
Armed Forces Pension Scheme

(Incorporating the Armed Forces Compensation Scheme)

Annual Accounts 2011-12

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Annual Accounts

2011-12

(For the year ended 31 March 2012)

Presented to the House of Commons pursuant to section 7 of the Government Resources and Accounts Act 2000.

*Ordered by the House of Commons to be printed on
4 July 2012*

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This publication is available for download at www.official-documents.gov.uk

ISBN: 9780102979671

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID P002498830 07/12

Printed on paper containing 75% recycled fibre content minimum.

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Report of the Managers

History and Statutory Background

The Armed Forces Pension and Compensation Schemes

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

The Armed Forces Pension Scheme (AFPS 05)

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

The Armed Forces Compensation Scheme (AFCS)

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

The Armed Forces Pension Scheme (AFPS 75)

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

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

The Scheme provides immediate pension benefits to many of those who leave without completing a full career but who have completed at least 16 years reckonable service for Officers and 22 years reckonable service for Other Ranks. The full career pension can be earned relatively early, at age 55, and invaliding and death benefits are available in the event of illness, injury or death at different rates depending upon whether or not these are caused by service. From 6 April 2005, unless already in payment at that date, these benefits are not provided for service related illness, injury or death but are provided by the Armed Forces Attributable Benefits Scheme (AFABS) where the cause is service prior to that date and the AFCS where the cause is service after that date. For those who leave without entitlement to immediate pensions but who have completed at least 2 years reckonable service a preserved pension is payable at the age of 60 for service before 6 April 2006 and age 65 for service after that date.

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

The Armed Forces Attributable Benefits Scheme

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

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

Reserve Forces Pension Schemes

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

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

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

Non Regular Permanent Staff Pension Scheme

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

Gurkha Pension Scheme

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

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

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

Minor Pension Schemes

In addition to the above schemes, the AFPS also manages a number of minor pension schemes covering Locally Employed Personnel in such places as Malta, Gibraltar, Cyprus, Palestine, Fiji (Malayan Campaign), Singapore, Malaya, Hong Kong, Seychelles, Sri Lanka, India/Pakistan (Hong Kong Singapore Royal Artillery), former Palestine, Syria and the Lebanon, Egypt, Mauritius and Dependencies and the West Indies.

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

Management of the Schemes

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

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

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

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

SPVA Management Board

| | |
|--|---|
| Mrs K Barnes (until 23 Oct 2011) | Chief Executive |
| Air Vice-Marshal R Paterson (from 24 Oct 2011) | Chief Executive |
| Commodore R Albon (until 14 Feb 2012) | Deputy Chief Executive / Head Strategy and Programmes |
| Air Commodore C Bray | Head Military Operations and Development |
| Mr J Parkin | Head Veterans Services |
| Mrs K Humberstone | Head Corporate Services |
| Mr D Allen (from 27 Feb 2012) | Acting Head Corporate Services |
| Mr A Jablonowski (until 28 Jun 2012) | Non Executive Director |
| Mrs B Curtis (until 27 Jan 2012) | Non Executive Director |

National Fraud Initiative

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

| NFI Exercise | Total Cases | Total Identified £000 | Recovered £000 | Written-off £000 | Outstanding at 31/03/2012 £000 |
|---------------------|--------------------|------------------------------|-----------------------|-------------------------|---------------------------------------|
| NFI 2002 | 252 | 1,071 | 762 | 275 | 34 |
| NFI 2004 | 257 | 426 | 354 | 66 | 6 |
| NFI 2006 | 297 | 789 | 693 | 82 | 14 |
| NFI 2008 | 175 | 959 | 849 | 30 | 80 |
| NFI 2010 | 126 | 455 | 268 | 6 | 181 |

Changes during the year

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

Armed Forces Pension Schemes

The Pensions increase rate was 3.1% (2010 0.0%) with effect from 11 April 2011 (12 April 2010).

Armed Forces Compensation Scheme

In February 2010 the Review of the Armed Forces Compensation Scheme was published and included recommendations for change including:

- Increasing the Guaranteed Income Payment to reflect the lasting effect of more serious injuries on likely promotions and on the ability to work to age 65.
- The top level of award, already doubled in 2008, remaining at £570,000.
- Increasing all other award levels.
- Increasing the maximum award for mental illness.
- A new expert medical body to advise on compensation for particular illnesses and injuries such as hearing loss, mental health and genital injury.
- The burden of proof remaining largely as it is but making improvements in cases of illness and where records have not been properly maintained.
- Increasing the time limits by which claims must be made.
- Introduction of a new fast interim payment so those injured can receive some compensation before the entire claims process is complete.
- Improving the way in which we communicate the Scheme to Service personnel and their families, focusing on how the Scheme works, what payments individuals might be entitled to, and the calculations behind them.

Throughout 2010 and early 2011, detailed development of the policy and legislation to effect these recommendations was undertaken, and revised legislation governing the Scheme was laid on 28 February 2011. The legislation was enacted on 9 May 2011.

As the Review also recommended that all those who have already received an award under the Scheme should also benefit from the changes, an exercise has been undertaken by SPVA to revisit previous awards.

Some 10,500 awards have been revisited and revalorised at a cost of £50million to the scheme. This exercise was completed ahead of schedule on 31 March 2012.

