



Ministry
of Defence

Armed Forces Pension Scheme Annual Report and Accounts 2019-20



Armed Forces Pension Scheme

(Incorporating the Armed Forces Compensation Scheme)

Annual Report and Accounts 2019-20

For the year ended 31 March 2020

Accounts presented to the House of Commons pursuant to Section 6(4) of the Government Resources and Accounts Act 2000

Annual Report presented to the House of Commons by Command of Her Majesty

Ordered by the House of Commons to be printed on 19 November 2020



© Crown copyright 2020

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit:

www.nationalarchives.gov.uk/doc/open-government-licence/version/3

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at: www.gov.uk/official-documents

Any enquiries regarding this publication should be sent to us at The Scheme Administrator, Defence Business Services, Tomlinson House, Norcross, Blackpool, FY5 3WP

ISBN 978-1-5286-2215-8

CCS0520627968 11/20

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office

Contents

Accountability Report

| | |
|---|----|
| Report of the Managers | 3 |
| Report of the Actuary | 22 |
| Statement of Accounting Officer's Responsibilities | 28 |
| Governance Statement | 29 |
| Statement of Parliamentary Supply | 43 |
| Notes to the Statement of Parliamentary Supply | 45 |
| Parliamentary Accountability Disclosures | 47 |
| The Certificate and Report of the Comptroller and Auditor General to the House of Commons | 48 |

Financial Statements

| | |
|--|----|
| Combined Statement of Comprehensive Net Expenditure..... | 53 |
| Combined Statement of Financial Position | 54 |
| Combined Statement of Changes in Taxpayers' Equity..... | 55 |
| Combined Statement of Cash Flows | 56 |
| Notes to the Financial Statements | 57 |



Accountability Report

Accountability Report

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.

Background to the Schemes

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 (see page 16). 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.

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.

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.

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 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.

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.

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.

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.

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.

Minor Pension Schemes

In addition to the above Schemes, the AFPS also manages several Minor Pension Schemes covering locally employed military personnel in places such as Malta, Gibraltar, Singapore, Hong Kong, Seychelles, Sri Lanka, and India/Pakistan. With the exception of Gibraltar, these schemes are now closed to new members.

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>

Corporate Governance

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.

The Chief Executive Officer (CEO) of DBS has been designated by me 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 (ELT) meets regularly and supports the DBS CEO in managing DBS within agreed financial limits, with primary authority for day-to-day management of DBS. Details of the DBS ELT appointments can be found in the Governance Statement starting on page 29.

Audit

The Comptroller and Auditor General is appointed by statute to audit these accounts and his certificate and report appears on page 48. The notional fee for the year is £145k (2018-19: £145k) and relates to the statutory audit of the Scheme's accounts. This notional fee is reflected in the Department's Annual Report and Accounts. The National Audit Office (NAO), as the Scheme's external auditors, provided no other services during the year.

Corporate Governance of the Schemes

The governance arrangements of DBS, who are responsible for the administration of the Schemes, can be found in the Governance Statement starting on page 29.

Arrangements Governing Determination of Contribution Rates and Benefits

Actuarial valuation reports set out the rate of employer contributions required to meet the cost of Scheme benefits, calculated in accordance with valuation Directions made by HM Treasury. The balance of funding required to meet Scheme benefits is provided by Parliament.

A full actuarial (funding) valuation is undertaken every four years and its purpose is to assess the liability in respect of the benefits due under the Scheme (taking into account recent demographic experience), and to recommend contribution rates payable by the employer.

The latest actuarial valuation undertaken for the AFPS was completed as at 31 March 2016. The results of this valuation set the employer contribution rate payable from 1 April 2019. The 2016 funding valuation was also expected to test the cost of the Scheme relative to the

employer cost cap set following the 2012 valuation, however, on 30 January 2019 the Government announced a pause to the cost control mechanism which was to form part of the valuation. This was due to the Court of Appeal ruling in December 2018 relating to the transitional protection offered to some members in the 2015 pension reforms. Further details, including adjustments made in relation to latest known remedy proposals, can be found on pages 16 and 17.

However, the part of the 2016 actuarial valuation which calculates the employer contribution rate required from April 2019 to meet the cost of the Scheme benefits has been completed. The employer contribution rate is 65.5% of pensionable pay from April 2019 (this is inclusive of 2% in relation to the Armed Forces Compensation Scheme).

Key Developments In Year

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.

The rates paid from 1 April 2019 to 31 March 2023 are set out in the actuarial valuation as at 31 March 2016, namely 63.5% of Pensionable Pay (a single rate applicable for both Officers and Other Ranks; an increase from the prior year rates of 52.4% and 49.6% respectively). Additional employer contributions are also payable in respect of the AFCS. The rates applicable from 1 April 2019 are 2.0% of Pensionable Pay (a single rate applicable for both Officers and Other Ranks).

Changes in Benefits

There have been no changes to benefits during 2019-20.

COVID-19

COVID-19 had no material impact on the Scheme's financial reporting for 2019-20. See page 18 for more details on the continuity of pension administration during COVID-19.

Membership Statistics

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 2020, equating to 97 active members, 101 deferred members and 1,654 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 2019 | 305,473 |
| | Adjustments (see Membership Statistics note 1) | (743) |
| | Total active members' benefits at 1 April 2019 | 304,730 |
| Add: | New entrants in the year | 19,319 |
| | Transfers in | 24 |
| | Total joiners | 19,343 |
| Less: | Death in service benefits | (118) |
| | Left active service with under two years' service and no benefits | (2,356) |
| | Left active service with deferred benefits | (18,356) |
| | Left active service and received benefits | (4,483) |
| | Total leavers/death in service | (25,313) |
| | Total active members' benefits at 31 March 2020 | 298,760 |
| | Active Full Time members at 31 March 2020 | 162,497 |
| | Active Voluntary Reservist members at 31 March 2020 | 36,033 |

Deferred and unclaimed benefits

| | | |
|--------|---|-----------------|
| | Deferred and unclaimed benefits brought forward from 31 March 2019 | 520,097 |
| | Adjustments (see Membership Statistics note 1 and 2) | (9,773) |
| | Total deferred and unclaimed benefits at 1 April 2019 | 510,324 |
| Being: | Deferred benefits | 494,165 |
| | Benefits due but unclaimed | 16,159 |
| | Total deferred and unclaimed benefits at 1 April 2019 | 510,324 |
| Add: | Benefits not immediately payable | 19,459 |
| | New benefit on divorce | 241 |
| | Total new deferred and unclaimed benefits | 19,700 |
| Less: | Benefits transferred out | (301) |
| | Benefits taken up | (7,998) |
| | Benefits elapsed | (862) |
| | Death in deferment benefits | (397) |
| | Re-joiners | (703) |
| | Total removed from deferred population | (10,261) |
| Being: | Deferred benefits | 500,119 |
| | Benefits due but unclaimed | 19,644 |
| | Total deferred and unclaimed benefits at 31 March 2020 | 519,763 |
| | Deferred and unclaimed members at 31 March 2020 | 422,237 |
| | Deferred and unclaimed Voluntary Reservist members at 31 March 2020 | 12,294 |

Benefits in payment

| | | |
|--------|---|----------------|
| | Benefits brought forward from 31 March 2019 | |
| | - Members | 362,388 |
| | - Dependants | 74,200 |
| | Total | 436,588 |
| | Adjustments (see Membership Statistics note 1) | |
| | - Members | (107) |
| | - Dependants | (31) |
| | Total benefits at 1 April 2019 | 436,450 |
| Being: | Members | 362,281 |
| | Dependants | 74,169 |
| | | 436,450 |
| Add: | Benefits that became payable in the year | |
| | - Members | 12,079 |
| | - Dependants | 4,069 |
| | Total benefits into payment | 16,148 |
| Less: | Benefits that have ceased in the year | |
| | - Members | (6,604) |
| | - Dependants | (3,040) |
| | Total benefits ceased in the year | (9,644) |
| | Total benefits in payment at 31 March 2020 | |
| | Members | 367,756 |
| | Dependants | 75,198 |
| | Total | 442,954 |

Membership Statistics Notes

1. The brought forward balances from 31 March 2019 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.
2. The brought forward difference for deferred and unclaimed members is due to a data issues that has been corrected in-year. In previous years re-joiners have been counted as both deferred and active members when they should have only been counted as active. As a result, last year's deferred brought forward total was overstated and the adjustment is required to correct the previous reporting error. In addition, the Unclaimed Pensions exercise, as detailed on page 14 in the Report of the Managers, established 1,340 cases which has previously transferred out of the scheme but for which a record was still open. These records were cleansed, leading to a further adjustment to the brought forward balance.

Performance and Position

Financial Position as at 31 March 2020

As at 31 March 2020 the pension liability of the AFPS was valued at £233.1 billion (£195.3 billion as at 31 March 2019). The total change in liability represents a net increase of £37.8 billion, which includes an actuarial loss of £32.1 billion and past service costs of £0.12 billion. The £32.1 billion consists of:

- £33.9 billion loss due to changes in actuarial assumptions; and
- £1.8 billion gain due to experience items arising on pension liabilities.

Past service costs of £0.12 billion have been recognised in 2019-20. This consists of several different elements as detailed below:

- £1.0 billion in relation to Guaranteed Minimum Pension (GMP) indexation and equalisation and the extension of the interim solution (further information provided at page 15).
- £0.04 billion in relation to a legal case in respect of spouse sex discrimination, which has a direct 'read-across' to the AFPS (further information provided at page 16).
- A negative past service cost of £0.92 billion in relation to re-assessment of the previous past service cost of £1.9 billion (recognised in 2018-19) as a result of the McCloud/Sargeant legal ruling (further information provided at page 16).

As at 31 March 2020 the compensation liability of the AFCS was valued at £2.866 billion (£2.257 billion as at 31 March 2019). The total change in liability represents a net increase of £0.609 billion, which includes an actuarial loss of £0.457 billion. The £0.457 billion consists of:

- £0.502 billion loss due to changes in actuarial assumptions; and
- £0.045 billion gain due to experience items arising on compensation liabilities.

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 the pension liability and the compensation liability over the year is provided in note 13.4 and note 16 to the financial statements respectively.

Results for the Year

The 2019-20 net resource outturn was £6.848 billion which was within the voted estimate of £7.608 billion. Details can be found in the Governance Statement starting on page 29 and the Statement of Parliamentary Supply on page 44. An explanation of the variance is provided in the SoPS1 note on page 45.

In cash terms, the Scheme recorded a Net Cash Requirement (NCR) of £1.154 billion against the voted estimate of £1.369 billion, resulting in surplus cash of £0.215 billion which will be returned to the HM Treasury Consolidated Fund during 2020-21.

Issues Arising and Key Activities During 2019-20

Tell Us Once

The Tell Us Once (TUO) 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 TUO 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 2019-20 the service provided the Scheme with 2,127 death notifications.

