benefit occupational pension schemes. The liability for tracking and maintaining contracted-out rights, known as Guaranteed Minimum Pension (GMP), was passed to individual pension schemes with notification to withdraw support services from HMRC National Insurance Contributions Office (NICO) from December 2018. This meant the AFPS needed to begin reconciliation of contracted-out data with

HMRC's records prior to December 2018 to ensure the Scheme has full awareness of its liability at the point when the Scheme Reconciliation Service is withdrawn by HMRC.

A governed project team is working to fully effect these changes, overseen by a senior level Project Board. Since 2016 the project has put in place a GMP Database to record, track and administer GMP liabilities.

Establishing correct member data will ensure correct payments are being made, and allow any under or over payments to be identified and rectified.

In January 2018 the outcome of the Treasury Consultation on Indexation and Equalization of GMP in public service pensions was announced. It is the intention to extend the current interim solution of applying full indexation until 5th April 2021. The assessment provided by GAD of the impact to the Scheme liability for the transitional indexation protection extension to 5th April 2021 is £130 million, which has been treated as a Past Service Cost within this year's accounts (see note 6 to the accounts).

By March 2019, HMRC intend to confirm members' contracted-out benefits, relevant service dates and schemes under which these benefits are held available as part of their state pension online service.

5. Key Activities Arising for 2018-19

5.1 Life Certificate Exercise

A Life Certificate exercise will be undertaken in 2018-19 to canvass all AFPS and AFCS members residing overseas to confirm their continuing entitlement to pension and compensation benefits under the respective scheme rules. As with previously conducted exercises, failure to respond will result in the payment of pension being withheld. The exercise was originally scheduled to commence in 2017-18 but was delayed to allow Veterans UK to progress work on the 'gone away' and 'unclaimed pensions' exercises. The last Life Certificate exercise was completed in 2013-14.

6. Information for Members

6.1 Pension Increase Rate

The Pensions increase rate was 1.0% (0.0% in 2016-17) with effect from 10 April 2017 (11 April 2016).

6.2 AFPS Additional Voluntary Contributions (AVCs)

Added Pension: Under AFPS 15 Active members (including Reserves) are able to pay personal contributions in order to purchase Added Pension. This is a choice between increasing just their own benefits, or both theirs and their dependants' benefits, and can be purchased by paying a lump sum or fixed monthly payments.

Added Years: Added Years AVCs purchased prior to April 2015 will remain unchanged in accordance with the AFPS 75 and AFPS 05 rules. Service personnel will pay their AVCs and the additional years' service will be added to the individual's Scheme benefits when they leave Service.

These AVCs and their associated liabilities are recognised in these Accounts.

6.3 Freestanding Additional Voluntary Contributions (FSAVC)

Active members may contribute to a FSAVC (or other private pension arrangement). The contribution is passed to the relevant institution and is a private arrangement between the member and the institution, and as such these transactions are not recognised in these Accounts.

6.4 Stakeholder Pensions

The Stakeholder pension is a private pension. It was introduced by the Government to help people save for their retirement. Scottish Widows is currently the provider of Stakeholder pensions to the Armed Forces. The contribution is passed to the relevant institution and is a private arrangement between the member and the institution, and as such these transactions are not recognised in these Accounts.

6.5 Managers, Advisers and Employers

Managers

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7. 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.

I take personal responsibility for the Report of the Managers and Financial Statements and the judgements required for determining that they are fair, balanced and understandable. I can confirm that the Report of the Managers and Financial Statements as a whole are fair, balanced and understandable.

Stephen Lovegrove
Accounting Officer for the AFPS and AFCS

29 June 2018

Report of the Actuary for the Armed Forces Pension Scheme for Accounts for the Year Ended 31 March 2018

Introduction

1. This statement has been prepared by the Government Actuary's Department (GAD) at the request of the Ministry of Defence (MOD). It provides a summary of GAD's assessment of the scheme liability in respect of the Armed Forces Pension Scheme (AFPS) as at 31 March 2018, and the movement in the scheme liability over the year 2017-18, prepared in accordance with the requirements of Chapter 9 of the 2017-18 version of the Financial Reporting Manual.
2. The AFPS is a defined benefit scheme providing pension and lump sum benefits on retirement, death and resignation. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation.
3. The assessment has been carried out by calculating the liability as at 31 March 2016 based on the data provided as at 31 March 2016 and rolling forward that liability to 31 March 2018.

Membership data

4. Tables A to C summarise the principal membership data as at 31 March 2016 used to prepare this statement.

Table A – Active members

	Number (000s)	Total pensionable pay (pa) £ m
Males	175.3	4,966.1
Females	20.4	561.8
Total	195.7	5,527.8

Due to rounding the above totals may not equal the sum of the parts.

Table B – Deferred members

	Number (000s)	Total deferred pension* (pa) £ m
Males	368.5	908.7
Females	48.4	145.7
Total	416.9	1,054.4

* Pension amounts include the pension increase granted in April 2016.
Due to rounding the above totals may not equal the sum of the parts.

Table C – Pensions in payment

	Number (000s)	Annual pension* (pa) £ m
Males	327.2	3,396.3
Females	73.0	434.6
Total	400.2	3,830.8

* Pension amounts include the pension increase granted in April 2016.
Due to rounding the above totals may not equal the sum of the parts.

Methodology

5. The present value of the liabilities as at 31 March 2018 has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the demographic and financial assumptions applying as at 31 March 2018. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2018 was determined using the PUCM and the demographic and financial assumptions applicable at the start of the year, that is, those adopted as at 31 March 2017 in the 2016-17 accounts.
6. This statement takes into account the benefits normally provided under the scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include the cost of injury benefits (in excess of ill-health benefits). 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.

Financial assumptions

7. The principal financial assumptions adopted to prepare this statement are shown in Table D.

Table D – Principal financial assumptions

Assumption	31 March 2018	31 March 2017
	pa	pa
Nominal discount rate	2.55%	2.80%
Rate of pension increases	2.45%	2.55%
Rate of general pay increases	3.95%	4.55% from 2020/21
Rate of short-term general pay increase	n/a	1.0% pa to 2019/20
Real discount rate in excess of:		
• Pension increases	0.10%	0.24%
• Long-term pay increases	(1.35%)	(1.67)%
Expected return on assets	n/a	n/a

8. The assessment of the liabilities allows for the known pension increases up to and including April 2018.

Demographic assumptions

9. Table E summarises the mortality assumptions adopted to prepare this statement, which were derived from the specific experience of the scheme membership. The table refers to the standard mortality tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) known as the 'S2 tables' with the percentage adjustments to those tables derived from scheme experience.

Table E – Post-retirement mortality assumptions

Baseline mortality	Standard table	Adjustment
Retirements in normal health	S2PXA	110%
Current ill-health pensioners	S2PXA	110%
Future ill-health pensioners	S2PXA	110%
Dependants	S2PXA	110%

10. These assumptions are the same as those recommended for the 31 March 2016 funding valuation of the scheme, which is currently in progress. Note that the accounts as at 31 March 2017 were based on the assumptions adopted for the 2012 valuation.
11. Mortality improvements are assumed to be in line with the latest 2016-based principal population projections for the United Kingdom published by the Office for National Statistics on 26 October 2017. Note that the accounts as at 31 March 2017 were based on the previous 2014-based projections.

Liabilities

12. Table F summarises the assessed value as at 31 March 2018 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described in paragraphs 4 to 11. The corresponding figures for the previous year are shown for comparison.