Membership Statistics

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

There are three groups, defined as follows:

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

Active members

| | | |
|--------------|--|-----------------------|
| | Active members brought forward from 31 March 2011 | 199,239 |
| | Adjustment (see Membership Statistics note 6) | 115 |
| | Total active members at 31 March 2011 | <u>199,354</u> |
| <i>Add:</i> | New entrants in year | 16,980 |
| | Transfers in | 33 |
| <i>Less:</i> | Deaths in service | (140) |
| | Left active service with under 2 years service and no benefits | (4,698) |
| | Left active service with deferred benefits | (10,943) |
| | Left active service and received benefits | (8,571) |
| | Active members at 31 March 2012 | <u>192,015</u> |

Deferred and unclaimed benefits

| | | |
|--------------|--|-----------------------|
| | Deferred members brought forward from 31 March 2011 | 414,096 |
| | Adjustments (see Membership Statistics note 6) | 9,203 |
| | | <u>423,299</u> |
| | Being: | |
| | Deferred benefits | 407,593 |
| | Benefits due but unclaimed | 15,706 |
| | Total deferred and unclaimed benefits at 1 April 2011 | <u>423,299</u> |
| <i>Add:</i> | Benefits not immediately payable | 16,047 |
| | New benefit on divorce | 222 |
| <i>Less:</i> | Transfers out | (694) |
| | Benefits taken up | (3,231) |
| | Benefits elapsed (see Membership Statistics note 5) | (1,101) |
| | | <u>434,542</u> |
| | Being: | |
| | Deferred benefits | 417,262 |
| | Benefits due but unclaimed | 17,280 |
| | Total deferred and unclaimed benefits 31 March 2012 (405,797 members) | <u>434,542</u> |
| | (see Membership Statistics note 4) | |

Benefits in payment

| | |
|--|-----------------------|
| Benefits brought forward from 31 March 2011 | |
| - Members | 327,421 |
| - Dependants | <u>73,321</u> |
| Total | <u>400,742</u> |
| Adjustments due to data received post 31 March 2011 | |
| - Members | (112) |
| - Dependants | <u>25</u> |
| Total benefits at 1 April 2011 | <u>400,655</u> |
| <i>Add:</i> Benefits that became payable in the year | |
| - Members | 11,548 |
| - Dependants | <u>3,781</u> |
| <i>Less:</i> Benefits that have ceased in the year | |
| - Members | (6,031) |
| - Dependants | <u>(3,689)</u> |
| | <u>406,264</u> |
| Being: | |
| - Members | 332,826 |
| - Dependants | <u>73,438</u> |
| Total benefits in payment at 31 March 2012 | <u>406,264</u> |

Membership Statistics Notes

- 1 Individuals may be a member of more than one Scheme.
- 2 A member may be entitled to more than one benefit under a scheme (see above).
- 3 Where a member is divorced or their civil partnership is dissolved and the ex-spouse/partner is entitled to a proportion of the benefit, the deferred figures show both benefits when notified to the Scheme administrators post March 2006. Benefits in payment show both benefits.
- 4 Comparison of movements between tables cannot be made due to the use of Members in one table and Benefits in the other tables, as explained above.
- 5 Where a member has not claimed benefits within 7 years of eligible pension age they are assumed not to claim.
- 6 The Active and Deferred Members brought forward from 31 March 2011 have been restated to account for better information obtained from the membership database. A new membership report was introduced in 2011-12 which identified Deferred records that were previously omitted due to doubts over their validity and a coding error in the previous report. Testing undertaken in 2011-12 has determined that the majority of the records identified have a valid pension liability and have therefore been valued by the Government Actuary's Department (GAD). The database used to manage Active and Deferred members is a dynamic system that allows records to be updated retrospectively. It is therefore accepted that the opening balance will not reconcile to the previous years closing balance.
- 7 The GAD valuation includes approximately 30,000 members with estimated benefits. This is due to one or more of the elements required to determine the benefit being missing from the database.
- 8 The Minor Pension Schemes' membership data, equating to 202 active members, 32 deferred benefits and 3,015 benefits in payment are excluded from the these figures.

Increase in the total liability of the AFPS

The total liability of the AFPS is £105.6Bn as at 31 March 2012 (£100.6Bn as at 31 March 2011 as restated). A full reconciliation of the change in liability over the year is provided in Note 16.4, page 38. The total change in liability represents an increase of £5.0Bn and resulted in an actuarial loss of £1.0Bn. Under International Financial Reporting Standards (IFRS), amounts payable or receivable in the future are discounted to reflect the fact the value of having cash now is greater than for the same amount in the future. In 2011-12 the decrease in the discount rate net of pension increases (from 2.9% to 2.8%) has led to an increase in the future liability. Changes in financial assumptions underlying the Scheme liabilities accounted for a £0.7Bn actuarial loss. The remaining £0.3Bn was as a result of an experience loss (£0.7Bn) and a mortality assumptions gain (£0.4Bn). An experience loss reflects the extent to which events over the reporting period have not coincided with the actuarial assumptions made for the last assessment.

The liabilities of the Minor Pension Schemes, estimated at £0.1Bn, are not included in the total liability reported in these accounts.