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 | Recovered £000 | Written-off £000 | Outstanding at 31/03/2020 £000 |
|--------------|-------------|-----------------------|----------------|------------------|--------------------------------|
| NFI 2002 | 252 | 1,071 | 772 | 281 | 17 |
| NFI 2004 | 257 | 426 | 360 | 65 | 1 |
| NFI 2006 | 297 | 789 | 707 | 82 | 0 |
| NFI 2008 | 175 | 959 | 908 | 30 | 22 |
| NFI 2010 | 126 | 695 | 676 | 6 | 13 |
| NFI 2012 | 160 | 768 | 756 | 0 | 12 |
| NFI 2014 | 215 | 826 | 826 | 0 | 1 |
| NFI 2016 | 155 | 534 | 532 | 0 | 2 |
| NFI 2018 | 40 | 178 | 110 | 0 | 68 |

Membership Data Quality

In response to recommendations made by the NAO 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 project of improvement work was split into two phases, with phase one concentrating on the bulk of member records identified for potential cleansing activity and phase two capturing records identified during phase one that were not within the original scope. Phase one has now concluded following the review of some 91,000 records. Phase two commenced during 2019-20, with some 28,000 records reviewed in total. The Army, Royal Navy and RAF have been engaged with the project, assisting in the analysis of the

Scheme active membership data. The Pensions Board and the Pensions Regulator regularly review project progress. No material issues have been identified that would undermine the actuarial valuation of the Scheme.

Quality Assurance

The Scheme Authority Audit & Assurance Team undertakes a rolling programme of assurance within the business. Its primary function is to provide an additional level of assurance, meaning there now three levels of assurance checks:

- The Commercial partner, Services Shared Services Connected Ltd (SSCL), Quality & Assurance team carry out 100% checks on all awards into payment;
- The Contract Performance Monitoring Team check accuracy on 75-100 cases per month and can impose penalties on SSCL for errors;
- The Authority's Audit & Assurance team check around 75 cases per month which include awards processed by SSCL and the MOD Authority team.

The team ensure adherence to Scheme rules and guidance as well as quality checking the accuracy of pension calculations. During 2019-20 the team have carried out 1,138 quality and assurance checks, including checks on the Commercial partner (DXC Technology Ltd were the Commercial partner up to June 2020. See page 18 for further details) and the MOD Authority Team. The checks contained 903 rolling programmed checks and 235 targeted checks on potential areas of risk/concerns identified. The value of the additional assurance checking continues to provide a platform that allows the Scheme Authority team to challenge the Commercial partners where issues are identified, and to inform process improvements and improve the customer experience.

Gone Away and Unclaimed Pensions

An exercise continued during 2019-20 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. A total of 7,107 'gone away' cases have been traced and will be issued with a life certificate to ensure ongoing entitlement applies. The issuing of life certificates was delayed due to the Covid-19 pandemic and will now commence towards the end of 2020-21.

A similar exercise continued during 2019-20 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 a detailed tracing exercise, nearly 10,000 members have been written to and advised to contact Veterans UK to claim any pension that may be due. As at 31 March 2020 589 pensions were put into payment and 1,129 claim assessments were in progress as a result of the exercise.

Life Certificate Exercise

A life certificate exercise continued during 2019-20 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. As at 31 March 2020 all certificates were issued, with 26,226 returned, a response rate of 98.1%.

Gurkha Pension Scheme Increases

Following extensive analysis of the impact of the 7th Indian Central Pay Commission and its implications for the Gurkha Pension Scheme the Government announced on 7 March 2019 increases to Gurkha pensions of between 10-34%, depending on an individual's rank and their years of service. The increases were effective from 1 January 2016 to align with the 7th Indian Central Pay Commission with recipients receiving the balance of monies due to them during 2019-20. Although paid from the AFPS, HM Treasury approved the policy on the basis that increases would be funded by the MOD up to and included the next Strategic Defence and Security Review, i.e. up to and included 2019-20. Note 5 to the financial statements discloses the total funds provided by MOD to the AFPS during 2019-20 to cover the increases, which has been classified as 'Other Income'.

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 HM Revenue & Customs (HMRC) National Insurance Contributions Office (NICO) from December 2018.

The Government published a response to the consultation on the indexation and equalisation of GMP in public service pension schemes in January 2018¹, which meant that the "interim solution" to GMP indexation was extended until 6 April 2021. A past service cost for the interim solution was included in the 2017-18 accounts.

In October 2018, the High Court published its judgment in the Lloyds Banking Group case on the equalisation of GMP and found that pensions must be equalised for the effects of unequal GMP. As the Government has committed to addressing GMP equalisation, either through provision of full indexation of pensions or conversion of GMPs, an additional liability needed to be reflected in the Scheme financial statements.

The aggregate costs of each of the above options are broadly the same, although the impact at member level will not necessarily be so. The assessment provided by GAD of the impact on the Scheme liability in respect of the additional liabilities for members reaching State Pension age after 6 April 2021 is £1.0 billion. This has been treated as a past service cost within this year's accounts (see note 6 to the financial statements).

HMRC is expected to provide further general guidance on GMP equalisation and, at this stage, the approach for GMPs across public service schemes has not been fully confirmed.

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

The changes involved in introducing the new Single Tier State Pension are now fully embedded in AFPS processes, with an electronic system in place to track and maintain contracted-out rights, including GMP. Reconciliation of contracted out data and GMP liabilities between HMRC and MOD is now drawing to a close; this work ensures that both occupational and State pension will be paid accurately, to correct members. Establishing correct member data will also allow any under or over payments to be identified and corrected going forward.

Reconciliation has identified several historical financial inaccuracies in relation to Contribution Equivalent Premiums and National Insurance categories. These are currently being investigated to determine corrective action, to ensure the relevant members receive the correct entitlement from HMRC and MOD.

Freedom to Marry Legal Case - Langford

On the 17 July 2019 the Court of Appeal found in favour of the partner of a deceased Military Officer who was seeking to claim under the AFCS, holding that the rule claimed against is discriminatory, and that the foundation for the discrimination is not reasonable in this case. Accordingly, the discrimination is unlawful and cannot be justified or proportionate in the partner's case.

The Military Officer died in 2011 and the partner was deemed ineligible for AFCS death benefits, as she was not in an exclusive relationship with the Officer, having not divorced her previous spouse at the time of the Officer's death. AFCS Article 30(c) states that one of the criteria for determining a "surviving adult dependent" is that the couple "were not prevented from marrying or forming a civil partnership". As a result, The Secretary of State (SoS) for Defence refused the claim.

The Court of Appeal judgement states that the judgement only applies to the Langford case. Following advice from Legal Counsel and MOD lawyers there are no plans to amend the AFPS or AFCS rules, with the settlement being paid directly by the MOD (rather than the Scheme itself). Therefore, the Contingent Liability disclosed in the 2018-19 AFPS accounts has not materialised as there is no ongoing obligation for similar cases.

Events after the Reporting Period

Transitional Protection Legal Case - McCloud and Sargeant

In 2015 the Government introduced reforms to public sector pensions (Hutton Report published in 2011, Public Service Pensions Act 2013 enacted the pensions reforms), meaning most public sector workers were moved into new career average pension arrangements in April 2015. Transitional protection was provided to members of the previous final salary arrangements based on their age at 1 April 2012 allowing them to continue in their existing arrangements and receive benefits from it, rather than transfer to the 2015 arrangements.

In December 2018, the Court of Appeal held that transitional protection provisions contained in reformed judicial and firefighter pension schemes, introduced as part of public service pension reforms in 2015, gave rise to direct age discrimination and were therefore unlawful. The Supreme Court issued a decision in June 2019 rejecting the Government's application for permission to appeal.

In line with other public service pension schemes the AFPS considered the potential impact of the outcome on the Scheme and, as a result, provided a Past Service Cost in 2018-19 of £1.9 billion.

Following legal advice received by HM Treasury in July 2020, the Government launched a consultation on changes to public service pensions to remove discrimination arising from the transitional protection arrangements that were introduced when the schemes were reformed in 2014-15. The consultation document sets out that the changes should apply to all members who were in service on both 31 March 2012 and 1 April 2015, including those with a break in service of less than five years. This represents a change in the approach from the calculations for the 2018-19 accounts, which assumed the case would affect all members who were in service on 1 April 2015.

Therefore, the past service cost in 2018-19 and the projected 2019-20 service cost have been revisited based on the above changes set out in the consultation in the 2019-20 accounts.

The impacts of the proposed changes have been reflected in these financial statements as a reduction in the past service costs of £920 million.

Spouse Sex Discrimination Legal Case - Goodwin

Following the Walker v Innospec Supreme Court ruling in 2017, the government decided that, in public service pension schemes, surviving male same-sex and female same-sex spouses and civil partners of public service pension scheme members should generally receive benefits equivalent to those received by widows of opposite sex marriages.

Following a claim received at the end of 2019 by the Teachers' Pension Scheme, a case brought in the Employment Tribunal against the Secretary of State for Education in spring 2020 highlighted that these changes may lead to direct sexual orientation discrimination within the Teachers' Pension Scheme (England & Wales), where male survivors of female scheme members remained entitled to a lower survivor benefit than a comparable same-sex survivor.

The Government announced on 20 July 2020 that it had concluded that changes are required to the Teachers' Pension Scheme (England & Wales) to address this discrimination, and that the Government believes that this difference in treatment will also need to be remedied in other public service pension schemes across the UK, where the husband or male civil partner of a female scheme member is in similar circumstances. This case has read across to the AFPS and has resulted in a past service cost of £0.04 billion being recognised in 2019-20.

Key Activities Arising for 2020-21

Future Service Delivery Contract - Shared Services Connected Ltd (SSCL)

In December 2019 SSCL were awarded the follow-on contract to provide the services to DBS delivered by DXC Technology Ltd. SSCL assumed responsibility for the administration of the Schemes from 1 June 2020 (with existing DXC Technology Ltd staff transferring over to SSCL from this date). After the primary focus of ensuring a smooth transition of existing members services, attention will be turned to a challenging three year transformation programme. The change portfolio will focus on administration improvements aimed at enhancing the member's experience, ultimately realising self-service capabilities. During 2020-21 the programme will focus on the migration of all pensions records on to a single IT platform, necessitating full cleansing of data to prepare for the future self-service aspiration.

COVID-19 - Continuity of Pension Scheme Administration

The enforced closure of the AFPS administration office in Glasgow as a result of COVID-19, resulted in a small contingent of DXC Technology (now SSCL) personnel being very quickly reinstated as an emergency force to maintain pension payments and urgent pension awards. As safer working methods were agreed and deployed, those numbers grew steadily back to full strength by the first week of August 2020.

During this time of reduced manpower, prioritisation of pension payments to current members, new retirements and bereavements were made the main focus. Other urgent requests made by individual members were also dealt with and over time, as resource increased, other aspects of routine administration were brought back online. A service has been maintained throughout the COVID-19 disruption, albeit at times outside the contractually agreed timescales.

Most pension operation processes require access to the physical site in Glasgow but where possible, laptops were sourced and a small contingent of staff successfully worked from home. With reduced numbers now deployed on site adhering to two metre isolation rules, a mixed pattern of office and homeworking has been maintained.

The transition from DXC Technology to SSCL as the primary contractor on 1 June 2020 during the middle of the COVID-19 disruption had no material impact on the pension operation services being managed. The contracting of new change items and the onset of the transformation programme were however impacted and rescheduled following full personnel return.