Table F – Statement of Financial Position

£ billion

	31 March 2018	31 March 2017
Total market value of assets	nil	nil
Value of liabilities	195.5	191.8
Deficit	(195.5)	(191.8)
of which recoverable by employers	n/a	n/a

Accruing costs

13. The cost of benefits accrued in the year ended 31 March 2018 (the current service cost) is assessed as (for Officers) 75.0% and (for Other Ranks) 75.9% of pensionable pay, which based on pay over 2017-18 average to 75.6%.
14. For the avoidance of doubt, the actual rate of contributions payable by the employer is not the same as the current service cost assessed for the accounts. The actual employer contribution rate was determined as part of a funding valuation using different assumptions. Table G shows the average employer contributions during the year 2017-18 across officers and other ranks (including an allowance of 2% of pay for the Armed Forces Compensation Scheme) as a percentage of pensionable pay, and compares the total contributions with the current service cost assessed for the 2017-18 accounts.

Table G – Contribution rate

	2017-18 % of pay	2016-17 % of pay
Employer contributions (excluding expenses)	52.4%	52.4%
Employee contributions	0.0%	0.0%
Total contributions	52.4%	52.4%
Current service cost (expressed as a % of pay)		
- Officers	75.0%	52.6%
- Other Ranks	75.9%	51.6%

The current service cost for 2017-18 is higher than the cost in 2016-17 due to the reduction of the discount rate in excess of pension increases (CPI) from 1.37% pa as at 31 March 2016 to 0.24% pa as at 31 March 2017.

15. The key difference between the assumptions used for funding valuations and accounts is the discount rate, although price inflation and salary increases are also determined differently. The discount rate for accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.
16. The pensionable payroll for the financial year 2017-18 was £5.5 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2017-18 (at 75.6% of pay) is assessed to be £4.2 billion.
17. Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. The Government published a response to the consultation on indexation and equalisation of GMP in public service pension schemes in January 2018¹. This resulted in a past service cost in respect of these members of £0.1 billion. I am not aware of any other events that have led to a material past service cost over 2017-18.
18. I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2017-18.

Sensitivity analysis

19. The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2018 of changes to the most significant actuarial assumptions.
20. The most significant financial assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality.
21. Table H shows the indicative effects on the total liability as at 31 March 2018 of changes to these assumptions (rounded to the nearest ½%).

Table H - Sensitivity to significant assumptions

Change in assumption	Approximate effect on total liability		
Financial assumptions			
(i) discount rate*:	+½% a year	- 11.5%	- £22.5 billion
(ii) (long-term) earnings increase*:	+½% a year	+ 1.0%	+ £2.0 billion
(iii) pension increases*:	+½% a year	+ 10.0%	+ £19.5 billion
Demographic assumptions			
(iv) additional 1 year increase in life expectancy at retirement		+ 3.0%	+ £ 5.9 billion

* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

Alan Dorn FIA
Chief Actuary
Government Actuary's Department
22 May 2018

¹ <https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes>

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 accounts are prepared on an accruals basis and 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 financial year.

In preparing the accounts, 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 Secretary 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 Managing Public Money published by HM Treasury.

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 HM 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 in the context of a pension scheme. The Defence Business Services (DBS) Executive Leadership Team (ELT) have operated in accordance with the recognised precepts of good corporate governance: leadership, effectiveness, accountability and sustainability.

The Purpose of the Governance Framework

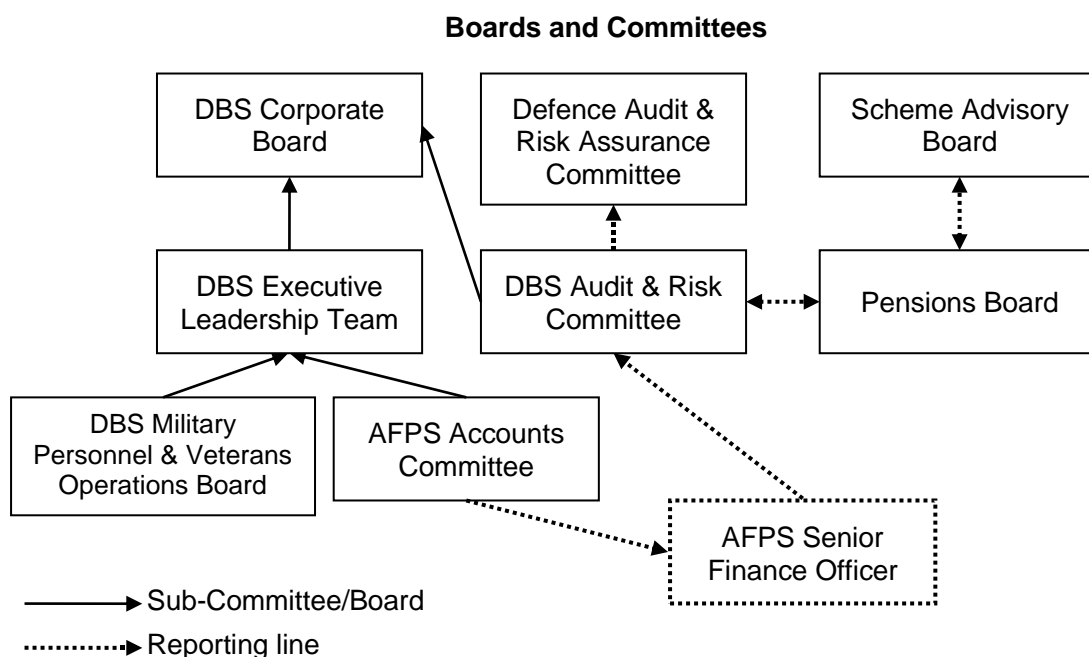
4. The governance framework comprises the systems and processes, and culture and values, by which the Schemes are administered and controlled. It also includes the activities by which they account to Parliament. The governance framework has been in place for the Schemes for the year ended 31 March 2018 and up to the date of the approval of the annual accounts.

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.

The Schemes’ Governance Framework

6. I delegated budget holder and delivery authority responsibility of the Schemes to the Chief Executive Officer (CEO) of the DBS, who sub-delegated the administrative management of the Schemes to DBS Head of Veterans UK. Director General Finance delegated the role of Senior Finance Officer (SFO) for the Schemes to DBS Head of Resources.

7. Administration of the Schemes is delivered through a combination of Ministry of Defence (MOD) civilian personnel and contractors, CSC Computer Sciences Ltd (CSC), via a commercial partnering agreement which came into effect on 11 November 2012. The arrangement for joint working with CSC is governed by commercial agreements and is managed by DBS Military Personnel & Veterans Operations Board (MP&V OB). On 3 April 2017, Computer Sciences Corporation (the parent company of CSC Computer Sciences Ltd) merged with the Enterprise Services business of Hewlett Packard Enterprise (HPE) to create DXC Technology. Effective on that date DXC Technology became the parent company of CSC Computer Sciences Ltd. The MOD remains contracted to CSC Computer Sciences Ltd and, therefore, from a contractual perspective the change had no impact to DBS and the Schemes.



8. The **DBS Corporate Board** comprises of a Non-Executive Chair, two other Non-Executive Directors (NEDs), the DBS CEO, two DBS Executive Heads and the Deputy Head of MOD Corporate Services Transformation Team. The Board oversees the conduct of business in DBS, supports and supervises the DBS executive management, leads on compliance with all applicable Government/Defence policies and governs and oversees the transformation programmes and service delivery issues. The Corporate Board is required to consider its own effectiveness on an annual basis. The Board reviewed its effectiveness during 2017-18 using a National Audit Office self-assessment questionnaire template. The results were discussed at the Board in September 2017 where it was agreed that the questionnaire was of limited value to a public-sector organisation. The importance of utilising the collective expertise and experience of the NED's was agreed. The ongoing review into the governance structures of MOD's enabling organisations will impact on the future governance arrangements of the DBS and its corporate level boards in 2018-19.