Changes in Accounting standards

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

Issues arising during 2011-12

Legal appeal in relation to change from Retail Price Index (RPI) to Consumer Price Index (CPI) for the price indexation of public sector pensions

The Government announced in the June 2010 Budget that its policy was to use the CPI rather than the RPI to uprate many tax credits, benefits and pensions. A legal challenge was raised to the use of CPI in uprating public service pensions, and on 2 December 2011 the High Court found for the Government on all four grounds of challenge to the Secretary of State's CPI uprating decision applicable to social security pensions and benefits, and the effects on public service pensions. The High Court granted permission to the claimants to appeal on two grounds and on 20 March 2012 the Court of Appeal unanimously found for the Government on those two grounds.

Abatement of AFPS 75 attributable benefits

In 1987 the law was changed to allow individuals to sue the MOD. At the same time the governing legislation of the AFPS 75 was amended to allow attributable pensions to be abated where a civil settlement was made in order to maintain the legal principle of no double recovery of damages.

Investigations in 2011-12 have discovered past systemic problems associated with the abatement of attributable benefits under the AFPS 75. For the majority of civil cases that the MOD has settled since 1987, where attributable benefits are in payment, abatement has either not been applied or it has been applied incorrectly. Many of these problems arose due to the previous organisational structure of pensions delivery, where each Service operated separately, and from subsequent re-organisations when assumptions were made about actions taken by precursor organisations.

Analysis of historic cases identified in total 268 AFPS 75 cases affected by this issue. Measures have now been implemented to rectify the issues identified and to ensure that the correct level of abatement is applied to all cases where civil settlement is made. The estimated amount of the foregone abatement is disclosed in Note 22 to the accounts.

Pension Credit Members

Where there is a divorce or dissolution of a civil partnership, an ex-spouse/partner may be allocated a certain proportion of a member's pension through the mechanism of a Pension Sharing Order. The ex-spouse/partner becomes a member of the relevant pension scheme in their own right and on achieving pension age gets a monthly payment from the scheme in the same way as any other member. He or she is known as a Pension Credit Member (PCM).

Department for Work and Pensions (DWP) legislation introduced in April 2009 changed the rules regarding the age at which pensions could be paid to PCMs. The aim of the change was to align the position of PCMs, as far as possible, with that of deferred members of pension schemes. The effect of this was to make it possible for pension credit benefits to be paid earlier than the normal benefit age of 60 or 65, but at an actuarially reduced rate.

The amendment to DWP legislation was interpreted incorrectly. At the time, it was believed that the revision to the DWP legislation meant that PCM's pensions were to be calculated so that they became payable from age 55. This misinterpretation resulted in 128 cases where PCMs were paid a pension as if it were due at age 55. The mistake was discovered during 2010 and the AFPS regulations have since been amended to provide that a PCM may opt to receive a pension at an actuarially reduced rate from the age of 55. The correct policy has been applied to all new cases since March 2011. Those incorrect pensions currently in payment will be amended to take account of the policy change with effect from June 2012. However, with the agreement of HM Treasury, there will be no recovery of any overpayments that may have been made up to that date.

Future Armed Forces Pension Scheme

A new Armed Forces Pension Scheme (currently referred to as Future AFPS) is planned to be introduced from April 2015.

The MOD and HM Treasury have now reached agreement on the protection of accrued rights to AFPS 75 and AFPS 05 pension benefits earned by Service personnel prior to enrolment in the new AFPS. Service personnel who are enrolled into the Future AFPS will have the rights to the pension benefits they have earned up to the introduction of the new Scheme protected.

Once the new AFPS has been introduced, any further pension rights will be earned under the rules of that Scheme.

All members within 10 years of their normal pension age on 1 April 2012 will see no change to the amount of pension they will receive or the time at which it can be drawn.

As this new pension scheme is only in the primary phases of consultation, no further information is currently available. Therefore, no allowance for any future changes has been made in these financial statements.

Information for members

Freestanding Additional Voluntary Contributions (FSAVC)

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

Enhancements

Active members in the AFPS 75 Scheme may, under certain circumstances, and at the discretion of and at rates agreed from time to time by the Secretary of State for Defence, and in accordance with Inland Revenue rules, pay Additional Voluntary Contributions (AVCs) for:

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

Active members in the AFPS 05 Scheme may only purchase additional years of service.

Managers, Advisers and Employers

Managers

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Comptroller and Auditor General
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Employer

Ministry of Defence

Further information

Any enquiries about the AFPS or AFCS should be addressed to:

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Blackpool FY5 3WP

Ursula Brennan
Accounting Officer for the Armed Forces Pension Scheme
and Armed Forces Compensation Scheme

25 June 2012

**Report of the Actuary for the Armed Forces Pension Scheme
for Accounts for the Year Ended 31 March 2012**

Introduction

1. This statement has been prepared by the Government Actuary's Department ('GAD') at the request of the Ministry of Defence ('MOD'). It summarises the pensions disclosures required for the 2011-12 Accounts of the Armed Forces Pension Scheme ('AFPS').
2. The AFPS is a final salary defined benefit scheme, the rules of which are set out in the Army Pensions (Armed Forces Pension Scheme 1975 and Attributable Benefits Scheme) Warrant 2010 (and Naval and Marine, and Royal Air Force equivalents), and the Armed Forces Pension Scheme Order 2005 (SI 2005/438), and subsequent amendments. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation (under IAS 19 constructive obligations should be included in the measurement of the actuarial liability). The liabilities disclosed in this statement also include an allowance for the benefits accrued by personnel who are in the Reserve Forces Pension Scheme (RFPS), the Full-Time Reserve Service Pension Scheme (FTRS), the Non-Regular Permanent Staff Pension Scheme (NRPS) and the Gurkha Pension Scheme (GPS) and benefits payable from the Early Departure Payments (EDP) arrangement.
3. The statement is based on the results of an interim valuation of the scheme's liabilities as at 31 March 2008, with an approximate updating to 31 March 2012 to reflect known changes.