COVID-19 had no material impact on the Scheme's financial reporting for 2019-20.

Information for Members

Pension Increase Rate

The Pensions increase rate for 2019-20 was 2.4% (3.0% in 2018-19) with effect from 8 April 2019 (9 April 2018). The Pension increase rate for 2020-21 is 1.7%, effective from 7 April 2020.

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.

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.

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.

Managers, Advisers and Employers

Managers

Accounting Officer:

Sir Stephen Lovegrove KCB
Permanent Secretary of State for Defence
Ministry of Defence
Whitehall
London SW1A 2HB

Director General Finance:

Charlie Pate
Ministry of Defence
Whitehall
London
SW1A 2HB

AFPS & AFCS Administrator:

Kathy Barnes
Chief Executive Officer
Defence Business Services
Ministry of Defence
Abbey Wood North
Bristol BS34 8JH

Pension Policy:

Brigadier Paul Griffiths
Head of Remuneration
Ministry of Defence
Whitehall
London SW1A 2HB

Advisers

Scheme Actuary:

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

Bankers:

Government Banking Service
Southern House
Wellesley Grove
Croydon CR9 1WW

Legal Advisors:

Government Legal Department
1 Kemble Street
London
WC2B 4TS

Medical Advisors:

Medical Services Team
Defence Business Services
Tomlinson House, Norcross
Thornton-Cleveleys FY5 3WP

Auditor:

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

AFPS Pensions Board Chair:

Robert Branagh
Ministry of Defence
Whitehall
London SW1A 2HB

Minister:

Minister for Defence People and Veterans

Employer:

Ministry of Defence

Further information

Any enquiries should be addressed to:

Post:

AFPS

Veterans UK
Mail Point 480, Kentigern House
65 Brown Street
Glasgow, G2 8EX

AFCS

Veterans UK
Tomlinson House, Norcross
Thornton-Cleveleys
FY5 3WP

Email: DBS-PensionsHelpDesk@dbspv.mod.uk

Phone: 0800 085 3600

Veterans-UK@mod.gov.uk

0808 1914 218

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.

Sir Stephen Lovegrove, KCB
Accounting Officer
9 November 2020

Report of the Actuary

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 2020, and the movement in the scheme liability over the year 2019-20, prepared in accordance with the requirements of Chapter 9 of the 2019-20 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 2019 based on the data provided as at 31 March 2019 and rolling forward that liability to 31 March 2020.

Membership data

4. Tables A to C summarise the principal membership data as at 31 March 2019 used to prepare this statement.

Table A – Active members

| | Number thousands | Total pensionable pay* (p.a.) £ millions |
|----------------|---------------------|---|
| Males | 169 | 5,105 |
| Females | 21 | 612 |
| Total | 190 | 5,717 |

* Pensionable pay is the full-time equivalent figure.
Due to rounding the totals in the above table may not equal the same of the parts.

Table B – Deferred members

| | Number thousands | Total deferred pension* (p.a.) £ millions |
|----------------|---------------------|--|
| Males | 374 | 975 |
| Females | 49 | 160 |
| Total | 423 | 1,135 |

* Pension amounts include the pension increase granted in April 2019
Due to rounding the totals in the above table may not equal the same of the parts.

Table C – Pensions in payment

| | Number thousands | Annual pension* (p.a.) £ millions |
|---------------------------------|---------------------|--------------------------------------|
| Males | 331 | 3,739 |
| Females | 15 | 132 |
| Spouses & dependents | 60 | 369 |
| Total | 405 | 4,240 |

* Pension amounts include the pension increase granted in April 2019
Due to rounding the totals in the above table may not equal the same of the parts.

Methodology

5. The present value of the liabilities as at 31 March 2020 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 2020. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2020 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 2019 in the 2018-19 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 2020 p.a. | 31 March 2019 p.a. |
|---|-----------------------|-----------------------|
| Nominal discount rate | 1.80% | 2.90% |
| Rate of pension increases | 2.35% | 2.60% |
| Rate of general pay increases | 4.10% | 4.10% |
| Rate of short-term general pay increase | n/a | n/a |
| Real discount rate in excess of: | | |
| • Pension increases | (0.50)% | 0.29% |
| • Long-term pay increases | (2.20)% | (1.15)% |
| 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 2020.

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 |
|-------------------------------|----------------|------------|
| Males | | |
| Retirements in normal health | S2PMA | 110% |
| Current ill-health pensioners | S2PMA | 110% |
| Future ill-health pensioners | S2PMA | 110% |
| Dependants | S2PMA | 110% |
| Females | | |
| Retirements in normal health | S2PFA | 110% |
| Current ill-health pensioners | S2PFA | 110% |
| Future ill-health pensioners | S2PFA | 110% |
| Dependants | S2PFA | 110% |

10. These assumptions in table E above are the same as those adopted for the 31 March 2016 funding valuation of the scheme and the accounts as at 31 March 2019.
11. As per the 2018-19 accounts, future improvements in mortality for the 2019-20 accounts are assumed to be in line with the 2016-based principal population projections published by the Office for National Statistics (ONS). Mortality improvements are now assumed to be in line with the latest 2018-based projections for the United Kingdom published by the ONS in October 2019, which leads to a reduction in life expectancies.

Liabilities

12. Table F summarises the assessed value as at 31 March 2020 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. The liabilities at 31 March 2019 and 2020 both include an allowance for the higher cost of benefits accruing under McCloud.

Table F – Statement of Financial Position

| | 31 March 2020 £ billion | 31 March 2019 £ billion |
|--|----------------------------|----------------------------|
| Total market value of assets | nil | nil |
| Value of liabilities | 233.1 | 195.3 |
| Surplus/(Deficit) | (233.1) | (195.3) |
| of which recoverable by employers | n/a | n/a |

Accruing costs

13. The cost of benefits accrued in the year ended 31 March 2020 (the current service cost) is assessed as 80.9% of pensionable pay.
14. For the avoidance of doubt, the actual rate of employer contributions payable is not the same as the current service cost assessed for the accounts. Members do not contribute to the Scheme. The actual employer contribution rate was determined as part of a funding valuation using different assumptions. Table G shows the employer and employee contributions during the year 2019-20 as a percentage of pensionable pay and compares the total contributions with the current service cost assessed for the 2019-20 accounts.

Table G – Contribution rate

| | 2019-20 % of pay | 2018-19 % of pay |
|---|---------------------|---------------------|
| Employer contributions (excluding expenses) | 63.5% | 50.4% |
| Employee contributions (average) | 0.0% | 0.0% |
| Total contributions | 63.5% | 50.4% |
| Current service cost (expressed as a % of pay) | 80.9% | 76.5% |

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 2019-20 was £5.8 billion (derived from employer contributions payable over the year), £5.7 billion in 2018-19. Based on this information, the accruing cost of pensions in 2019-20 (at 80.9% of pay) is assessed to be £4.7 billion. This includes an allowance for the higher cost of benefits accruing over the year under McCloud.

17. Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. A past service cost of £1.0 billion has been determined in respect of the additional liabilities for the indexation and equalisation of Guaranteed Minimum Pensions (GMP) in public service pension schemes for members reaching State Pension age after 6 April 2021. We have also included a past service cost of £0.04 billion in respect of a legal challenge regarding survivor benefits provided in public service schemes. A negative past service cost of £0.92 billion has been determined in respect of the change of scope of members covered by the McCloud judgement. I am not aware of any other events that have led to a material past service cost over 2019-20.
18. I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2019-20.

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 2020 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 2020 of changes to these assumptions (rounded to the nearest 0.5%).

Table H – Sensitivity to significant assumptions

| Change in assumption | Approximate effect on total liability | | |
|--|---------------------------------------|---------|-----------------|
| Financial assumptions | | | |
| (i) discount rate*: | +0.5% p.a. | - 10.5% | - £24.6 billion |
| (ii) (long-term) earnings increase*: | +0.5% p.a. | + 1.0% | + £2.3 billion |
| (iii) pension increases*: | +0.5% p.a. | + 10.5% | + £24.6 billion |
| Demographic assumptions | | | |
| (iv) additional 1 year increase in life expectancy at retirement | | + 3.5% | + £8.2 billion |

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

Covid-19 implications

22. The 2019-20 Resource Accounts are being produced at a time when the UK is in the midst of dealing with the Covid-19 pandemic. I have considered the potential implications of how this pandemic could impact on the actuarial calculations required for the Resource Accounts.

23. The assumptions for the discount rate and pension increases are specified by HM Treasury in the PES (2019) 11 Revised, dated 6 December 2019, and remain unchanged for these accounts. The PES assumptions reflect market conditions at the previous 30 November and are typically not amended for any changes between November and the accounting date.
24. The long-term salary assumption is set by MOD having taken actuarial advice, and is intended to be an average over the future careers of scheme members, with a recognition that increases in any particular year may be lower or higher than the assumption. The increase in the amount of Government debt being taken on to pay for its response to the Covid-19 pandemic is likely to affect salary growth. However, at this stage, it is too early to speculate on the potential impacts for the long-term salary growth. Therefore, I do not believe there is any information to justify changing the salary assumption.
25. The current population mortality projections make no specific allowance for the impact of Covid-19 or any other pandemics. The starting rates of mortality improvement are based on projections of past trends in UK mortality and the effects of past pandemics will already be reflected in these trends. In general, the effects of pandemics on mortality rates are usually expected to be short term, with rates going back to what they would have been before the pandemic after a year or two, unless the pandemic remains over several years. My view is that it is too early in the pandemic to determine whether Covid-19 changes the long-term view of life expectancy in the UK. It is therefore not unreasonable to retain the existing mortality assumptions. A death rate from Covid-19 in excess of that already allowed for in the mortality assumptions would emerge as an experience gain over the next year's accounts.

Joanne Rigby FIA

Actuary

Government Actuary's Department

31 July 2020

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 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 Government Financial Reporting Manual, have been followed or disclose and explain any material departures in the Accounts;
- Prepare the Accounts on a going concern basis; and,
- Confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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.

Governance Statement

Scope of responsibility

As the Accounting Officer for the Armed Forces Pension Scheme (AFPS) and the Armed Forces Compensation Scheme (AFCS), collectively “the Schemes”, I am required to provide assurances about the stewardship of the Schemes. These assurances are provided in this Governance Statement, in line with HM Treasury guidance. I also 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.

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.

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

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 2020 and up to the date of the approval of the annual accounts.

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.