Table 1 – Composition of the DBS Corporate Board	Meetings Attended
Non-Executive Chair: Peter Shortt	5 of 5
Executive Members:	
Kathy Barnes, Chief Executive Officer	5 of 5
Tamsin Woodeson, Chief Operating Officer	3 of 5
Georgina Benzies, Head of Resources	4 of 5
Keith Dearness, (until 12 Sep 17) Deputy Head of MOD Corporate Services Transformation	3 of 3
Mark Crabtree, (from 13 Sep 17) Head of MOD Corporate Services Transformation	2 of 2
Liesl Neale, (from 19 Feb 18) Head of MOD Corporate Services Transformation	1 of 1
Non-Executive Directors:	
Paul Smith	5 of 5
Vivienne Bracken	5 of 5

9. The DBS Executive Leadership Team (ELT) is chaired by the CEO and comprises the Executive Heads of Department and the Schemes' SFO. The ELT is responsible for managing DBS within Corporate Board agreed financial limits, and is the primary authority for day-to-day management of DBS. The ELT meets once a month and convened 12 times between April 2017 and March 2018. No specific review of Committee performance was undertaken in 2017-18.

Table 2 – Composition of the DBS Executive Leadership Team	Meetings Attended
Chief Executive Officer: Kathy Barnes, (Chair)	10 of 12
Executives:	
Tamsin Woodeson, Chief Operating Officer	8 of 12
Pete Bennington, Chief Information Officer	12 of 12
Ben Kinley, Head of People Change & Development	12 of 12
Jenny Sandham, Transformation Director	12 of 12
Georgina Benzies, Head of Resources & Schemes' SFO	11 of 12
Jon Parkin, UK Security Vetting Chief Operating Officer (until 14 May 17); Head of Veterans UK (from 15 May 17)	12 of 12
Rob Rowntree, Acting Head of Veterans UK (until 14 May 17)	0 of 1
Andy Dowds, Head of Finance & Procurement Services	10 of 12
Brigadier Paul Burns, Head of Military Personnel	10 of 12
Andrew Stafford, Head of Civilian Personnel	11 of 12
Neil Watkinson, UK Security Vetting Managing Director	12 of 12

10. The **DBS Military Personnel & Veterans Operations Board (MP&V OB)**, a sub-committee of the ELT, manages the commercial agreements with CSC. The Service Delivery Management Team within DBS actively monitors the performance of CSC against over 700 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 DBS and CSC, and reported to the MP&V OB. The Board is also responsible for reviewing unit level risks on a monthly basis, with the most critical escalated to the ELT where the impacts are assessed and appropriate mitigating action taken.

11. The **AFPS Accounts Committee**, a sub-committee of the ELT, undertakes a detailed review of financial performance of the Schemes on a monthly basis. Membership of the AFPS Accounts Committee includes three ELT members: Head of DBS Resources (as Schemes' SFO), Head of Veterans UK (as Scheme Administrator) and Head of DBS Finance & Procurement Services (as an independent). Escalations and a monthly summary report from the AFPS Accounts Committee are submitted to the ELT for review, decision and endorsement.

12. The **DBS Audit & Risk Committee (ARC)**, a sub-committee of the DBS Corporate Board, comprises of two Non-Executives and one MOD Executive, and is attended by members of the ELT. The chair of the Pensions Board also has a standing invitation and attends most committees. The ARC supports the CEO in discharging her responsibilities for Risk Control and Governance by reviewing the comprehensiveness, reliability and integrity of DBS's Risk and Assurance framework, agreeing priority risk areas for Defence Internal Audit (DIA) annual programme, reviewing the outcome of work by DIA and National Audit Office (NAO) and following progress on completion of actions. The ARC reviewed the 2017-18 AFPS Accounts prior to approval by the Defence Audit Committee. The Committee met 5 times between April 2017 and March 2018.

Table 3 – Composition of the DBS Audit & Risk Committee	Meetings Attended
Non-Executive Members:	
Paul Smith (Chair)	5 of 5
Neville Mackay (until 30 Apr 18)	5 of 5
Ian Wilson (from 1 May 18)	
MOD Executive Members:	
Keith Dearness, (until 19 Sep 17)	1 of 2
Deputy Head of MOD Corporate Services Transformation Team	
Mark Crabtree, (from 7 Dec 17 until 20 Mar 18)	2 of 2
Head of MOD Corporate Services Transformation Team	
Liesl Neale, (from 20 Mar 18)	1 of 1
Head of Defence Infrastructure Governing Authority	

13. The **Defence Audit & Risk Assurance Committee (DARAC)** is responsible for making a recommendation to the Accounting Officer for approval of the AFPS Accounts prior to publication. The DARAC gains assurance on the reliability of the financial and reporting disclosures from the DBS ARC review. The DARAC comprises of a Non-Executive Chair and three other NEDs. The DARAC is also attended by the Permanent Secretary for Defence or the MOD Director General Finance, the Head of DIA and a representative from the NAO.

14. The **Scheme Advisory Board** and the **Pensions Board**. The Government introduced a framework for the governance and administration of public service pension schemes under the Public Service Pensions Act 2013, which also provides an extended regulatory oversight by The Pension Regulator. The Scheme Advisory Board is responsible for advising the Scheme Manager in relation to the desirability of changes to the Scheme. The Pensions Board is responsible for assisting the Scheme Manager with compliance of the Scheme rules and legislation relating to the governance and administration of the Scheme, including any requirements imposed by the Pension Regulator. The Pensions Board produces an Annual Report of its activities which is publicly available.

Financial Management

15. The Schemes' financial management arrangements conform to the requirements of HM Treasury as laid out in "Managing Public Money". The DBS Head of Resources is the SFO for the Schemes and is a key member of the DBS Corporate Board and the ELT. The Schemes' financial management reports provide the level of detail for effective oversight and are reviewed by the AFPS Accounts Committee on a monthly basis. CSC provides an operations dashboard of pension volumes/values which is reviewed by the MP&V OB on a monthly basis. Performance against Key Performance Indicators is reviewed by the DBS Corporate Board. Management's confidence in the financial/management information and reporting is supported through the work of these Committees/Boards and is reviewed by DIA as part of a rolling three year audit programme of the Schemes.

16. The Pensions Finance Team, with input from the Government Actuary's Department and challenge from HM Treasury and the Office of Budget Responsibility, refined future forecasts to take into account new and emerging trends, central assumptions and anticipated changes in behaviour as a result of perceived and actual changes to the Schemes. The Pensions Finance Team falls under the responsibility of DBS Head of Resources but worked closely with DBS Veterans UK throughout the financial year to ensure emerging issues were factored into in-year forecasts. Pensions Finance and Veterans UK also liaised with other major UK Public Pension Schemes throughout the year to identify best practice on a number of ongoing initiatives.

Risk Assessment

17. Risk assessment processes within DBS are in place throughout the year. Risks are identified and recorded on the business unit risk registers and are reviewed on a monthly basis by the MP&V OB. The most critical are escalated to the ELT where the impacts are assessed and appropriate mitigating action taken. The ARC has oversight of all risks raised within DBS. Any risks not capable of being

managed at Committee level would be escalated to the Chief of Defence People (CDP) and/or Director General Finance, and ultimately to me for action. No risks were escalated by DBS in 2017-18.

The Risk and Control Framework

18. A framework of internal controls within the Schemes' day to day operations (including authorisations, reconciliations and separation of duties) control the risks of fraud or error; the framework is 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 DBS Process Controls Management Team.

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

20. Oversight of the Schemes' rules and policies and advice on their application is provided by the CDP's Service Personnel Policy branch.