Membership data

4. The data used to prepare this assessment was provided by the Service Personnel and Veterans Agency ('SPVA'). Total Pensionable Pay and Total Pensions in Payment at 31 March 2012 are based on data provided as at 29 February 2012. SPVA has indicated that the number of deferred members provided for the assessment as at 31 March 2012 (404,090 as at 29 February 2012) corresponds with the number of benefit records (432,227 as at 29 February), including members of NRPS, disclosed in the accounts. Data as at 29 February 2012 has been used to prepare the accounting liabilities as at 31 March 2012. SPVA have confirmed the corresponding figures in these accounts which are stated as at 31 March 2012 are consistent with those provided as at 29 February 2012. GAD has no independent means of verifying the data provided for the assessment, particularly the number of deferred members. GAD has therefore relied on the assurances provided by SPVA. Any subsequent revisions to this data may cause consequential changes in the liabilities as at 31 March 2012 disclosed in this assessment.
5. Tables A to C summarise the principal membership data as at 31 March 2008 and 31 March 2012 used to prepare this statement.

Table A – Active members

| 31 March 2008 | | 31 March 2012 |
|-----------------------|--|---|
| Number (thousands) | Total Pensionable Pay † (£ million pa) | Total Pensionable Pay * (£ million pa) |
| 198 | 5,922 | 6,216 |

† Including increases applying in April of year

* Estimated using data as at 29 February 2012.

Table B – Deferred members

| 31 March 2008 | 29 February 2012 |
|-----------------------|-----------------------|
| Number (thousands) | Number (thousands) |
| 356 | 404 |

Table C – Pensions in payment

| 31 March 2008 | | 31 March 2012 |
|-----------------------|--------------------------------------|--------------------------------------|
| Number (thousands) | Total pension † (£ million pa) | Total pension * (£ million pa) |
| 361 | 2,673 | 3,211 |

† Including increases applying in April of year

* Estimated using data as at 29 February 2012

Methodology

6. The present value of the liabilities has been determined using the Projected Unit Method, with allowance for expected future pay increases in respect of active members which also includes full allowance for expected short-term future salary increases effective from April 2012, 2013 and 2014, and the principal financial assumptions applying to the 2011-12 Accounts. The contribution rate for accruing costs in the year ended 31 March 2012 was determined using the Projected Unit Method and the principal financial assumptions applying to the 2010-11 Accounts.
7. This statement takes into account the benefits normally provided under the AFPS, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes pensions already in payment in respect of such cases. It does not include the cost of additional death benefits or injury benefits provided through the Armed Forces Compensation Scheme (in excess of ill-health benefits).
8. The liabilities disclosed in this statement include the benefits accrued by personnel who are in the Gurkha Pension Scheme (GPS). Full data was not available for this group of personnel and therefore only a very approximate allowance has been made. The liabilities disclosed also include an approximate allowance in respect of past service costs for current GPS members resulting from the Gurkha Offer to Transfer.

Principal financial assumptions

9. The principal financial assumptions adopted to prepare this statement are shown in Table D. With effect from 31 March 2012, the assumed rate of return in excess of prices was decreased from 2.9% a year to 2.8% a year, and the assumed rate of return in excess of earnings was decreased from 0.7% a year to 0.6% a year. In addition, with effect from 31 March 2012, the assumed rate of future pension increases is 2.0% a year and the assumed nominal rate of salary growth is 4.25% a year (changed from 2.65% and 4.9% respectively as at 31 March 2011).

Table D – Principal financial assumptions

| Assumption | 31 March 2012 | 31 March 2011 |
|--------------------------------|----------------------|----------------------|
| Rate of return (discount rate) | 4.85% | 5.6% |
| Rate of return in excess of: | | |
| Earnings increases* | 0.6% | 0.7% |
| Pension increases | 2.8% | 2.9% |
| Expected return on assets: | n/a | n/a |

* Excluding effect of short-term adjustments

10. The pension increase assumption as at 31 March 2012 is based on the Consumer Price Index (CPI) expectation of inflation.
11. When considering the assumed rate of future earnings growth, we have been instructed to include an allowance to reflect the decision not to increase certain military salaries over the year 2012/13 and allow for the subsequent period of pay restraint in the years 2013/14 and 2014/15.

Demographic assumptions

12. The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.
13. The standard mortality tables known as PXA-92 are used but with adjustments derived from recent scheme experience. An age rating of -1 year applies to officers, both current and future pensioners (that is they are assumed to experience the mortality rates given in the standard tables but at ages one year younger than their actual age). An age rating of +1 years applies to other ranks, both current and future pensioners. Mortality improvements are in accordance with those incorporated in the 2010-based principal population projections for the United Kingdom. These assumptions are the same as adopted for the 2010-11 Accounts except for the allowance for mortality improvements.
14. The reforms to the scheme due to be implemented in April 2015 may affect the actual demographic experience of the scheme. For example, changes to the generosity or timing of pension and EDP benefits may cause behavioural changes in the timings of exits from service. Given the uncertainty surrounding these changes and their potential impact on member behaviour, the MOD has decided to make no allowance for them for the purposes of the 2011-12 Accounts.
15. The contribution rate used to determine the accruing cost in 2011-12 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2010-11 Accounts.