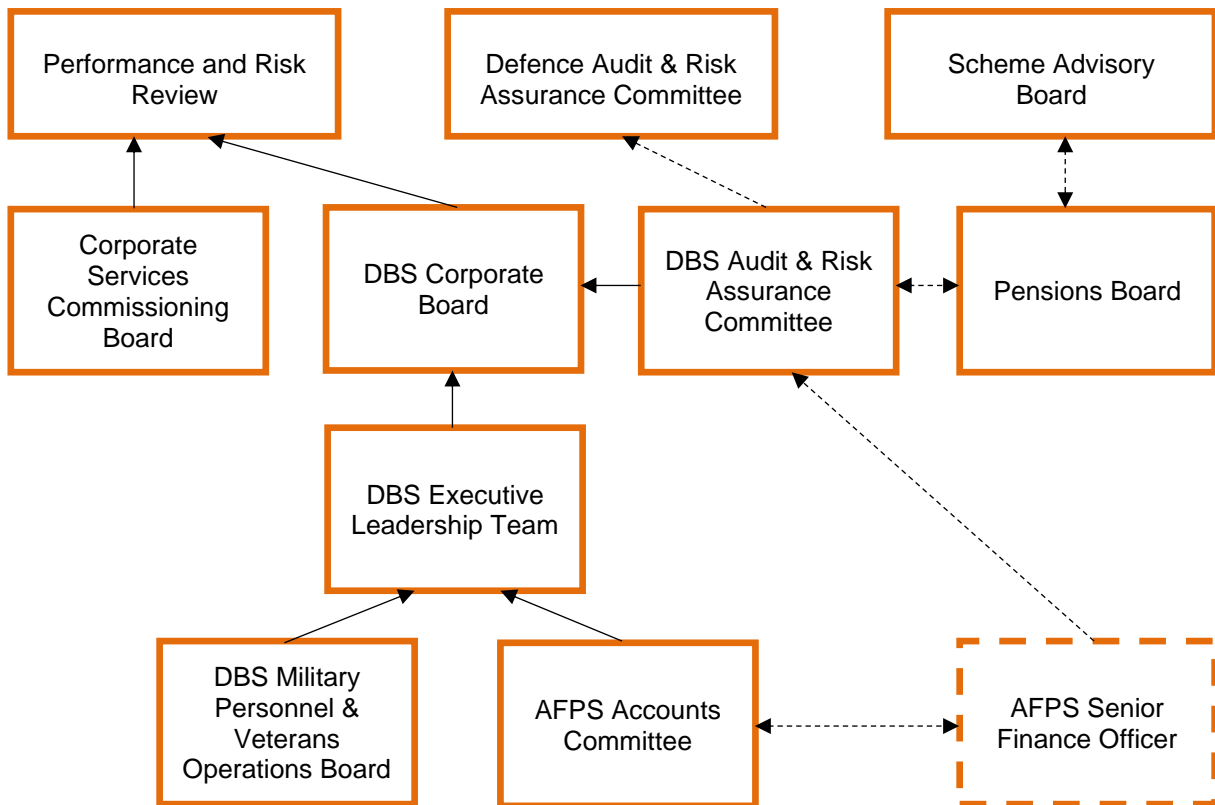
The Schemes’ Governance Framework

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.

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.

In November 2019 MOD exercised an option within the extant Contract to extend the engagement with DXC Technology an additional year to November 2020. In parallel, the Future Services Delivery Contract (FSDC) was tendered as the replacement for the DXC Technology contract. In December 2019 Shared Services Connected Ltd (SSCL) were awarded the follow-on contract to provide the services currently delivered by DXC Technology. SSCL will assume responsibility for the administration of the Schemes from 1 June 2020 (with existing DXC Technology staff transferring to SSCL on this date). For the avoidance of doubt, other than a change in service provider all extant joint processes and governance will remain in place with the arrival of SSCL for the foreseeable future.

Boards and Committees



—————> Sub-Committee/Board

- - - - -> Reporting Line

The **DBS Corporate Board** comprises of a Non-Executive Chair, two other Non-Executive Directors (NEDs), the DBS CEO, two DBS Executive Heads and a MOD NED (the Head of MOD Enabling Organisations Sponsorship). 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 convened five times between April 2019 and March 2020.

| Table 1 – Composition of the DBS Corporate Board | Meetings Attended |
|---|--|
| Non-Executive Chair: Peter Shortt | 5 of 5 |
| DBS Executive Members: Kathy Barnes, Chief Executive Officer Tamsin Woodeson, Deputy Chief Executive Officer & Chief Customer Officer Andrew Stafford, Chief Operating Officer Georgina Benzies, Head of Resources (until 16 Jun 2019) Clare Finn, Head of Resources (from 17 Jun 2019) | 5 of 5 4 of 5 4 of 5 1 of 1 3 of 4 |
| MOD Non-Executive Directors: Tara Usher, (until 1 Sep 19) Head of MOD Enabling Organisations Sponsorship Katherine Carr & Michelle Pester, (from 2 Sep 19) Head of MOD Enabling Organisations Sponsorship - Job Share | 2 of 2 3 of 3 |
| Non-Executive Directors: Paul Smith Vivienne Bracken | 5 of 5 5 of 5 |

In 2019-20 a new operating model and governance structure for DBS was introduced. As part of the new governance structure a number of governance boards were set up including a Performance and Risk Review (P&RR), a Corporate Services Commissioning Board (CSCB) and Delivery Boards with each of DBS Customer areas. The DBS Corporate Board Terms of Reference (TOR) have recently been reviewed and revised by Directorate of Sponsorship and Organisational Policy (DSOP) and the Corporate Board. The annual review of the Board's effectiveness has been discussed at the Corporate Board meetings, however, as the new governance structures and new TORs were only introduced towards the end of 2019-20, the sponsor (DSOP) and the DBS NED Chair agreed that a review covering 2019-20 was unnecessary. The sponsor is researching best practice in evaluating Board effectiveness and the intention is to carry out a review in the first half of 2020-21. Furthermore, the NED Chair has instigated a new approach to engaging with the other NEDs on the Corporate Board on a more regular basis.

The **Performance and Risk Review (P&RR)** and the **Corporate Services Commissioning Board (CSCB)** were formed in 2019-20 following the introduction of a new operating model and governance structure for DBS. They form part of the governance arrangements of DBS as a whole and not the Schemes specifically. The P&RR meets

quarterly and is chaired by the MOD Chief Operating Officer and comprises of three DBS Executive members and two MOD Directorate of Sponsorship and Organisational Policy (DSOP) Executive members. The P&RR is responsible for ensuring DBS is delivering against its plan and key performance indicators and for solving issues as they arise. The CSCB is chaired by the MOD Director Sponsorship and Organisational Policy (DSOP) with members at Director level from key functions within MOD. The CSCB is the Design Authority for Defence's Corporate Services responsible for providing DBS with direction on competing priorities, managing cross-cutting corporate service issues, reviewing DBS's performance at a Corporate level in order to match delivery to Departmental priorities and providing strategic direction of Transformation of Shared Services. The CSCB met quarterly during 2019-20 but will meet monthly from 2020-21.

The **DBS Executive Leadership Team (ELT)** is chaired by the CEO and comprises the DBS Executive Heads 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 eleven times between April 2019 and March 2020. Although scheduled, the meeting in March 2020 did not take place due to the response to COVID19. The AFPS management accounts for February 2020 were agreed at the April 2020 meeting.

| Table 2 – Composition of the DBS Executive Leadership Team | Meetings Attended |
|--|-------------------|
| Chief Executive Officer: Kathy Barnes, (Chair) | 9 of 11 |
| Executives: Tamsin Woodeson, Deputy Chief Executive Officer & Chief Customer Officer | 9 of 11 |
| Andrew Stafford, Chief Operating Officer | 11 of 11 |
| Andy White, Chief Information Officer | 9 of 11 |
| Jon Parkin, Chief People Officer | 11 of 11 |
| Sue Higgins, Head of Business Change | 8 of 11 |
| Georgina Benzies, Head of Resources & Schemes' SFO (until 16 Jun 2019) | 2 of 2 |
| Clare Finn, Head of Resources & Schemes' SFO (from 17 Jun 2019) | 8 of 9 |
| Andy Dowds, Head of Veterans UK | 10 of 11 |
| Rose Mooney, Head of Finance & Procurement Services (until 17 May 2019) | 1 of 1 |
| Dave Southall, Acting Head of Finance & Procurement Services (until 26 Aug 2019) | 2 of 3 |
| Shirley Beard, Head of Finance & Procurement Services (from 27 Aug 2019) | 6 of 7 |
| Brigadier Paul Burns, Head of Military Personnel (until 2 Feb 2020) | 6 of 10 |
| Brigadier Caroline Hull, Head of Military Personnel (from 3 Feb 2020) | 1 of 1 |
| Graeme Macaulay, Head of Civilian Personnel | 9 of 11 |
| Neil Watkinson, UK Security Vetting Managing Director (UK Security Vetting transferred to the Cabinet Office on 1 Apr 2020) | 7 of 11 |

The **DBS Military Personnel & Veterans Operations Board (MP&V OB)**, a sub-committee of the ELT, manages the commercial agreements with CSC (SSCL from June 2020). The Service Delivery Management Team within DBS actively monitors the performance of CSC (SSCL from June 2020) 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 (SSCL from June 2020), 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.

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.

The **DBS Audit & Risk Assurance Committee (ARAC)**, a sub-committee of the DBS Corporate Board, comprises of two Non-Executives and one MOD Non-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 ARAC 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 ARAC reviewed the 2019-20 AFPS Accounts prior to approval by the Defence Audit & Risk Assurance Committee (DARAC). The ARAC met five times between April 2019 and March 2020.

Table 3 – Composition of the DBS Audit & Risk Assurance Committee

| | Meetings Attended |
|---|-------------------|
| Non-Executive Members: | |
| Paul Smith (Chair) | 5 of 5 |
| Ian Wilson | 5 of 5 |
| MOD Non-Executive Members: | |
| Tara Usher, (until 30 Aug 2019) Head of MOD Enabling Organisations Sponsorship | 1 of 2 |
| Katherine Carr & Michelle Pester, (from 2 Sep 19) Head of MOD Enabling Organisations Sponsorship - Job Share | 3 of 3 |

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 ARAC 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.

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 Pension Regulator has instigated an ongoing formal relationship with AFPS and the Pension Board and there have been four satisfactory meetings in the period on governance and administration of the Schemes. The Pensions Board produces an Annual Report of its activities which is publicly available.

Financial Management

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 (SSCL from June 2020) 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.

The Pensions Finance Team, with input from the Government Actuary's Department (GAD) 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 and the Pensions Board Chair throughout the year to identify best practice on several ongoing initiatives.

Risk Assessment

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 DBS ARAC has oversight of all risks raised within DBS. Any risks not capable of being managed by DBS 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 2019-20.

The Risk and Control Framework

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.

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.

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

The DBS Risk Management Strategy Framework v7.2 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, Finance, 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

All staff within MOD have direct access to the Fraud Incident and Irregularity Reporting Unit (FIIRU), which forms part of the Department's Confidential Hotline and 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 page 13 contains details of the results of the NFI exercises since 2002.

A Life Certificate exercise continued during 2019-20 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. As at 31 March 2020 all certificates were issued, with 26,226 returned, a response rate of 98.1%.

An exercise continued during 2019-20 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. A total of 7,107 'gone away' cases have been traced and will be issued with a life certificate to ensure ongoing entitlement applies. The issuing of life certificates was delayed due to the Covid-19 pandemic and will now commence towards the end of 2020-21.

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). The CPS is prosecuting those individuals who have been identified by the MOD Police of undertaking fraudulent activity.

Information Assurance

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, updated DBS induction process and specific IAO training and guidance.