21. The DBS Risk Management Strategy Framework v7.0 is compliant with MOD's Directive JSP892. During this period the ELT has continued to ensure that the seven key principles have been used to underpin the way that risks are managed within DBS:

- **Nested Risks and Associated Action Plans;**
A nested approach to risk management in accordance with the DBS Risk Governance structure, ensuring risks are owned from the business (Assistant Head) level through to DBS Senior Management level, with each level taking responsibility for mitigation actions within their scope of responsibility.
- **Clear Links to Governance Approach;**
Risks are managed throughout the DBS Governance structure ensuring that responsibilities and escalation routes are clearly identified within a formalised structure. This also includes Shared (MOD/Commercial Partner) risk. Risks are standing agenda items at a variety of DBS Governance forums, including the DBS Corporate Board and ELT, as well as within the Functional Governance areas of Operations, Transformation, People and Technology. The Minutes of the Boards record Actions, Decisions and Escalations and are used as a vehicle to provide feedback to the Risk Owner/Manager and to update the Risk Register.
- **Independent Quality Assurance;**
A dedicated Risk Management Team providing oversight and implementation of the Risk Management Strategy throughout DBS. Providing assurance and guidance to individual risk owners, and ensuring a risk management culture is embedded throughout DBS.
- **Managing Risk Volumes;**
The implementation of a nested risk structure ensuring that for each governance group handling risks, the number of risks remains manageable.
- **Risk Appetite & Thresholds;**
Definition of a risk appetite statement that is also expressed as a series of boundaries in time, cost and performance, with tolerance levels allowable for risk at differing levels of the organisation.
- **Risk Aggregation;**
Pillars being responsible for escalating risks which exceed their tolerances, and the DBS Risk Manager responsible for aggregating common risks from two or more pillars which collectively exceed the tolerance.
- **Management of Strategic Risks;**
Strategic risks are identified at any time at any level of the business, and then managed at the ELT.

Fraud

22. All staff within MOD have direct access to the Fraud Incident and Irregularity Reporting Unit (FIIRU), which is the single place to report fraud, bribery, corruption, theft and irregularity within the MOD. Suspicions or concerns can be reported anonymously or confidentially to the FIIRU. Potential AFPS fraudulent claims are reported to the MOD FIIRU for investigation by the MOD Police (MDP) or Royal Military Police. DBS continues 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 12 contains details of the results of the NFI exercises since 2002.

23. An exercise to canvass all AFPS and AFCS members residing overseas and AFPS 75 widows and eligible partners (residing in the UK or overseas) to confirm their continuing entitlement to pension under the Scheme rules was last completed in 2013-14. This resulted in over 600 cases being withheld due to unreported deaths or other unreported changes in circumstances affecting pensioners' entitlement. The scheme rules in relation to widow and eligible partner entitlements changed on 1 April 2015 allowing for the retention of pension following remarriage or cohabitation. Future exercises will therefore no longer include AFPS 75 widows and eligible partners. DBS intended to undertake a new exercise during 2017-18 but this was delayed until 2018-19 to allow work to progress on the 'gone away' exercise.

24. An exercise commenced in 2017-18 to contact existing pensioners for whom a 'gone away' notification has been received following a postal communication attempt. The aim of the exercise is to validate the last known address held on the pension administration system, or that obtained by undertaking a detailed tracing exercise, to ensure continuing entitlement to pension. Following attempts by DBS to make contact with pensioners using reliable address matches 1,116 cases were withheld, of which 579 have since been put back into payment, a 52% reinstatement rate.

25. The Government's major reform of pensions from 6 April 2015 allowed members of money purchase pension schemes to access their pension pot flexibly and draw their pension savings as a lump sum rather than having to use them to buy an annuity. As part of these reforms, transfers of pension funds from unfunded public service defined benefit schemes (such as the AFPS) to schemes that permitted members to draw their pension pot flexibly were banned. The change in rules was announced in the Chancellor of the Exchequer's Autumn Statement on 3 December 2014 and prevents further transfers to non-Defined Benefit schemes. For those individuals who made a pension transfer request prior to this change, Veterans UK pensions administrators conducted due diligence checks on the receiving Scheme provider and issued an information warning about pension liberation scams and what to look for, with the application to transfer declaration forms. Despite these checks, some private pension providers were investigated for fraudulent activity by the MOD Police. The MOD Police have concluded their investigations and their findings have been submitted to the Crown Prosecution Service (CPS).

Information Assurance

26. Data is managed in accordance with the principles of HM Government's Information Assurance Maturity Model (IAMM) and Departmental Policies. The CEO is the Senior Information Risk Owner (SIRO) for DBS, with Information Asset Owners (IAOs) and DBS Risk Management (RM) Team supporting the SIRO. Information Assurance (IA) training remains a mandatory requirement. The IA team have produced additional training aids for Cyber Awareness, Security Briefing and specific IAO training and guidance.

27. The IA team continue to focus on the IA governance structure, IA risk management and upward reporting through the IAOs, DBS RM Team, SIRO, MOD Head Office & Corporate Services (HOCS) and to the MOD Chief Information Officer (CIO). Building on the identification of the information assets within DBS, Memorandum of Understandings (MOUs) are now in place with third parties and Delivery Partners responsible for handling DBS information assets and work is underway to implement a programme of assurance activity to ensure on-going protection of the information and compliance with General Data Protection Regulation (GDPR). The completion of Data Protection Impact Assessments (DPIA) across DBS is now integrated to ensure privacy by design is built into all our processing activities. IAO Steering Group meetings continue on a quarterly basis to review IA risks and allow upward reporting to the DBS SIRO and HOCS. DBS has made preparations for the new GDPR coming

into force in May 2018; including identification of what information is held, where and who has access. All existing DPIA's are being reviewed and Information Asset Registers amended to capture the additional GDPR requirements, such as the Article 30 processing purpose. A review is underway to ensure forms/letters/privacy notices reflect the GDPR/DPA18 amendments.

28. Work continues to identify areas for improvement across DBS and how Information Assurance and Security is integrated across the Organisation. The team continues to document evidence on the IA metrics dashboard against the measures under IAMM and Government Security Policy Framework (SPF). There is a scheduled plan to continue to review all IA policies and procedures during 2018-19. In addition there is also a cyber security plan and scorecard being developed and a GDPR accountability framework scorecard.

29. There were thirteen incidents reported during the year in relation to AFCS but none for AFPS:

- Eight were losses of AFCS claim forms within Veterans UK, Tomlinson House. These forms were posted using recorded mail by the claimants and received at Tomlinson House, where they were subsequently lost. These customers were notified of the loss and requested to complete new forms. The incidents were all evaluated as serious.
- One incident involved misplaced copies of NHS records for an AFCS customer after receipt at Veterans UK, Tomlinson House. As these documents were misplaced within a secure site and not in the public domain the customer was not notified. The incident was evaluated as serious as it involved personal data.
- One incident was an AFCS claim form sent to the incorrect address. The form was returned to Veterans UK by the occupant opened and re-sealed. The veteran was notified of the disclosure and the incident was evaluated as serious.
- One incident was external to DBS. Ministry of Justice (MOJ) lost an appeals response. MOJ notified DBS and the customer of the incident. DBS evaluated the incident as serious.
- One incident related to two AFCS decision notices sent on separate occasions to claimants General Practitioner (GP). The letters contained limited medical information, name, address and AFCS member number. DBS Data Protection Officer assessment was low risk due to the GP already being aware of the information.
- The final incident involved disclosure of Secret data. This data was distributed to the veteran, Royal British Legion Representative and the Pensions Appeal Tribunal without being reviewed and redacted by the data owner. When the case file was created for the veteran it was not marked as pertaining to a member of the Protected Population. This incident was evaluated as gross due to the classification of the data.