Liabilities

16. Table E summarises the assessed value as at 31 March 2012 of benefits accrued under the scheme prior to 31 March 2012 based on the data, methodology and assumptions described in paragraphs 3 to 14. The corresponding restated figures for the previous four year ends are also included in the table.

Table E – Statement of Financial Position

£ billion

| | 31 March 2012 | 31 March 2011* | 31 March 2010* | 31 March 2009* | 31 March 2008* |
|--|------------------|-------------------|-------------------|-------------------|-------------------|
| Total market value of assets | nil | nil | nil | nil | Nil |
| Value of liabilities | (105.6) | (100.6) | (121.9) | (91.8) | (98.1) |
| Surplus/(Deficit) | (105.6) | (100.6) | (121.9) | (91.8) | (98.1) |
| of which recoverable by employers | n/a | n/a | n/a | n/a | n/a |

* Figures restated to reflect additional 26,086 deferred members not previously included in prior assessments.

Accruing costs

17. The cost of benefits accruing in the year ended 31 March 2012 (the Current Service Cost) is based on a standard contribution rate of 43.2% of Officer pensionable salaries, and 32.8% of Other Ranks pensionable salaries. The AFPS is non-contributory for members. Table F shows the cost of benefits accruing for each year of service, which is met fully by the employer. The corresponding figures for 2010-11 are also included in the table.

Table F – Contribution rate

| Percentage of pensionable pay | 1 April 2011 to 31 March 2012 | 22 June 2010 to 31 March 2011 | 1 April 2010 to 21 June 2010 |
|-------------------------------|-------------------------------------|-------------------------------------|------------------------------------|
| | Officers | 43.2% | 48.0% |
| Other Ranks | 32.8% | 36.8% | 43.1% |

18. The corresponding figures for 2010-11 reflect that on 22 June 2010, the Government announced the adoption of the Consumer Prices Index (CPI), rather than the Retail Prices Index (RPI), for the indexation of public service pensions from April 2010. The standard contribution rate as assessed last year is used to calculate the Current Service Cost up to 22 June 2010. For the rest of the year, a revised standard contribution rate applies allowing for the change in benefit indexation.
19. For the avoidance of doubt the employers' share of the standard contribution rate determined for the purposes of the Accounts is not the same as the actual rate of contributions payable by employers, currently 41.8% for Officers and 28.4% for Other Ranks, which was determined based on the methodology and the financial and demographic assumptions adopted for the funding of the scheme. (Note this excludes the cost of the Armed Forces Compensation Scheme). The most significant difference between the actuarial assessments for Accounts and for scheme funding purposes is the discount rate net of price increases, which was 2.9% pa for the 2011-12 Current Service Cost (for the 2010-11 Current Service Cost it was 1.8% pa up to 22 June 2010 and 2.5% thereafter) compared with 3.5% pa for the existing scheme funding rate (note that the discount for scheme funding purposes has been reviewed and reduced to 3% but this does not affect the current rate of contributions). A higher discount rate for scheme funding purposes results in a lower assessed cost of benefit accrual. The discount rate for scheme funding is set by HM Treasury, and is expected to stay the same for an extended period so as to provide a stable budgeting mechanism for pension accrual within government. The discount rate for Accounts is set each year by HM Treasury to reflect the requirements of IAS19.

20. The pensionable payroll for the financial year 2011-12 was £6.2 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2011-12 (of 43.2% of Officer pensionable salaries, and 32.8% of Other Ranks pensionable salaries) is assessed to be £2.2 billion. There is no past service cost and so this is the total pension cost for 2011-12.

Stephen Humphrey
Government Actuary's Department
29 May 2012

Statement of Accounting Officer's Responsibilities

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

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

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

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

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

The Governance Statement

Scope of responsibilities

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

The purpose of the governance framework

4. The governance framework comprises the systems and processes, and culture and values, by which the Schemes are administered and controlled. It also includes the activities by which they account to Parliament.
5. The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and therefore can only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Schemes’ policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
6. The governance framework has been in place for the Schemes for the year ended 31 March 2012 and up to the date of approval of the annual report and accounts.

The Schemes Governance Framework

7. The Secretary of State has delegated responsibility for the management of the Schemes to me. I have delegated responsibility for day to day administration of the Schemes to the Chief Executive of the Service Personnel & Veterans Agency (SPVA) and I have delegated the role of Senior Finance Officer for the Schemes to SPVA Head of Corporate Services.
8. Administration of the Schemes is currently delivered through a combination of Ministry of Defence (MOD) Civilian and Service Personnel within SPVA and its contractors Hewlett Packard Enterprise Services Ltd (HP) via a commercial partnering agreement. The arrangement for joint working with HP is governed by commercial agreements and managed by the Agency Management Board (MB). The Service Delivery Working Group meets monthly to discuss with HP their performance against key indicators.
9. The MB is chaired by the Chief Executive, and consists of four executive Heads of Department and a non-executive director. The Board met 11 times during the year and considered the performance of the agency against key indicators in respect of the administration of pensions. It also considered any reported failures of performance whether or not these resulted in errors.