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, where required, Memorandum of Understandings (MOUs) or contracts 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 data protection and privacy by design is built into all processing activities. DBS was well prepared for the Data Protection Act 2018 and the changes required by GDPR and pre-implementation activities included identifying what information is held, where and who has access. All existing DPIAs continue to be reviewed and Information Asset Registers (IAR) amended to capture the additional GDPR requirements, such as the purposes for processing, categories of personal data and retention periods. Data Flow Control Registers (DFCR) are being populated during the IAR review.

Work continues to identify areas for improvement across DBS and how Information Assurance and Security and Data Protection is integrated across the organisation. The team continues to document evidence on the IA metrics dashboard against the measures under IAMM, Government Security Policy Framework (SPF), Cyber Security and GDPR. DBS has a DP compliance officer in post who is undertaking DP compliance reviews and a schedule of assurance checks.

There were forty one incidents reported internally to the MOD Information Rights Compliance Team during the year in relation to AFCS and one for AFPS. Although these were assessed to be of a serious nature, it was not deemed necessary to report them to the Information Commissioners Office.

The forty one AFCS incidents were categorised as; 'data handling incidents / internal process failures created by human error of Veterans UK personnel'; 'files declared as

unlocated in the building or at Restore (archiving facility) and subsequently found'; and 'loss of claim and appeal forms'. Given the high volume of case work processed on an annual basis within Veterans UK, this number of incidents was deemed very low.

Bi-monthly security improvement meetings are held with the Veterans UK operational and policy teams at Tomlinson House (where the AFCS scheme is administered) and DBS Integrated Assurance team (IA and Security policy leads). These meetings review the plan to improve operational processes, reduce hardcopy holdings and in a drive to reduce personal data incidents.

Business Continuity

AFPS/AFCS output from DBS Norcross and Glasgow and continued development/implementation of the 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 2019-20. BC Business Impact Analysis (BIA) for pensions operations at DBS Norcross were due for review/update in February/March 2020 and the pensions teams in Glasgow during April/May in compliance with BC Lifecycle annual reviews. BIA for both sites have been disrupted by the COVID-19 crisis. DBS operations at Glasgow last underwent a BC exercise on 9 April 2019 and Norcross on 24 July 2019.

The Disaster Recovery (DR) Plan for CAPS is current, having moved to Version 7.0 in August 2019 in compliance with its BC Lifecycle annual review. It is subject to annual review and test in parallel with on-going CAPS transformation. CAPS DR was last tested on 16 January 20 with minor amendments required for the V7.1 plan issue.

The DXC Technology Business Process Outsourcing (BPO) Service Delivery BCP is current at Version 12.0 (September 2019). This plan covers the Joint Personnel Administration Centre (JPAC), Enquiry Centre (EC) and back-office pensions activity. It was subjected to extensive DR tests for banking processes (ODEX/BACS/RBS) on 28-29 January 20. 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.

Two significant BC incidents affected AFCS casework processing during 2019-20, both requiring the initiation of BC Plans resulting in varying degrees of service (from partial to complete). The first was a total loss of electrical power to DBS Norcross. Staff were not able to attend the normal work site from 12 to 19 November 2019. The second is the COVID-19 crisis also affecting the AFPS process with staff attendance at their normal work site being significantly disrupted from 20 March 2020.

The overall DBS COVID-19 response was based on the use of a Priority Outputs/Services approach (placing outputs/services in order of criticality and required recovery). This was supported by a) the emergency allocation of IT to enable critical staff to work from home and b) maintaining a minimal staff presence on site. Authority AFPS staff were able to maintain priority tasks in support of the Contractor (DXC/SSCL) payments process e.g. for those medically discharging from the Armed Forces, Early Payment of Preserved Pension applications and discretionary decisions. This was achieved by a combination of working

from home, enabled by the early allocation of additional laptops, and then a gradual return to the normal workplace after the introduction of Safe Systems of Working, which allowed all tasks to be progressed. The only impact was that customers had a longer wait for responses for certain casework (leaving service with benefits due, Death in Service awards and Dependants claims are considered the priority).

Review of Effectiveness

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 DBS ARAC who are responsible for reviewing assurances as to its effectiveness over governance and for advising the DBS Corporate Board and DBS CEO accordingly, 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.

Data relating to unclaimed pensions revealed that c30,000 members had not claimed their pension at the pension payment date. Further investigation of this data revealed that c12,300 of these records had no entitlement to pension benefits and the computer records were amended thus reducing the deferred liability of the Scheme. Work is continuing to trace the members where a pension benefit is due, invite claims and put pensions into payment, resulting in 589 pensions being put into payment.

The Veterans UK Quality Assurance Team was set up in August 2016 and is now embedded within the business. Its primary function is to provide an additional level of assurance. The team ensure adherence to scheme rules and guidance as well as quality checking the accuracy of pension calculations. In the last twelve months the team have carried out 1,138 quality and assurance (Q&A) checks including checks on DXC, Paymaster and the MOD Authority team. The team carry out a monthly programme of pension increase checks as well as targeted checks on potential areas of risk/concerns identified.

Internal Audit

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 ARAC, with progress reports regularly taken by the DBS ARAC throughout 2019-20. The Head of DIA, or one of his senior managers, attends meetings of the DBS ARAC and provides expert advice on audit issues.

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.

DIA reported adequate control frameworks were in place for a selection of pension administration processes, including compliance with policy and procedures and pension

administration and payment processes. In addition, they identified effective controls over the production and use of financial management information and reporting.

However, through their review of the 'AFPS Manage Payment to the Children of Deceased Service Personnel' and 'AFPS Award Immediate Pension and/or Terminal Benefits', the DIA identified an area of control weakness over the adequacy of Q&A checks in manual, complex calculations, which led to selected examples of error in some individual calculations.

DIA also reported that overall the management/MOD Authority oversight controls reviewed were operating effectively. However, in their audit of 'Manage Payment to the Children of Deceased Service Personnel' they identified two significant weaknesses: a) the incorrect calculation of a child's pension, resulting in an underpayment, had not been identified by the 100% Quality and Authorisation (Q&A) check, or the Contract Performance and Monitoring Team (CPMT) case review; and b) the Sub-Contractor, Equiniti Paymaster (EP) had failed to set a pension review date for an overage incapacitated child on the pension system, leading to an open-ended award, which had not been identified by the Manual Warrant reconciliation procedure.

DIA reported that throughout the year all agreed management actions were implemented within the agreed timescales, and their revalidation of agreed management actions arising from reports providing Limited Assurance, confirmed that the controls implemented by management had mitigated the risks identified by the audit.

In addition, DIA noted improvements in the level of resource and approach to internal assurance provision, due to the merger of the AFPS, AFCS and War Pensions Scheme assurance functions, with DIA working effectively with the new team.

Excess Vote Risk

In 2019-20 the Scheme was at risk of incurring an Excess Vote of Resource Annually Managed Expenditure (RAME). In December 2018 the Court of Appeal held on the McCloud Judgment (a case whereby transitional protection offered to members of pension schemes subject to reform, had given rise to discrimination in the treatment of younger members compared to those members closer to retirement age). As a result, the GAD reported a change in the rate applied to pensionable pay for calculation of the 2019-20 AFPS current service cost from 75.4% to 85.9%.

The impact of this change was not reflected in the data inputs to the AFPS pension cost model leading to a forecast understatement of RAME in the Supplementary Estimate for 2019-20.

However, in July 2020, the Government launched a consultation on the McCloud Judgment. The consultation sets out that the changes should apply to all members who were in service on both 31 March 2012 and 1 April 2015, including those with a break in service of less than five years. This represents a change in the approach from the calculations for the 2018-19 accounts, which assumed the case would affect all members who were in service on 1 April 2015.

Therefore, the past service cost in 2018-19 and the projected 2019-20 service cost were revisited based on the above changes set out in the consultation in the 2019-20 accounts.

The impacts of the proposed changes have been reflected in these accounts as a reduction in the past service costs of £920 million, removing the potential Excess Vote by bringing the scheme back to an underspend RAME position for 2019-20.

I have directed that action is to be taken to address the procedural weaknesses exposed by the potential breach, specifically:

- The underlying pensions model will be adjusted to reflect the current service cost percentage recommended by GAD in calculating Main and Supplementary Estimates and in-year accounting entries;
- There will be closer and more effective liaison between DBS Pensions Finance and GAD as part of the Main and Supplementary Estimates process, with GAD providing independent subject matter expert validation of AFPS model outputs;
- The MOD Corporate Finance team will also now undertake separate scrutiny and validation of AFPS Main and Supplementary Estimates prior to submission;
- The underlying pensions model has been validated and verified by GAD as part of the Macpherson assurance of business-critical models. These reviews will continue noting that the breach reported was due to input error and not model functionality; and
- On a broader level, DBS Pensions Finance will liaise with members of the UK Pensions Finance Working Group each year as part of the Supplementary Estimate process to validate that AFPS assessments align with the approaches being taken in the wider pensions environment.

Significant Governance Issues

I can report that, other than the risk of an Excess Vote, there have been no further significant governance issues arising during 2019-20. 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

The award of the FSDC, now referred to as Service Delivery Contract (SDC), to Shared SSCL will see Veterans UK embark on a three year transformation programme of digitalisation which will significantly improve the way we do business in support of our members. The contract will introduce innovative solutions across the AFPS and AFCS arena, driving efficiencies within the pensions administration function by utilising the integrated platform to create one system for day to day pensions and compensation case work, including the integrated electronic document management system.

Self Service will provide a platform to enable Veterans UK customers with the ability to securely complete digital claims, forms, reviews and appeals. It will provide a single user interface with an individual's complete records extracted from current pensions, compensation and welfare systems. A single screen window will display a customer's pension and compensation scheme entitlements alongside personal data from where the customer will be able to access the details of each scheme. This will be a significant improvement providing instant access for the customer to accurate and real time information.

Single View will provide a new view and enquiry resolution facility providing real time information in respect of AFPS, AFCS and other aspects of Veterans UK services, such as the Veterans Welfare Service and Far East and Nepal Administration. The new system can be interrogated by the Authority when resolving enquiries. The current Veteran UK systems are not compliant with Government Digital Standards and will therefore not be supported for AFCS and AFPS (05 and 75) post November 2021. This improvement, therefore, is not only beneficial to the administrators of the schemes but required for business continuity.

Integrated Document Management will provide document storage for both member and general documents. Member documents that have been imported or created by the system will be stored in one location making retrieval more efficient. Barcoding of forms issued to individuals will remove the burden of manually indexing scanned documentation, reducing the risk of human error.

Summary

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.



Sir Stephen Lovegrove, KCB

Accounting Officer

9 November 2020

Parliamentary Accountability and Audit Report

Statement of Parliamentary Supply

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual (FRoM) requires the Armed Forces Pension & Compensation Schemes to prepare a Statement of Parliamentary Supply (SoPS) and supporting notes.

The SoPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SoPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SoPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SoPS contain a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn won't exactly tie to cash spent) and administration.

The supporting notes detail the following: Analysis of resource outturn by estimate line (SoPS 1); and a reconciliation of net resource outturn to net cash requirement (SoPS 3).