30. A full review of incident management and how/where records are held/managed at Veterans UK, Tomlinson House, where the AFCS scheme is administered, is currently being undertaken. The incident management process has been amended to incorporate the need to report all high risk incidents to the ICO within 72 hours of discovery.

Business Continuity

31. AFPS/AFCS output from DBS Norcross and Glasgow and the development and implementation of future Compensation and Pensions System (CAPS) pensions and allowances solutions at DBS Gosport, are governed by Business Continuity (BC) measures outlined in the DBS Business Continuity Management Strategy 2017-18. BC Business Impact Analysis (BIA) for the pensions teams in Glasgow were finalised in February 2018 and associated BIA for pensions operations at DBS Norcross are currently being updated in compliance with both sites BC Lifecycle annual reviews. Whole site DBS operations at Glasgow, which includes the pensions teams, last underwent BC exercise on 23 Feb 2017, those at Norcross 19 Apr 2017 and Gosport 7 Dec 2017

32. The Disaster Recovery (DR) Plan for CAPS moved to Version 5.0 on 24 November 2017 in compliance with its BC Lifecycle annual review. It is subject to annual review and test in parallel with on-going CAPS transformation and was last tested on 21 November 2017.

33. The DXC Technology Business Process Outsourcing (BPO) Service Delivery BCP is extant at Version 10.0. This plan covers the Joint Personnel Administration Centre (JPA), Enquiry Centre (EC) and back-office pension activity. The DXC Pensions Complex Team undertook a full business

functionality BC exercise on 22 February 2018 proving operations can be continued at an alternative site.

34. There were no significant BC incidents affecting pensions' delivery during 2017-18.

Review of Effectiveness

35. As Accounting Officer, I have responsibility for reviewing the effectiveness of the governance framework. My review is informed by the work of the MOD internal auditors DIA, the executive managers within the DBS who have responsibility for the development and maintenance of the internal control framework, the ARC who are responsible for risk control and governance, the DARAC who are responsible for reviewing and endorsing the year end accounts and comments made by the external auditors in their management letter and other reports.

36. During 2017-18 further opportunities were taken to improve the overall accuracy and quality of membership data and minimise financial risk. The Membership Data Improvement project has now investigated and cleared over 70,000 pieces of questionable data, 49% of the total. Veterans UK also commenced an exercise to contact a number of deferred scheme members that have reached scheme pension age but have not yet claimed their pension entitlement. Using information obtained by undertaking the detailed tracing exercise, 191 pensions have been put into payment as at 31 March 2018. In addition, Veterans UK also commenced an exercise to contact pensioners for whom a 'gone away' notification had previously been received. The results of this exercise to date are detailed in paragraph 24.

37. To raise awareness of the Scheme benefits to its members the Department launched the 'Service to Civvy' publicity campaign during 2017. The latest phase of the campaign uses external media channels to hosts videos, continually refreshing the Scheme benefits using social media platforms. It is estimated that the campaign has reached almost a million individuals. Since the launch of the campaign deferred pension claims have increased by over 3,400 (23%) when compared to the same period in the previous year.

38. To reduce the number of incorrect Death Nomination referrals to Veterans UK, an enhancements to the Tell Us Once (TUO) webpage service was introduced. The TUO webpage now includes a warning message to educate and discourage individuals from incorrectly selecting multiple Schemes. Since its introduction, incorrect notifications to the AFPS have reduced by 5%.

Internal Audit

39. The AFPS DIA programme provides a rolling year on year programme of assurance, based on a three year plan. The programme has been reviewed by the Pensions Board Chair and the DBS ARC, with progress reports regularly taken by the DBS ARC throughout 2017-18. The Head of DIA, or one of his senior managers, attends meetings of the ARC and provides expert advice on audit issues.

40. DIA has reported their Annual Audit Opinion for the AFPS as one of Substantial Assurance. This opinion is based on the audit programme undertaken, advisory work performed, attendance at key meetings, engagement with line management and other developments within DBS where they are known to be relevant.

41. DIA reported that adequate and effective internal controls were in place for the pension administration processes and governance arrangements examined. These included pension policy procedures, pension payment administration, data security and contractor oversight of the sub-contractor.

42. However, some minor weaknesses were identified relating to; the absence of clear directives in elements of the MOD Authority / contractor / sub-contractor processes; a minor overpayment where the supervisory check had not identified an error; and inconsistent / inaccurate data held on the Compensation and Pensions System (CAPS) / Joint Personnel Administration System (JPA).

Significant Governance Issues

43. Other than the ongoing work to address membership data quality, I am pleased to report that there have been no other significant governance issues arising during 2017-18. Overall I have drawn assurance from the controls in place to govern the Schemes and I am content that there has been no reduction in their effectiveness.

Future Improvements

44. Following the 'Service to Civvy' publicity campaign further enhancements to the online calculators are planned to ensure they reflect the current campaign, changing demands and address legislative changes. These upgrades will improve functionality and the efficiency of Scheme administration. The next phase of the campaign will use external media channels, focusing on feedback and volumetrics to measure success.

45. Following a review by Veterans UK of the two stage Independent Dispute Resolution Procedure (IDRP) process, a single stage IDPR process was introduced from April 2018. The aim is to achieve the right outcome at the earliest opportunity by introducing an accessible, simple and streamlined single stage IDRP process, with support from the Armed Forces Pension Board, Policy, Operational Delivery teams and external stakeholders.

46. Further opportunities will be taken to engage and communicate with serving members of AFPS and to raise awareness of the Scheme benefits. This will be achieved through targeted pension communications, including: a tri-service pension communication plan, further promotion of the 'pensions app', a holistic pension information toolkit and targeted briefing at key career professional development courses.

Summary

47. As a result of these reviews I have concluded that the Schemes have operated in line with the Corporate Governance Code for Central Government, and the governance, risk management and internal control framework is well established and working effectively although with acknowledged weaknesses. I am confident these will continue to be addressed over the coming year.

Stephen Lovegrove
Accounting Officer for the AFPS and AFCS

29 June 2018

Statement of Parliamentary Supply

Summary of Resource Outturn 2017-18

This section has been subject to audit

£000								2017-18	2016-17
	Estimate				Outturn			Voted outturn compared with Estimate: saving	Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total		
Annually Managed Expenditure	SOPS1	7,010,060		7,010,060	6,984,404		6,984,404	25,656	5,335,791
- Resource									
Total Budget		7,010,060		7,010,060	6,984,404		6,984,404	25,656	5,335,791
Non-Budget									
-Resource									
Total		7,010,060		7,010,060	6,984,404		6,984,404	25,656	5,335,791

Net Cash Requirement 2017-18

£000	Note	2017-18	2017-18		2016-17
		Estimate	Outturn	Outturn compared with Estimate: saving	Outturn
	SOPS2	1,643,841	1,573,090	70,751	1,496,740

Administration Costs 2017-18

2017-18	2017-18	2016-17
Outturn	Estimate	Outturn
-	-	-

As explained in the Report of the Managers on page 4, the costs of administering the Schemes are borne by the MOD and are reflected in the Department's Annual Report and Accounts.

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

The Notes on page 28 form part of this Statement.