Board Members

| Board Composition | Meetings attended |
|---|-------------------|
| Chief Executive: Kathy Barnes (until 23 October 2011) AVM Ross Paterson (from 24 October 2011) | 6 of 6 5 of 5 |
| Non-executive directors: Alex Jablonowski (until 28 June 2012) Bronwen Curtis (until 27 January 2012) | 2 of 3 8 of 9 |
| Executives: | |
| Cdre Ross Albon ¹ Hd of Strategy & Policy (until 14 February 2012) | 3 of 4 |
| Jon Parkin Hd of Veterans Services | 11 of 11 |
| Kim Humberstone ² Hd of Corporate Services and Senior Finance Officer | 9 of 9 |
| David Allen Acting Hd of Corporate Services | 2 of 2 |
| Air Cdre Christopher Bray Hd of Military Operations & Development | 10 of 11 |

10. The Audit and Scrutiny Committee, chaired by a non-executive director, is responsible for monitoring the development and effectiveness of corporate governance within the Schemes. They met four times during the year. They considered: the Annual Report & Accounts; the issue of non-abatement of pensions when civil damages had been awarded and the processes put in place to prevent a recurrence; and the issue of erroneous policy in respect of pension sharing on divorce.

Risk Assessment

11. Risk assessment processes within SPVA have remained strong throughout the year. Risks are identified and recorded on the SPVA risk registers. These risks are reviewed on a monthly basis by the Assistant Heads' Group. The most critical are escalated to the MB where the impacts are assessed and appropriate mitigating action taken. Any risks not capable of being managed at Board level are escalated to the Deputy Chief of Defence Staff (Personnel & Training) and/or DG Finance, and ultimately to me.

The Risk and Control Framework

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

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

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

15. The Schemes' financial management arrangements conform to the requirements of HM Treasury as laid out in "Managing Public Money". Financial information is reported monthly to Hd Corporate Services and Hd Veterans Services but during 2011-12 this information was not reviewed routinely by the Board as a whole. During 2012-13 it is proposed that the Board will monitor the

¹ Cdre Ross Albon was on intermittent periods of extended leave during the year and left the Board on 14 February 2012.

² Mrs Humberstone is a member of the Territorial Army and was mobilised for deployment in February 2012. She is due to return in January 2013.

financial performance of the Schemes at least quarterly. The SPVA Acting Head of Corporate Services is the Acting Senior Finance Officer for the Schemes and is a key member of the MB. The financial management processes are periodically reviewed by Defence Internal Audit (DIA).

Information Assurance

16. Data is managed in accordance with the principles of HM Government’s Information Assurance Maturity Model³. Information Assurance training is provided and is mandatory up to Level 2 for all SPVA staff. Level 3 is required for those with specific Information Asset Owner/Custodian responsibilities. The Agency acquired IAMM level 3 status during the year, as assessed by the Chief Information Officer of the MOD.

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

Business Continuity

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

19. The Disaster Recovery (DR) Plan for the Compensation and Pensions System (CAPS) has recently been rewritten to take account of changes in the administration of AFPS/AFCS. This plan is subject to test at least annually.

20. There have been no significant Business Continuity incidents affecting the delivery of AFPS/AFCS during 2011-12.

Review of Effectiveness

21. As Accounting Officer, I have responsibility for reviewing the effectiveness of the governance framework. My review of the effectiveness of the governance framework is informed by the work of DIA, the executive managers within the SPVA who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the governance framework by the SPVA Board and ASC, and a plan to address weaknesses and ensure continuous improvement of the framework is in place.

22. In the current year the effectiveness of the governance framework operating within the SPVA has been subject to continuous review. Activities that have significantly contributed to maintaining and improving effectiveness include:

- The SPVA MB met 11 times during the year in order to advise and support me in developing a strategy and overseeing plans for delivering the Schemes’ objectives and internal measures of performance. This year has again been challenging in the light of the continuing financial pressures imposed on MOD and the re-tendering process for the contract to deliver pensions administration. The current contract with HP ends in November 2012. The Board has sought to ensure that processes and procedures are taut and reflect the principles of applying value for money;
- The Agency’s Non-Executive Directors were fully involved in the management of the Agency’s business providing independent advice to the Centre, the SPVA MB and the AC. However, due to other commitments, Bronwen Curtis resigned in January 2012 and a replacement was not found until May. Consequently the Board have been without a non-executive director for four months.