Statement of Parliamentary Supply for the year ended 31 March 2020

Summary of Resource Outturn 2019-20

This section has been subject to audit.

| £000 | 2019-20 | | | | | | | | 2018-19 |
|--|---------|------------------|-----------|------------------|------------------|-----------|------------------|---------------------------------------|--------------------------|
| | Note | Outturn | | | Estimate | | | Outturn vs Estimate saving / (excess) | Prior Year Outturn Total |
| | | Voted | Non-Voted | Total | Voted | Non-Voted | Total | | |
| Annually Managed Expenditure - Resource | SoPS1 | 6,847,690 | - | 6,847,690 | 7,607,873 | - | 7,607,873 | 760,183 | 8,476,985 |
| Total Budget | | 6,847,690 | - | 6,847,690 | 7,607,873 | - | 7,607,873 | 760,183 | 8,476,985 |
| Non-Budget -Resource | | - | - | - | - | - | - | - | - |
| Total | | 6,847,690 | - | 6,847,690 | 7,607,873 | - | 7,607,873 | 760,183 | 8,476,985 |

Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual, available on gov.uk, for detail on the control limits voted by Parliament.

Net cash requirement 2019-20

| 2019-20 | | 2019-20 | | 2018-19 |
|------------------|------------------|--|--|---------|
| Outturn £000 | Estimate £000 | Outturn vs Estimate saving/(excess) £000 | Prior Year Outturn Total £000 | |
| 1,154,265 | 1,368,946 | 214,681 | 1,725,643 | |

Administration costs

| 2019-20 | | 2019-20 | | 2018-19 |
|-----------------|------------------|--|--|---------|
| Outturn £000 | Estimate £000 | Outturn vs Estimate saving/(excess) £000 | Prior Year Outturn Total £000 | |
| - | - | - | - | - |

Although not a separate voted limit, any breach of the administration budget will also result in an Excess Vote.

As explained in the Report of the Managers on page 7, the costs of administering the Schemes are borne by the MOD and are reflected in the Department's Annual Report and Accounts.

The Notes on page 45 to 47 form part of this Statement.

Notes to the Statement of Parliamentary Supply

SoPS1. Analysis of Resource outturn by Estimate line

| £000 | 2019-20 | | | | | | | | | 2018-19 |
|--|------------------|--------|-----|------------|-------------|-----------|-----------|---------------------------------------|--------------------------|-----------|
| | Resource Outturn | | | | | | Estimate | Outturn vs Estimate saving / (excess) | Prior Year Outturn Total | |
| | Administration | | | Programme | | | Total | Total | Total | |
| | Gross | Income | Net | Gross | Income | Net | Total | Total | Total | |
| Spending in Departmental Expenditure Limit | | | | | | | | | | |
| Voted: | - | - | - | - | - | - | - | - | - | |
| Non Voted: | - | - | - | - | - | - | - | - | - | |
| Annually Managed Expenditure | | | | | | | | | | |
| Voted: | | | | | | | | | | |
| A: Armed Forces Pension & Compensation Schemes | - | - | - | 10,697,581 | (3,849,891) | 6,847,690 | 6,847,690 | 7,607,873 | 760,183 | 8,476,985 |
| Non Voted: | - | - | - | - | - | - | - | - | - | - |
| Total | - | - | - | 10,697,581 | (3,849,891) | 6,847,690 | 6,847,690 | 7,607,873 | 760,183 | 8,476,985 |

Explanation of the variance between Resource Estimate and outturn:

The outturn is less than the Estimate due to:

- Current service cost of £4.7 billion (AFPS) and £174 million (AFCS), past service cost of £120 million and pensions financing cost of £5.6 billion (AFPS) and £67 million (AFCS) all being lower than forecast in the Estimate, primarily due to the impact of the adjustments made for the McCloud Judgment not included in the Estimate.

SoPS2. Reconciliation of outturn to net operating expenditure

The total resource outturn of £6.8bn shown above in the SoPS summary table on page 44 is the same as the combined net expenditure shown in the Statement of Comprehensive Net Expenditure (SoCNE) on page 53. Therefore no reconciliation table is required.

SoPS3. Reconciliation of net resource outturn to net cash requirement

| Item | Reference | 2019-20 | | | 2018-19 |
|---|-----------|-----------------------|------------------|--|------------------|
| | | Outturn Total £000 | Estimate £000 | Outturn vs Estimate savings/ (excess) £000 | Outturn £000 |
| Resource Outturn | SoPS1 | 6,847,690 | 7,607,873 | 760,183 | 8,476,985 |
| Capital Outturn | | - | - | - | - |
| Accruals to cash adjustments: | | | | | |
| <i>Adjustments to remove non-cash items:</i> | | | | | |
| New provisions and adjustments to previous provisions | | (10,697,581) | (11,465,731) | (768,150) | (11,432,542) |
| <i>Adjustments to reflect working balances:</i> | | | | | |
| Increase/(decrease) in receivables | | 76,066 | 2,250 | (73,816) | (14,080) |
| (Increase)/decrease in payables | | 69,098 | 190,167 | 121,069 | (118,162) |
| Use of provision: | | | | | |
| Pension | | 4,768,982 | 4,938,887 | 169,905 | 4,723,630 |
| Compensation | | 90,010 | 95,500 | 5,490 | 89,812 |
| Net cash requirement | | 1,154,265 | 1,368,946 | 214,681 | 1,725,643 |

As noted in the introduction to the SoPS above, outturn and Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

Parliamentary Accountability Disclosures

This section has been subject to audit.

Losses statement

| | 2019-20 | 2018-19 |
|----------------------------|---------|---------|
| Total number of losses | 2,132 | 2,328 |
| Total value of losses £000 | 422 | 281 |

Special payments

| | 2019-20 | 2018-19 |
|--------------------------------------|---------|---------|
| Total number of special payments | - | - |
| Total value of special payments £000 | - | - |

There were no individual losses greater than £300,000 or special payments during 2019-20.

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 2020 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 2020 and of its total comprehensive 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 2020 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), Practice Note 15 (revised) 'The Audit of Occupational Pension Schemes in the United Kingdom' and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. 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 (incorporating the Armed Forces Compensation 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.

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Armed Forces Pension Scheme (incorporating the Armed Forces Compensation Scheme)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Armed Forces Pension Scheme (incorporating the Armed Forces Compensation Scheme) have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Armed Forces Pension Scheme (incorporating the Armed Forces Compensation Scheme)'s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 (incorporating the Armed Forces Compensation Scheme)'s internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- conclude on the appropriateness of the Armed Forces Pension Scheme (incorporating the Armed Forces Compensation Scheme)'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 Armed Forces Pension Scheme (incorporating the Armed Forces Compensation Scheme) ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause Armed Forces Pension Scheme (incorporating the Armed Forces Compensation Scheme) to cease to continue as a going concern.

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, but does not include the parts of the Accountability Report 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 parts of 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 (incorporating the Armed Forces Compensation 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.

Gareth Davies

Comptroller and Auditor General

13 November 2020

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

A photograph of a helicopter on a ship's deck. The helicopter is on the left, with its rotor blades blurred from motion. Several crew members in high-visibility vests and helmets are visible in silhouette on the deck. The background shows the ship's superstructure and a clear sky. A teal-colored rounded rectangle is overlaid on the right side of the image, containing the text "Financial Statements".

Financial Statements

Financial Statements

Combined Statement of Comprehensive Net Expenditure

for the year ended 31 March 2020

| | Note | 2019-20 £000 | 2018-19 £000 |
|---|-------|-------------------|------------------|
| Principal arrangements – Armed Forces Pension Scheme | | | |
| Income | | | |
| Contributions receivable | 3 | (3,792,738) | (2,955,045) |
| Transfers in | 4 | (270) | (512) |
| Other income | 5 | (56,883) | - |
| Expenditure | | | |
| Current Service cost | 6 | 4,700,581 | 4,316,583 |
| Past Service cost | 6 | 120,000 | 1,900,000 |
| Enhancements | 7 | 1,947 | 1,711 |
| Transfers in | 8 | 270 | 512 |
| Pension financing cost | 9 | 5,633,141 | 4,982,378 |
| Net expenditure | | 6,606,048 | 8,245,627 |
| Armed Forces Compensation Scheme | | | |
| Current Service cost – AFCS | 16 | 174,376 | 174,247 |
| Compensation financing cost | 16 | 67,266 | 57,111 |
| Net expenditure | | 241,642 | 231,358 |
| Combined net expenditure | SoPS1 | 6,847,690 | 8,476,985 |
| Other comprehensive net expenditure | | | |
| Pension re-measurements: | | | |
| Actuarial loss/(gain) – Armed Forces Pension Scheme | 13.7 | 32,113,043 | (6,677,554) |
| Actuarial loss/(gain) – Armed Forces Compensation Scheme | 16 | 457,168 | (69,385) |
| Total Comprehensive Net Expenditure | | 39,417,901 | 1,730,046 |

The notes on pages 57 to 73 form part of these financial statements.

Combined Statement of Financial Position

as at 31 March 2020

| | Note | 2020 £000 | 2019 £000 |
|---|------|----------------------|----------------------|
| Principal arrangements – Armed Forces Pension Scheme | | | |
| Current assets | | | |
| Receivables | 10 | 329,087 | 253,061 |
| Cash and cash equivalents | 11 | 55,843 | 56,108 |
| Total current assets | | 384,930 | 309,169 |
| Current liabilities | | | |
| Payables (within 12 months) | 12 | (673,262) | (742,452) |
| Total current liabilities | | (673,262) | (742,452) |
| Net current liabilities, excluding pension liability | | (288,332) | (433,283) |
| Pension liability | 13.4 | (233,100,000) | (195,300,000) |
| Net liabilities, including pension liabilities | | (233,388,332) | (195,733,283) |
| Armed Forces Compensation Scheme | | | |
| Receivables | 14 | 1,114 | 1,074 |
| Payables (within 12 months) | 15 | (3,286) | (3,459) |
| Provision for liabilities and charges | 16 | (2,865,800) | (2,257,000) |
| Net liabilities | | (2,867,972) | (2,259,385) |
| Combined schemes - Total net liabilities | | (236,256,304) | (197,992,668) |
| Taxpayers' equity | | | |
| General Fund | | (236,256,304) | (197,992,668) |
| Total equity | | (236,256,304) | (197,992,668) |



Sir Stephen Lovegrove, KCB
Accounting Officer
9 November 2020

The notes on pages 57 to 73 form part of these financial statements.

Combined Statement of Changes in Taxpayers' Equity

for year ended 31 March 2020

| | Note | 2019-20 £000 | 2018-19 £000 |
|--|-------|----------------------|----------------------|
| Balance at 1 April | | (197,992,668) | (197,988,265) |
| Net Parliamentary Funding | | | |
| – drawn down | | 1,154,000 | 1,711,000 |
| – deemed | | 56,108 | 70,751 |
| Supply payable adjustments | 12 | (55,843) | (56,108) |
| Excess Vote – Prior Year | | - | - |
| CFERs payable to the Consolidated Fund | | - | - |
| Contingencies Fund Advance | | - | - |
| Repayment to the Contingencies Fund | | - | - |
| Comprehensive Net Expenditure for the Year | SoPS1 | (6,847,690) | (8,476,985) |
| Actuarial (loss)/gain – Armed Forces Pension Scheme | 13.7 | (32,113,043) | 6,677,554 |
| Actuarial (loss)/gain – Armed Forces Compensation Scheme | 16 | (457,168) | 69,385 |
| Net Change in Taxpayer's Equity | | (38,263,636) | (4,403) |
| Balance at 31 March 2020 | | (236,256,304) | (197,992,668) |

The notes on pages 57 to 73 form part of these financial statements.