Notes to the Statement of Parliamentary Supply

SOPS1. Analysis of net resource outturn by section

£000	2017-18									2016-17 Outturn
	Outturn						Estimate			
	Administration			Programme			Total	Net Total	Net total compared to Estimate	Total
	Gross	Income	Net	Gross	Income	Net				
Spending in Departmental Expenditure Limit Voted:	-	-	-	-	-	-	-	-	-	-
Non Voted:	-	-	-	-	-	-	-	-	-	-
Annually Managed Expenditure Voted:										
A: Retired pay, pensions and other payments to ex-service personnel	-	-	-	9,925,475	2,941,071	6,984,404	6,984,404	7,010,060	25,656	5,335,791
Non Voted:	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	9,925,475	2,941,071	6,984,404	6,984,404	7,010,060	25,656	5,335,791

SOPS2. Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	Estimate £000	Outturn £000	Net Total outturn compared with Estimate: savings/ (excess) £000
Net Resource Outturn	SOPS1	7,010,060	6,984,404	25,656
Accruals adjustments:				
Non cash items		(9,951,840)	(9,925,475)	(26,365)
Changes in working capital other than cash		(60,876)	(33,572)	(27,304)
Use of provision:				
Pension		4,553,226	4,459,978	93,248
Compensation Scheme		93,271	87,755	5,516
Net cash requirement		1,643,841	1,573,090	70,751

Parliamentary Accountability Disclosures

This section has been subject to audit.

Losses and Special Payments

	2017-18	2016-17
Total number of losses	3,621	2,381
Total value of losses (£'000)	3,663	306

During the period April 2000 to March 2018 a cohort of circa 1,000 pensioners were in receipt of incorrectly calculated pensions due to a misalignment between the period of service used in the pension calculation and actual entitlement. HM Treasury approval was obtained in 2017-18 to write-off the overpayments paid during this period, amounting to £3,448,207.76 in respect of 1,040 different members.

There were no individual losses greater than £300,000 or special payments during 2017-18.

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

Opinion on financial statements

I certify that I have audited the financial statements of the Armed Forces Pension Scheme (incorporating the Armed Forces Compensation Scheme), for the year ended 31 March 2018 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2018 and of its net expenditure 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 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 2018 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Armed forces Pension Scheme in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered

material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Armed Forces Pension Scheme's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Armed Forces Pension Scheme's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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. The voted Parliamentary control totals are, Departmental Expenditure Limits (Resource and Capital), Annually Managed Expenditure (Resource and Capital), Non-Budget (Resource) and Net Cash Requirement. 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.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Annual Report, other than the parts of the Parliamentary Accountability Disclosures described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the Armed Forces Pension Scheme and its environment obtained in the course of the audit, I have not identified any material misstatements in the Annual Report; and
- 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 and the parts of the Parliamentary Accountability Disclosures to be audited 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.

Sir Amyas C E Morse
Comptroller and Auditor General

06 July 2018

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

Combined Statement of Comprehensive Net Expenditure

for the year to 31 March 2018

	Note	2017-18	2016-17
		£000	£000
Principal Arrangements – Armed Forces Pension Scheme			
Income			
Contributions receivable	3	(2,940,556)	(2,957,714)
Transfers In	4	(493)	(1,918)
Other Income	5	(22)	-
Expenditure			
Current Service cost	6	4,238,468	2,926,936
Past Service cost	6	130,000	-
Enhancements	7	1,346	1,213
Transfers In	8	493	1,918
Pension financing cost	9	5,368,703	5,202,042
Net Expenditure		6,797,939	5,172,477
Armed Forces Compensation Scheme			
Movement in provision for AFCS	16	131,078	112,825
Compensation financing cost	16	55,387	50,489
Net Expenditure		186,465	163,314
Combined Net Expenditure	SOPS1	6,984,404	5,335,791
Other Comprehensive Net Expenditure			
Pension re-measurements:			
Actuarial (gain) / loss – Armed Forces Pension Scheme	13.7	(1,579,032)	42,832,900
Actuarial loss – Armed Forces Compensation Scheme	16	104,113	487,027
Total Comprehensive Net Expenditure for the year ended 31 March 2018		5,509,485	48,655,718

The Notes on pages 36 to 46 form part of these accounts.

Combined Statement of Financial Position

as at 31 March 2018

		2018	2017
	Note	£000	£000
Principal arrangements – Armed Forces Pension Scheme			
Current assets:			
Receivables	10	267,198	271,053
Cash and cash equivalents	11	70,751	12,441
Total current assets		<u>337,949</u>	<u>283,494</u>
Current liabilities:			
Payables	12	(639,578)	(551,874)
Total current liabilities		<u>(639,578)</u>	<u>(551,874)</u>
Net current liabilities, excluding pension liability		<u>(301,629)</u>	<u>(268,380)</u>
Pension liability	13.4	(195,500,000)	(191,800,000)
Net liabilities, including pension liabilities		<u>(195,801,629)</u>	<u>(192,068,380)</u>
Armed Forces Compensation Scheme			
Receivables	14	1,017	903
Payables (within 12 months)	15	(2,814)	(2,377)
Provisions for liabilities and charges	16	(2,184,839)	(1,982,016)
Net liabilities		<u>(2,186,636)</u>	<u>(1,983,490)</u>
Combined Schemes – Total net liabilities		<u>(197,988,265)</u>	<u>(194,051,870)</u>
Taxpayers' equity:			
General fund		(197,988,265)	(194,051,870)
		<u>(197,988,265)</u>	<u>(194,051,870)</u>

Stephen Lovegrove
Accounting Officer for the AFPS and AFCS

29 June 2018

The Notes on pages 36 to 46 form part of these accounts.

Combined Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2018

		2017-18	2016-17
	Note	£000	£000
Balance at 1 April		(194,051,870)	(146,892,892)
Net Parliamentary Funding – drawn down		1,631,400	1,444,145
Net Parliamentary Funding – deemed		12,441	65,036
Supply payable adjustment	12	(70,751)	(12,441)
Excess Vote – Prior Year		-	-
CFERs payable to the Consolidated Fund		-	-
Contingencies Fund Advance		120,000	438,193
Repayment to the Contingencies Fund		(120,000)	(438,193)
Combined Net Expenditure for the Year	SOPS1	(6,984,404)	(5,335,791)
Actuarial gain / (loss) – Armed Forces Pension Scheme	13.7	1,579,032	(42,832,900)
Actuarial loss – Armed Forces Compensation Scheme	16	(104,113)	(487,027)
Net change in Taxpayers' Equity		(3,936,395)	(47,158,978)
Balance at 31 March		(197,988,265)	(194,051,870)

The Notes on pages 36 to 46 form part of these accounts.

Combined Statement of Cash Flows

for the year ended 31 March 2018

		2017-18	2016-17
	Note	£000	£000
Cash flows from operating activities			
Combined net expenditure for the year	SOPS1	(6,984,404)	(5,335,791)
Adjustments for non-cash transactions:			
Decrease / (Increase) in receivables – principal arrangements	10	3,855	(21,403)
Increase in receivables - AFCS	14	(114)	(574)
Increase in payables – principal arrangements	12	29,394	10,353
Increase in payables – AFCS	15	437	854
Increase in pension provision	13.4	9,737,171	8,128,978
Increase in pension provision – enhancements and transfers in	13.4	1,839	3,131
Use of provisions – pension liability	13.5	(4,456,106)	(4,357,009)
Use of provisions – refunds and transfers	13.6	(3,872)	(8,000)
Increase in provisions – compensation Scheme	16	186,465	163,314
Use of provisions – compensation Scheme	16	(87,755)	(80,593)
Net cash outflow from operating activities		(1,573,090)	(1,496,740)
Cash flows from financing activities			
From the Consolidated Fund (Supply): current year		1,631,400	1,444,145
From the Contingencies Fund		120,000	438,193
Repayment to the Contingencies Fund		(120,000)	(438,193)
Net Financing		1,631,400	1,444,145
Net Increase / (Decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		58,310	(52,595)
Receipts due to the Consolidated Fund which are outside the scope of the Scheme's activities		-	-
Payments of amounts due to the Consolidated Fund		-	-
Net Increase / (Decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	11	58,310	(52,595)
Cash and cash equivalents at the beginning of the period	11	12,441	65,036
Cash and cash equivalents at the end of the period	11	70,751	12,441

The Notes on pages 36 to 46 form part of these accounts.