³ <http://www.cesg.gov.uk/Publications/Documents/iamm-assessment-framework.pdf>

- The ASC provided advice on the adequacy of internal and external audit arrangements and on the implications of assurances provided in respect of risk, control and governance processes within the organisation. The ASC monitored progress made on audit recommendations (made by DIA and the NAO) and progress with current initiatives.
- During the year DIA completed one full scope audit of AFPS compensation payments and abatements which highlighted significant weaknesses. A follow-up 3 months later indicated satisfactory progress had been made against the original agreed actions. In addition, validations of management's own control framework reviews covering AFPS and AFCS were undertaken. These were not full scope audits and contained no detailed testing; as such they did not offer formal audit opinions. The main findings related to resourcing issues impacting upon retention of skills and knowledge and legacy system issues requiring workaround solutions to be maintained. The Head of Internal Audit has stated that the amount of work which DIA have undertaken on AFPS this year has been insufficient to allow him to issue a separate Annual Assurance Review but this has been consolidated into the overall review issued to DCDS (Pers & Trg). During 2012-13 DIA will undertake a programme of audits that will enable the production of a separate Assurance Review for the Schemes.
- The Agency has a fraud focal point offering advice and guidance on fraud related matters, additionally all staff have direct access to the Defence Irregularity Reporting Cell to escalate any instances of suspected fraud. In addition to the work of the DIA, the Agency continued to utilise the National Fraud Initiative (NFI) to identify potential AFPS fraudulent claims and a small internal team is resourced to investigate any potential fraudulent AFCS claims. The Report of the Managers on pages 2 to 10 contains details of the results of the NFI exercises since 2002.
- Two audits of selected AFPS pension payments and related procedures were also undertaken by the Pensions Finance Team in respect of services provided by Xafinity Paymaster; no significant weaknesses were identified. Additionally, the Quality Assurance Team undertook financial accuracy post payment checks on a sample of AFCS payments and found no significant errors or omissions;
- The AFPS Risk and Control Framework has been updated and documented in accordance with current best practice. The AFCS Risk and Control Framework will be documented during 2012-13 following changes to working practices made following the review of AFCS by Admiral the Lord Boyce.
- The Chief Information Officer of the MOD has reviewed the processes and procedures in place for ensuring the safe handling of personal data and other protected information. He has stated that the conditions for provisional IAMM level 3 accreditation have been met.

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

Significant Governance Issues

24. In the 2008-09 AFPS Statement of Internal Control, I made reference to the fact that the SPVA was still experiencing difficulty in establishing the number of members within the AFPS. Significant work was undertaken during 2009-10 with further work undertaken in 2010-11 to improve the reliability of membership data extracted from the Compensation and Pension System (CAPS), particularly in relation to deferred pensions. Further work in respect of deferred members was carried out in 2011-12 which resulted in a further 26,086 members⁴ being included in the calculation of future liabilities.

25. During 2011-12, investigations discovered past systemic problems relating to the abatement of attributable benefits under the Armed Forces Pension Scheme 1975 (AFPS 75) when the MOD has also paid related civil compensation. This issue dates from 1987 when legislation was changed to allow individuals to sue the MOD. At the same time the governing legislation of the AFPS 75 was amended to

⁴ These additional members are: 16,808 members over normal retirement age who have not yet claimed their pension; 5,137 members whose pension entitlement is not recorded within the IT systems; and 4,141 members whose pension entitlement is less than £10 per annum.

allow for attributable pensions to be abated where civil compensation was awarded. Due in part to the previous organisational structure of pensions delivery, abatement was not applied consistently across all cases. Some 268 cases have been identified where abatement has either been applied incorrectly or not applied at all. Due to the age of these cases, the necessary information to correct the abatements is no longer available. For this reason we have been unable to be specific about the value of these unapplied abatements. Work carried out by DIA, however, based on average abatements applied correctly and the average length of time abated pensions have been in payment, has produced an estimated total value of £11.6M for past abatements foregone and a figure of £0.96M per annum for future abatements also foregone. I have agreed, with the consent of HM Treasury, that no adjustments will be made to these pensions.

26. The centralisation of pensions delivery has now removed most of the issues surrounding the way abatements are applied and I have agreed that the processes within SPVA and MOD legal branch will be reaffirmed and controls will be strengthened to ensure that correct abatement is now applied in the future.

Future Improvements

27. The Independent Public Service Pensions Commission made a number of recommendations about the future governance of public service pension schemes⁵. In particular:

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

In advance of the introduction of the Public Service Pensions Bill later this year, my officials are considering how best these recommendations might be met in respect of the Armed Forces Pension and Compensation Schemes.

Ursula Brennan
Accounting Officer for the Armed Forces Pension Scheme
and Armed Forces Compensation Scheme

25 June 2012

⁵ Independent Public Service Pensions Commission: Final Report March 2011

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

I certify that I have audited the financial statements of the Armed Forces Pension Scheme for the year ended 31 March 2012 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Combined Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against Parliamentary control totals and that those totals have not been exceeded. 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.

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 2012 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2012 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

28 June 2012

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2011-12

| £000 | | | | | | | | 2011-12 | 2010-11 |
|---------------------------------------|----------|------------------|-----------|------------------|------------------|-----------|------------------|--|--------------------|
| | Estimate | | | | Outturn | | | Voted outturn compared with Estimate: saving/ (excess) | Outturn Total |
| | Note | Voted | Non-Voted | Total | Voted | Non-Voted | Total | | |
| Departmental Expenditure Limit | | | | | | | | | |
| - Resource | | - | - | - | - | - | - | - | |
| - Capital | | - | - | - | - | - | - | - | |
| Annually Managed Expenditure | | | | | | | | | |
| - Resource | 3 | 7,090,002 | - | 7,090,002 | 7,071,710 | - | 7,071,710 | 18,292 | (8,766,036) |
| - Capital | | - | - | - | - | - | - | - | - |
| Total Budget | | 7,090,002 | - | 7,090,002 | 7,071,710 | - | 7,071,710 | 18,292 | (8,766,036) |
| Non-Budget | | | | | | | | | |
| - Resource | 3 | - | - | - | - | - | - | - | - |
| Total | | 7,090,002 | - | 7,090,002 | 7,071,710 | - | 7,071,710 | 18,292 | (8,766,036) |