Combined Statement of Cash Flows

for the year ended 31 March 2020

| Note | 2019-20 £000 | 2018-19 £000 |
|---|--------------------|--------------------|
| Cash flows from operating activities | | |
| Net expenditure for the year | (6,847,690) | (8,476,985) |
| Adjustments for non-cash transactions: | | |
| (Increase)/decrease in receivables – principal arrangements | 10 (76,026) | 14,137 |
| Increase in receivables – AFCS | 14 (40) | (57) |
| (Decrease)/increase in payables – principal arrangements | 12 (68,925) | 117,517 |
| (Decrease)/increase in payables – AFCS | 15 (173) | 645 |
| Increase in pension provision | 13.4 10,453,722 | 11,198,961 |
| Increase in pension provision – enhancements and transfers in | 13.4 2,217 | 2,223 |
| Use of provisions – pension liability | 13.5 (4,761,984) | (4,718,453) |
| Use of provisions – refunds and transfers | 13.6 (6,998) | (5,177) |
| Increase in provisions – compensation scheme | 16 241,642 | 231,358 |
| Use of provisions – compensation scheme | 16 (90,010) | (89,812) |
| Net cash outflow from operating activities | (1,154,265) | (1,725,643) |
| Cash flows from financing activities | | |
| From the Consolidated Fund (Supply) – current year | 1,154,000 | 1,711,000 |
| From the Contingencies Fund | - | - |
| Repayment to the Contingencies Fund | - | - |
| Net Financing | 1,154,000 | 1,711,000 |
| Net decrease in cash and cash equivalents in the year before adjustment for receipts and payments to the Consolidated Fund | (265) | (14,643) |
| 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 decrease in cash and cash equivalents in the year after adjustment for receipts and payments to the Consolidated Fund | 11 (265) | (14,643) |
| Cash and cash equivalents at the beginning of the year | 11 56,108 | 70,751 |
| Cash and cash equivalents at the end of the year | 11 55,843 | 56,108 |

The notes on pages 57 to 73 form part of these financial statements.

Notes to the Financial Statements

1. Accounting Policies

1.1 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 2019-20 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.

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 (SoFP) shows the unfunded net liabilities of the Scheme; the Statement of Comprehensive Net Expenditure (SoCNE) 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 SoCNE.

1.2 Going Concern

The Statement of Financial Position as at 31 March 2020 shows a combined pension and compensation liability of £236.3 billion (2018-19: £198.0 billion). Other movements in the liability reflect the inclusion of liabilities falling due in the long-term, which are to be financed mainly by drawings from the Consolidated Fund. Such drawings will be grants of Supply approved annually by Parliament to meet the Scheme's pension benefits, which come into payment each year.

Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than as required for the service of the specified year or retained in excess of that need.

In common with other public service pension schemes, the future financing of the Scheme's liabilities is to be met by future grants of supply to be approved annually by Parliament. Such approval for amounts required for 2020-21 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

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 Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. These assessments are based on historic and other factors that are believed to be reasonable, the results of which form the basis for making judgements. The estimates and underlying assumptions are reviewed on an on-going basis.

The provision for the McCloud Judgment (as detailed pages 16 and 17 of Report of the Manager) has been calculated based on the latest information set out in the consultation document published by HM Treasury, this being that the judgement now applies only to members who were in service on 31 March 2012 and 1 April 2015, including those with a break in service of less than five years. To allow for this change, Government Actuary's Department (GAD) have calculated a negative past service cost in 2019-20 (see note 2.7) to reflect the reduction in the previous past service cost as a result of changing (reducing) the members in scope.

This calculation is still subject to an ongoing consultation however this represents management's best estimate based on the current information available. The additional cost arising could be significantly different from the additional liability set out above, however it is not possible to provide any sensitivity analysis as the outcome of the consultation (and therefore what may be disagreed with) is unknown.

2.2 Changes in Accounting Standards

Accounting standards issued but not yet adopted by the FReM at the reporting date:

- IFRS 16 Leases – there are no material balances within the AFPS financial statements affected by the changes to IFRS 16.
- IFRS 17 Insurance Contracts – there are no material balances within the AFPS financial statements affected by the changes to IFRS 17.

2.3 Contributions receivable

Employer's normal pension contributions (SCAPE) are accounted for on an accruals basis in the period to which the associated salaries relate.

Employer contributions are out of scope for IFRS 15 Revenue.

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.

2.4 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.

2.5 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.

2.6 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 SoCNE. The cost is based on a discount rate of 2.90% pa (i.e. 0.29% in excess of CPI inflation). This was 2.55% pa (0.10% in excess of CPI inflation) in 2018-19.

2.7 Past service costs

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

2.8 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 SoCNE. The financing cost is based on the discount rate of 2.90% real (i.e. 0.29% including inflation). This was 2.55% (0.10% including inflation) in 2018-19.

2.9 Other expenditure

Other payments are accounted for on an accruals basis.

2.10 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 2019 was discounted at 2.90% pa (i.e. 0.29% in excess of CPI inflation). The discount rate as at 31 March 2020 was 1.80% pa (i.e. -0.50% 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 financial statements and in the Report of the Actuary starting on page 22.

Full actuarial valuations by a professionally qualified actuary are typically obtained at intervals not exceeding four years. The last full actuarial valuation undertaken of the AFPS was as at 31 March 2016 completed in February 2019. The actuary reviews the most recent actuarial valuation at the SoFP date and updates it to reflect current conditions.

2.11 Pension benefits payable

Pension benefits payable are accounted for as a decrease in the Scheme liability on an accruals basis in the period to which they relate.

2.12 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.

2.13 Pension payments to those retiring at 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.

2.14 Pension payments to and on account of leavers before 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.

2.15 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.

2.16 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 SoFP date are recognised in the SoCNE for the year.

2.17 Armed Forces Compensation Scheme

A provision is made within these financial statements 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.

2.18 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 SoFP, and separately disclosed within note 11.

2.19 Payables and receivables

Payables and receivables are held at amortised cost in accordance with 'IFRS 9 Financial Instruments'. Owing to the immaterial size of such receivables balances and losses thereon, any expected credit losses are not considered to be material to the Scheme.

3. Contributions receivable

| | 2019-20 £000 | 2018-19 £000 |
|---------------------------------------|------------------|------------------|
| Employers | 3,790,791 | 2,953,334 |
| Employees: Purchase of added years | 1,947 | 1,711 |
| | 3,792,738 | 2,955,045 |

£3.862Bn contributions are expected to be payable to the Scheme in 2020-21. During the year ended 31 March 2020, employer contributions represented an average of 65.5% of pensionable pay (2018-19: 52.4%).

4. Transfers in (see also Note 8)

| | Note | 2019-20 £000 | 2018-19 £000 |
|--|------|-----------------|-----------------|
| Individual transfers in from other schemes | 8 | 270 | 512 |
| | | 270 | 512 |

5. Other pension income

| | 2019-20 £000 | 2018-19 £000 |
|--------------|-----------------|-----------------|
| Other income | 56,883 | - |
| | 56,883 | - |

Other Income in 2019-20 relates to Gurkha Pension Scheme increases. See Report of the Managers page 15 for further details.

6. Service cost

| | Note | 2019-20 £000 | 2018-19 £000 |
|----------------------|------|------------------|------------------|
| Current service cost | 13.4 | 4,700,581 | 4,316,583 |
| Past service cost | 13.4 | 120,000 | 1,900,000 |
| | | 4,820,581 | 6,216,583 |

The past service cost of £0.12Bn is the net result of £1Bn of past service costs in relation to GMP, £0.04Bn of past service costs in relation to the Goodwin case; offset by a negative past service cost of £0.92Bn in relation to the re-assessment of the McCloud costs. See Report of the Managers page 12 for further detail.

7. Enhancements

| | Note | 2019-20 £000 | 2018-19 £000 |
|-------------------------------------|------|-----------------|-----------------|
| Purchase of added pension and years | 13.4 | 1,947 | 1,711 |
| | | 1,947 | 1,711 |

8. Transfers in - additional liability

| | Note | 2019-20 £000 | 2018-19 £000 |
|--|------|-----------------|-----------------|
| Individual transfers in from other schemes | 13.4 | 270 | 512 |
| | | 270 | 512 |

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

9. Pension financing cost

| | Note | 2019-20 £000 | 2018-19 £000 |
|---|------|------------------|------------------|
| Net interest on defined benefit liability | 13.4 | 5,633,141 | 4,982,378 |
| | | 5,633,141 | 4,982,378 |

Statement of Financial Position – Armed Forces Pension Scheme

10. Receivables

| | 2020 £000 | 2019 £000 |
|---|----------------|----------------|
| Amounts falling due within one year: | | |
| Overpaid pensions | 5,772 | 5,861 |
| Bereavement Scholarship Scheme | 336 | 303 |
| Ministry of Defence – SCAPE & AVC receipts and Transfers In | 320,432 | 244,486 |
| Prepayments | - | - |
| | 326,540 | 250,650 |
| Amounts falling due after more than one year: | | |
| Overpaid pensions | 2,547 | 2,411 |
| | 329,087 | 253,061 |

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.

11. Cash and cash equivalents

| | 2020 £000 | 2019 £000 |
|--|---------------|---------------|
| Balance at 1 April | 56,108 | 70,751 |
| Net change in cash balances | (265) | (14,643) |
| Balance at 31 March | 55,843 | 56,108 |
| The following balances at 31 March were held at: | | |
| Government Banking Service | 55,843 | 56,108 |
| Balance at 31 March | 55,843 | 56,108 |

12. Payables

| | 2020 £000 | Restated 2019 £000 |
|--|----------------|--------------------------|
| Amounts falling due within one year: | | |
| Pensions | 315,109 | 379,554 |
| Lump Sums | 217,030 | 223,859 |
| HM Revenue & Customs | 42,575 | 42,640 |
| Third party organisations | 1,000 | 925 |
| Ministry of Defence | 41,705 | 39,366 |
| | 617,419 | 686,344 |
| Amounts issued from the Consolidated Fund for supply but not spent at year end | 55,843 | 56,108 |
| | 673,262 | 742,452 |

The 2018-19 pensions, lump sums and HM Revenue & Customs (HMRC) amounts are re-classified numbers. Pensions and lump sums amounts were not disaggregated previously (2018-19 presented as an overall 'pensions' total of £584.2m), this has now been incorporated to improve visibility. In addition, a correction to our approach to establish the HMRC payable has also been introduced in 2019-20, this therefore changes the 2018-19 pensions and tax payable amounts by £19.2 million when applied retrospectively (2018-19 pension' changed from £360.4m to £379.6m and 2018-19 HMRC changed from £61.8m to £42.6m). The prior year total payable is unchanged.