Notes to the Accounts

1. Basis of Preparation of the Scheme Financial Statements

The financial statements of the combined Scheme have been prepared in accordance with the relevant provisions of the 2017-18 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.

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 statement, and its supporting notes, shows Outturn against Estimate in terms of the net resource requirement and the net cash requirement.

The Armed Forces Pension Scheme (AFPS) is a non-contributory, 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 the membership criteria.

Contributions to the Scheme by employers are set at rates determined by the Scheme's Actuary and approved by HM Treasury. The contributions partially fund payments made by the Scheme, the balance of funding being approved by Parliament through the annual Supply Estimates process.

The administrative expenses associated with the operation of the Scheme are borne by MOD and are reported in the Department's Statement of Comprehensive Net Expenditure (SoCNE).

The financial statements of the Scheme show the financial position of the AFPS at the year end and the income and expenditure during the year. The Statement of Financial Position shows the unfunded net liabilities of the Scheme; the Statement of Comprehensive Net Expenditure shows, amongst other things, factors contributing to the change in the net liability analysed between the pension cost, enhancements and transfers in, and the Interest on the Scheme liability. 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.

The Armed Forces Compensation Scheme (AFCS) provides payments 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.

The AFCS is accounted for in the same way as the AFPS. Contributions are received by employers at rates set by the Scheme's Actuary, with the remaining balance of funding being approved by Parliament through the annual Supply Estimates process. Administration costs for the AFCS are also borne by MoD and are reported in the Department's Statement of Comprehensive Net Expenditure (SoCNE).

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 Contributions receivable

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

Employees' purchase of added years is accounted for on an accruals basis. Contributions deducted from employees' salaries are in respect of 'in-Scheme' enhancements. The associated increase in the

Scheme liability is recognised as expenditure. Neither Free-Standing Additional Voluntary Contributions (FSAVCs) nor payments to providers of stakeholder pensions are brought into account in this statement.

2.2 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.

2.3 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.

2.4 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% pa (i.e. 0.24% in excess of CPI inflation), this was 3.6% pa (1.37% in excess of CPI inflation) in 2016-17.

2.5 Past service costs

Past service costs are increases in the present value of the Scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits. Past service costs are recognised in the SoCNE on a straight line basis over the period in which increases in benefit vests.

2.6 Pension financing cost

The financing 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 financing cost is based on the discount rate of 2.8% real (i.e. 0.24% including inflation), this was 3.6% (1.37% including inflation) in 2016-17.

2.7 Other expenditure

Other payments are accounted for on an accruals basis.

2.8 Scheme liability

Provision is made for liabilities to pay pensions and other benefits in the future. The Scheme liability is measured on an actuarial basis using the projected unit credit method and as at 31 March 2017 was discounted at 2.8% pa (i.e. 0.24% in excess of CPI inflation). The discount rate as at 31 March 2018 was 2.55% pa (i.e. 0.10% in excess of CPI inflation) and the Scheme liability was discounted at this rate. Further details of the financial assumptions used are set out at Note 13 to these accounts and in the Report of the Actuary on pages 13 to 16.

Full actuarial valuations by a professionally qualified actuary are typically obtained at intervals not exceeding four years. The most recent completed actuarial valuation was carried out as at 31 March 2012. The actuary reviews the most recent actuarial valuation at the Statement of Financial Position date and updates it to reflect current conditions.

2.9 Pension benefits payable

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

2.10 Unclaimed pension benefits

Unclaimed pension benefits are accounted for as a decrease in the Scheme liability on an accruals basis for up to seven years past pension entitlement age.

2.11 Pension payments to those retiring at their normal retirement age

The allocation of benefits between lump sum and pension is set out in the Scheme regulations. 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 as long as the receiving scheme is not a funded defined contribution 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 of 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 11.

3. Contributions receivable

	2017-18	2016-17
	<u>£000</u>	<u>£000</u>
Employer	2,939,210	2,956,501
Employees:		
Purchase of added pension and years	1,346	1,213
	<u>2,940,556</u>	<u>2,957,714</u>

£2.90Bn contributions are expected to be payable to the Scheme in 2018-19.
During the year ended 31 March 2018, employer contributions represented an average of 52.4% of pensionable pay (2016-17: 52.5%).

4. Transfers-in (see also Note 8)

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

	2017-18	2016-17
	£000	£000
Individual transfers in from other Schemes	493	1,918
	493	1,918

5. Other Income

	2017-18	2016-17
	£000	£000
Other Income	22	-
	22	-

6. Service Cost

	2017-18	2016-17
	£000	£000
Current service cost (see Note 13.4)	4,238,468	2,926,936
Past service cost (see Note 13.4)	130,000	-
	4,368,468	2,926,936

7. Enhancements (see also Note 13.4)

	2017-18	2016-17
	£000	£000
Purchase of added pension and years	1,346	1,213
	1,346	1,213

8. 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.

	2017-18	2016-17
	£000	£000
Individual transfers in from other schemes	493	1,918
	493	1,918

9. Pension financing cost (see also Note 13.4)

	2017-18	2016-17
	£000	£000
Net interest on defined benefit liability	5,368,703	5,202,042
	5,368,703	5,202,042

Statement of Financial Position – Armed Forces Pension Scheme

10. Receivables

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.

	2018	2017
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Overpaid pensions	5,798	8,369
Bereavement Scholarship Scheme	283	398
Ministry of Defence – SCAPE & AVC receipts and Transfers In	241,541	243,636
Prepayments	17,424	16,536
	<u>265,046</u>	<u>268,939</u>
Amounts falling due after more than one year:		
Overpaid pensions	2,152	2,114
	<u>267,198</u>	<u>271,053</u>

11. Cash and cash equivalents

	2018	2017
	<u>£000</u>	<u>£000</u>
Balance at 1 April	12,441	65,036
Net change in cash balances	58,310	(52,595)
Balance at 31 March	<u>70,751</u>	<u>12,441</u>
The following balances at 31 March were held at:		
Government Banking Services	70,751	12,441
Balance at 31 March	<u>70,751</u>	<u>12,441</u>

12. Payables

	2018	2017
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Pensions	464,051	437,836
HM Revenue & Customs	64,591	64,843
Third party organisations	872	872
Ministry of Defence	39,313	35,882
	<u>568,827</u>	<u>539,433</u>
Amounts issued from the Consolidated Fund for supply but not spent at year end	70,751	12,441
	<u>639,578</u>	<u>551,874</u>

13. Pension Liabilities

13.1 Assumptions underpinning the pension liability

The Armed Forces Pension Scheme is an unfunded defined benefit scheme. The Government Actuary's Department carried out an assessment of the Scheme liabilities as at 31 March 2018. The Report of the Actuary on pages 13 to 16 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 key assumptions used by the Actuary were:

	At 31 March 2018	At 31 March 2017	At 31 March 2016	At 31 March 2015	At 31 March 2014
Long term rate of increase in salaries	3.95%	4.55%	4.2%	4.2%	4.5%
Inflation assumption	2.45%	2.55%	2.2%	2.2%	2.5%
Discount rate net of pension increases	0.1%	0.24%	1.37%	1.3%	1.8%
Mortality rate at age 60					
- Current Pensioners	Years	Years	Years	Years	Years
• Officers Men	26.7	29.5	29.4	29.6	29.3
• Officers Women	28.3	31.6	31.5	32.1	31.8
• Other Ranks Men	26.7	26.9	26.8	26.9	27.4
• Other Ranks Women	28.3	29.0	28.9	29.4	29.9
- Future Pensioners (from active status) *					
• Officers Men	28.8	31.7	31.0	31.9	31.6
• Officers Women	30.3	33.8	33.1	34.4	34.1
• Other Ranks Men	28.8	31.7	28.4	29.1	29.7
• Other Ranks Women	30.3	33.8	30.4	31.6	32.2

* Life expectancies for active members have been calculated from age 60 based on members aged 40 as at 31 March 2018, who will reach age 60 in 20 years' time.