13. Pension Liabilities

13.1 Assumptions underpinning the pension liability

The AFPS is an unfunded defined benefit scheme. The Government Actuary's Department carried out an assessment of the Scheme liabilities as at 31 March 2020. The Report of the Actuary starting on page 22 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 2020 | At 31 March 2019 | At 31 March 2018 | At 31 March 2017 | At 31 March 2016 |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|
| Long term rate of increase in salaries | 4.10% | 4.10% | 3.95% | 4.55% | 4.20% |
| Inflation assumption | 2.35% | 2.60% | 2.45% | 2.55% | 2.20% |
| Discount rate net of pension increases | (0.50%) | 0.29% | 0.10% | 0.24% | 1.37% |
| Mortality rate at age 60 | Years | Years | Years | Years | Years |
| - Current Pensioners | | | | | |
| • Officers Men | 26.1 | 26.8 | 26.7 | 29.5 | 29.4 |
| • Officers Women | 27.6 | 28.4 | 28.3 | 31.6 | 31.5 |
| • Other Ranks Men | 26.1 | 26.8 | 26.7 | 26.9 | 26.8 |
| • Other Ranks Women | 27.6 | 28.4 | 28.3 | 29.0 | 28.9 |
| - Future Pensioners (from active status) * | | | | | |
| • Officers Men | 27.8 | 28.9 | 28.8 | 31.7 | 31.0 |
| • Officers Women | 29.4 | 30.4 | 30.3 | 33.8 | 33.1 |
| • Other Ranks Men | 27.8 | 28.9 | 28.8 | 31.7 | 28.4 |
| • Other Ranks Women | 29.4 | 30.4 | 30.3 | 33.8 | 30.4 |
| Mortality rate at age 65 | | | | | |
| - Current Pensioners | | | | | |
| • Officers Men | 21.3 | 22.0 | 21.9 | 24.5 | 24.4 |
| • Officers Women | 22.9 | 23.6 | 23.5 | 26.6 | 26.5 |
| • Other Ranks Men | 21.3 | 22.0 | 21.9 | 22.1 | 22.0 |
| • Other Ranks Women | 22.9 | 23.6 | 23.5 | 24.1 | 24.0 |
| - Future Pensioners (from active status) * | | | | | |
| • Officers Men | 23.0 | 24.0 | 23.9 | 26.6 | 26.5 |
| • Officers Women | 24.5 | 25.4 | 25.4 | 28.7 | 28.6 |
| • Other Ranks Men | 23.0 | 24.0 | 23.9 | 24.1 | 24.0 |
| • Other Ranks Women | 24.5 | 25.4 | 25.4 | 26.1 | 26.0 |

* Life expectancies for active members have been calculated from a normal retirement age of 60 and 65 based on members aged 40 and 45 respectively as at 31 March 2020, who will reach age 60 and 65 respectively in 20 years' time. Age 65 was introduced from March 2016.

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 financial statements 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 provision for pension liability

| | At 31 March 2020 £bn | At 31 March 2019 £bn | At 31 March 2018 £bn | At 31 March 2017 £bn | At 31 March 2016 £bn |
|-------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Pensions in Payment | 119.6 | 103.1 | 102.7 | 103.7 | 73.8 |
| Deferred Pensions | 40.2 | 31.3 | 33.8 | 32.3 | 23.8 |
| Active members (Past Service) | 73.3 | 60.9 | 59.0 | 55.8 | 47.6 |
| Total | 233.1 | 195.3 | 195.5 | 191.8 | 145.2 |

Pension Scheme liabilities accrue over employees' periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing the Scheme liability, the Actuary must estimate the impact of several inherently uncertain variables into the future. 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 SoFP 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 2020 of changes to these assumptions (rounded to the nearest ½%).

| Change in Assumption | | Approximate effect on total liability | |
|--|-------------|---------------------------------------|-----------------|
| Financial Assumptions | | | |
| Discount rate ¹ | + ½% a year | - 10.5% | - £24.6 billion |
| Earnings increases ¹ | + ½% a year | + 1.0% | + £2.3 billion |
| Pension increases ¹ | + ½% a year | + 10.5% | + £24.6 billion |
| Demographic assumptions | | | |
| Additional one year increase to life expectancy at retirement ¹ | | + 3.5% | £8.2 billion |

¹ Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

13.4 Analysis of movements in the scheme liability

| | Note | 2019-20 £000 | 2018-19 £000 |
|---|------|----------------------|----------------------|
| Scheme liability at 1 April | | (195,300,000) | (195,500,000) |
| Current service cost | 6 | (4,700,581) | (4,316,583) |
| Past service cost | 6 | (120,000) | (1,900,000) |
| Pension financing cost | 9 | (5,633,141) | (4,982,378) |
| Enhancements | 7 | (1,947) | (1,711) |
| Pension transfers in | 8 | (270) | (512) |
| | | (205,755,939) | (206,701,184) |
| Benefits payable | 13.5 | 4,761,984 | 4,718,453 |
| Pension payments to and on account of leavers | 13.6 | 6,998 | 5,177 |
| | | 4,768,982 | 4,723,630 |
| Actuarial (loss)/gain | 13.7 | (32,113,043) | 6,677,554 |
| Scheme liability at 31 March | | (233,100,000) | (195,300,000) |

13.5 Analysis of benefits paid

| | 2019-20 £000 | 2018-19 £000 |
|--|------------------|------------------|
| Pensions to retired employees and dependants (net of recoveries or overpayments) | 4,331,581 | 4,269,350 |
| Commutations and lump sum benefits on retirement | 430,403 | 449,103 |
| Total benefits paid | 4,761,984 | 4,718,453 |

13.6 Analysis of payments to and on account of leavers

| | 2019-20 £000 | 2018-19 £000 |
|--|-----------------|-----------------|
| Individual transfers to other schemes | 6,998 | 5,177 |
| Total payments to and on account of leavers | 6,998 | 5,177 |

13.7 Analysis of actuarial (gains) / losses

| | 2019-20 £000 | 2018-19 £000 |
|---|---------------------|------------------|
| Experience gain / (loss) arising on the Scheme liabilities | 1,800,000 | (2,222,446) |
| Changes in assumptions underlying the present value of Scheme liabilities | (33,913,043) | 8,900,000 |
| Total actuarial (loss) / gain | (32,113,043) | 6,677,554 |

13.8 History of experience (gains) / losses

| | 2019-20 | 2018-19 | 2017-18 | 2016-17 | 2015-16 |
|--|-------------|-------------|-------------|-------------|--------------|
| Experience (gains) / losses on scheme liabilities: (£000) | (1,800,000) | 2,222,446 | 620,698 | 532,900 | (3,591,808) |
| Percentage of the present value of the scheme liabilities | (0.77%) | 1.14% | 0.32% | 0.28% | (2.47%) |
| Losses / (gains) arising due to changes in actuarial assumptions: (£000) | 33,913,043 | (8,900,000) | (2,200,000) | 42,300,000 | (10,000,000) |
| Percentage of the present value of the scheme liabilities | 14.55% | (4.56%) | (1.13%) | 22.05% | (6.89%) |
| Total amount recognised in Combined Statement of Comprehensive Net Expenditure: (£000) | 32,113,043 | (6,677,554) | (1,579,032) | 42,832,900 | (13,591,808) |
| Percentage of the present value of the scheme liabilities | 13.78% | (3.42%) | (0.81%) | 22.33% | (9.36%) |
| Total cumulative actuarial loss / (gain): (£000) | 127,022,804 | 94,909,761 | 101,587,315 | 103,166,347 | 60,333,447 |

Statement of Financial Position – Armed Forces Compensation Scheme

14. Receivables

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| Amounts falling due within one year: | | |
| Overpaid compensation | 1,114 | 1,074 |
| | 1,114 | 1,074 |

15. Payables

| | 2020 £000 | 2019 £000 |
|---|--------------|--------------|
| Amounts falling due within one year: | | |
| Compensation | 3,286 | 3,459 |
| | 3,286 | 3,459 |

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 seven 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 2020 | 31 March 2019 |
|------------------------------------|---------------|---------------|
| Gross discount rate | 1.80% | 2.90% |
| CPI inflation | 2.35% | 2.60% |
| GIP increases | 2.35% | 2.60% |
| Discount rate net of CPI | -0.50% | 0.29% |
| Discount rate net of GIP increases | -0.50% | 0.29% |

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 2020. 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.

| | 2020 £000 | 2019 £000 |
|---|--------------------|--------------------|
| Balance at 1 April | (2,257,000) | (2,184,839) |
| Use of provision in year | 90,010 | 89,812 |
| Interest on Scheme liabilities | (67,266) | (57,111) |
| Current Service cost – AFCS | (174,376) | (174,247) |
| Experience gain/(loss) arising on Scheme liabilities | 45,000 | - |
| (Loss)/gain due to change in assumptions underlying the present value of Scheme liabilities | (502,168) | 69,385 |
| Balance at 31 March | (2,865,800) | (2,257,000) |
| Breakdown of Balance at 31 March: | | |
| Incidents incurred but not yet claimed – Lump Sums and Guaranteed Income Payments | (146,900) | (157,000) |
| Guaranteed Income Payments – “In Payment” | (2,469,800) | (1,885,000) |
| Guaranteed Income Payments – “Underlying Entitlement” | (249,100) | (215,000) |
| | (2,865,800) | (2,257,000) |

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. Contingent Liabilities disclosed under IAS 37

On the 17 July 2019 the Court of Appeal found in favour of the partner of a deceased Military Officer who was seeking to claim under the AFCS, holding that the rule claim against is discriminatory, and that the foundation for the discrimination is not reasonable in this case. Accordingly, the discrimination is unlawful and cannot be justified or proportionate in the partner's case.

The Military Officer died in 2011 and the partner was deemed ineligible for AFCS death benefits, as she was not in an exclusive relationship with the Officer, having not divorced her previous spouse at the time of the Officer's death. AFCS Article 30(c) states that one of the criteria for determining a "surviving adult dependent" is that the couple "were not prevented from marrying or forming a civil partnership". As a result, The Secretary of State (SoS) for Defence refused the claim.

The Court of Appeal judgement states that the judgement only applies to the Langford case. Following advice from Legal Counsel and MOD lawyers there are no plans to amend the AFPS or AFCS rules, with the settlement being paid outside the Scheme vote. Therefore, the Contingent Liability disclosed in the 2018-19 AFPS financial statements has not materialised as there is no ongoing obligation for similar cases.

19. 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 2019-20, the Schemes received employer contributions (SCAPE) and employees' contributions from MOD in respect of active members of the AFPS. These contributions totalled £3.793Bn, £2.955Bn in 2018-19 (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 2019-20 these totalled £441.1M, £420.6M in 2018-19.

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.

20. Events after the Reporting Period

The full impact of the COVID-19 pandemic is not known and will remain uncertain until further evidence is available. Therefore, no adjustments have been made to the actuarial valuations in respect of the potential impact of the pandemic on Scheme liabilities.

Following legal advice received by HM Treasury in July 2020, the Government launched a consultation on changes to public service pensions to remove discrimination arising from the transitional protection arrangements that were introduced when the schemes were reformed in 2014-15. See Report of the Manager page 16 for further details, including the adjustment made to these financial statements.

For further events after the reporting period see Report of the Managers page 16.

21. 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.

CCS0520627968
978-1-5286-2215-8