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 price inflation leads to a significant increase in the reported liability.

In accordance with IAS 19 the Scheme Managers are required to undertake a sensitivity analysis for each significant actuarial assumption as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date. This analysis, including details of the methods and assumptions used

in preparing the sensitivity analyses, the limitations of these methods, and the reasons for any changes in methods and assumptions used in preparing the sensitivity analyses, are included in the analysis of the pension liability below.

13.2 Analysis of the pension liability

	At 31 March 2018 £Bn	At 31 March 2017 £Bn	At 31 March 2016 £Bn	At 31 March 2015 £Bn	At 31 March 2014 £Bn
Pensions in Payment	102.7	103.7	73.8	92.3	74.0
Deferred Pensions	33.8	32.3	23.8	25.0	22.1
Active Members (Past Service)	59.0	55.8	47.6	37.1	33.4
Total	195.5	191.8	145.2	154.4	129.5

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. The 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.

The value of the liability 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 13.7 and 13.8. 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.

13.3 Sensitivity Analysis

A sensitivity analysis for each significant actuarial assumption as at the end of the reporting period is detailed below.

The most significant assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality.

The table below shows the indicative effects on the total liability as at 31 March 2018 of changes to these assumptions (rounded to the nearest ½%).

Change in assumption		Approximate effect on total liability	
Financial assumptions			
(i)	discount rate*	+½% a year	- 11.5% £22.5 billion
(ii)	long term earnings increases*	+½% a year	+ 1.0% £2.0 billion
(iii)	pension increases*	+½% a year	+ 10.0% £19.5 billion
Demographic assumptions			
(iv)	additional 1 year increase in life expectancy at retirement		+ 3.0% £5.9 billion

* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

13.4 Analysis of movements in the Scheme liability

	2017-18	2016-17
	<u>£000</u>	<u>£000</u>
Scheme liability as at 1 April	(191,800,000)	(145,200,000)
Current service cost (Note 6)	(4,238,468)	(2,926,936)
Past service cost (Note 6)	(130,000)	-
Pension financing cost (Note 9)	(5,368,703)	(5,202,042)
Enhancements (Note 7)	(1,346)	(1,213)
Pension transfers in (Note 8)	(493)	(1,918)
	<u>(9,739,010)</u>	<u>(8,132,109)</u>
Benefits payable (Note 13.5)	4,456,106	4,357,009
Pension payments to and on account of leavers (Note 13.6)	3,872	8,000
	<u>4,459,978</u>	<u>4,365,009</u>
Actuarial gain / (loss) (Note 13.7)	1,579,032	(42,832,900)
Scheme liability at 31 March	(195,500,000)	(191,800,000)

13.5 Analysis of benefits paid

	2017-18	2016-17
	<u>£000</u>	<u>£000</u>
Pensions to retired employees and dependants (net of recoveries or overpayments)	4,060,398	3,999,748
Commutations and lump sum benefits on retirement	395,708	357,261
Total benefits paid	4,456,106	4,357,009

13.6 Analysis of payments to and on account of leavers

	2017-18	2016-17
	<u>£000</u>	<u>£000</u>
Individual transfers to other Schemes	3,872	8,000
Total payments to and on account of leavers	3,872	8,000

13.7 Analysis of actuarial gain / (loss)

	2017-18	2016-17
	<u>£000</u>	<u>£000</u>
Experience loss arising on Scheme liabilities	(620,968)	(532,900)
Changes in assumptions underlying the present value of Scheme liabilities	2,200,000	(42,300,000)
Total actuarial gain / (loss)	1,579,032	(42,832,900)

13.8 History of experience (gains) / losses

	2017-18	2016-17	2015-16	2014-15	2013-14
Experience losses / (gains) on Scheme liabilities: (£000)	620,698	532,900	(3,591,808)	4,195,339	(3,005,056)
Percentage of the present value of the Scheme liabilities	0.32%	0.28%	(2.47%)	2.72%	(2.32%)
(Gains) / Losses arising due to changes in actuarial assumptions: (£000)	(2,200,000)	42,300,000	(10,000,000)	16,800,000	11,400,000
Percentage of the present value of the Scheme liabilities	(1.13%)	22.05%	(6.89%)	10.88%	8.80%
Total amount recognised in Combined Statement of Comprehensive Net Expenditure: (£000)	(1,579,032)	42,832,900	(13,591,808)	20,995,339	8,394,944
Percentage of the present value of the Scheme liabilities	(0.81%)	22.33%	(9.36%)	13.60%	6.48%
Total cumulative actuarial loss / (gain): (£000)	101,587,315	103,166,347	60,333,447	73,925,255	52,929,916

Statement of Financial Position – Armed Forces Compensation Scheme

14. Receivables

	2018	2017
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Overpaid compensation	1,017	903
	<u>1,017</u>	<u>903</u>

15. Payables

	2018	2017
	<u>£000</u>	<u>£000</u>
Amounts falling due within one year:		
Compensation	2,814	2,377
	<u>2,814</u>	<u>2,377</u>

16. 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 injuries and illnesses (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 injuries occurred but not yet claimed. 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 2018	31 March 2017
Gross discount rate	2.55%	2.80%
CPI inflation	2.45%	2.55%
GIP increases	2.45%	2.55%
Discount rate net of CPI	0.10%	0.24%
Discount rate net of GIP increases	0.10%	0.24%

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 2018.

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.

	2017-18	2016-17
	£000	£000
AFCS Provision		
Balance at 1 April	(1,982,016)	(1,412,268)
Use of provision in year	87,755	80,593
Interest on Scheme Liabilities	(55,387)	(50,489)
Revaluation at year end	(131,078)	(112,825)
Actuarial loss	(104,113)	(487,027)
Balance at 31 March	(2,184,839)	(1,982,016)
Breakdown of Balance at 31 March:		
Incidents incurred but not yet claimed – Lump Sums and Guaranteed Income Payments	(142,239)	(158,416)
Guaranteed Income Payments – “In Payment”	(1,815,100)	(1,594,800)
Guaranteed Income Payments – “Underlying Entitlement”	(227,500)	(228,800)
	(2,184,839)	(1,982,016)

17. 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.

18. Related-party transactions

The Schemes fall within the ambit of the MOD which is regarded as a related party, and the Schemes have had various material transactions with the Department during the year.

During 2017-18, the Schemes received employer contributions (SCAPE) and employees' contributions from MOD in respect of active members of the AFPS. These contributions totalled £2.94Bn (see Note 3).

AFPS also made repayment to MOD in regards to benefits that had been paid by MOD on behalf of the AFPS. For transactions relating to 2017-18 these totalled £420.1M.

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 DBS Executive Leadership Team are members of the Scheme. The benefits they are entitled to are not different to other members of the Scheme.

19. Events after the Reporting Period

There are no adjusting or non-adjusting events after the reporting period.

20. Date of authorisation for issue

The financial statements have been authorised for issue by the Accounting officer on the same date as the C&AG's certificate.

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