| | | | | | | | | | |
|----------------|---|------------------|----------|------------------|------------------|----------|------------------|---------------|--------------------|
| Total Resource | | 7,090,002 | - | 7,090,002 | 7,071,710 | - | 7,071,710 | 18,292 | (8,766,036) |
| Total Capital | | - | - | - | - | - | - | - | - |
| Total | 4 | 7,090,002 | - | 7,090,002 | 7,071,710 | - | 7,071,710 | 18,292 | (8,766,036) |

Net Cash Requirement 2011-12

| £000 | Note | 2011-12 | 2011-12 | | 2010-11 |
|------|------|------------------|------------------|--|------------------|
| | | Estimate | Outturn | Outturn compared with Estimate savings/ (excess) | Outturn |
| | 5 | 1,909,082 | 1,816,738 | 92,344 | 1,715,513 |

Administration Costs 2011-12

| 2011-12 | 2011-12 | 2010-11 |
|----------|---------|---------|
| Estimate | Outturn | Outturn |
| - | - | - |

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

Explanation of variances between Estimate and Outturn

The Outturn is less than the Estimate due, in the main, to a lower interest charge than anticipated in relation to both the Armed Forces Pension Scheme and the Armed Forces Compensation Scheme.

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

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

The Notes on pages 29 to 42 form part of these accounts.

Combined Statement of Comprehensive Net Expenditure

for the year to 31 March 2012

| | | 2011-12 | 2010-11 |
|--|------|-------------------------|----------------------------|
| | | <u>£000</u> | <u>Restated</u> |
| | Note | <u>£000</u> | <u>£000</u> |
| Principal Arrangements – Armed Forces Pension Scheme | | | |
| Income | | | |
| Contributions receivable | 6 | (2,107,085) | (1,857,016) |
| Transfers in | 7 | (1,636) | (2,026) |
| Other pension income | 8 | - | (29) |
| Expenditure | | | |
| Current service cost | 9 | 2,196,407 | 2,577,399 |
| Past service cost | 9 | - | (14,900,000) |
| Enhancements | 10 | 698 | 703 |
| Transfers in | 11 | 1,636 | 2,026 |
| Interest on Scheme liabilities | 12 | 5,591,089 | 5,061,352 |
| | | <u>5,681,109</u> | <u>(9,117,591)</u> |
| Net Expenditure / (Income) | | | |
| Armed Forces Compensation Scheme | | | |
| Movement in provision for AFCS | 19 | 456,369 | 78,785 |
| Interest on Scheme liabilities | 19 | 34,232 | 23,054 |
| | | <u>490,601</u> | <u>101,839</u> |
| Net Expenditure | | | |
| | | <u>6,171,710</u> | <u>(9,015,752)</u> |
| Combined Net Expenditure / (Income) | | | |
| Other Comprehensive Net Expenditure | | | |
| Recognised gains and losses for the financial year: | | | |
| Actuarial loss / (gain) – Armed Forces Pension Scheme | 16.7 | 1,046,322 | (10,505,444) |
| Actuarial loss / (gain) – Armed Forces Compensation Scheme | 19 | 14,200 | (25,100) |
| | | <u>7,232,232</u> | <u>(19,546,296)</u> |
| Total Comprehensive Net Expenditure / (Income) for the year ended 31 March 2012 | | | |

The Notes on pages 29 to 42 form part of these accounts.

Combined Statement of Financial Position

as at 31 March 2012

| | | 2011-12 | 2010-11* | 2009-10* |
|--|------|----------------------|----------------------|----------------------|
| | | <u>£000</u> | <u>Restated</u> | <u>Restated</u> |
| Principal arrangements – Armed Forces Pension Scheme | Note | | | |
| Current assets: | | | | |
| Receivables | 13 | 5,243 | 4,381 | 3,697 |
| Cash and cash equivalents | 14 | 92,344 | 40,400 | 93,343 |
| Total current assets | | <u>97,587</u> | <u>44,781</u> | <u>97,040</u> |
| Current liabilities: | | | | |
| Payables (within 12 months) | 15 | (572,344) | (467,499) | (498,895) |
| Total current liabilities | | <u>(572,344)</u> | <u>(467,499)</u> | <u>(498,895)</u> |
| Net current (liabilities)/assets, excluding pension liability | | <u>(474,757)</u> | <u>(422,718)</u> | <u>(401,855)</u> |
| Pension liability | 16.4 | (105,600,000) | (100,600,000) | (121,900,000) |
| Net liabilities, including pension liabilities | | <u>(106,074,757)</u> | <u>(101,022,718)</u> | <u>(122,301,855)</u> |
| Armed Forces Compensation Scheme | | | | |
| Receivables | 17 | 67 | 200 | 112 |
| Payables (within 12 months) | 18 | (2,390) | (2,393) | (2,201) |
| Provisions for liabilities and charges | 19 | (831,020) | (467,695) | (450,471) |
| Net liabilities | | <u>(833,343)</u> | <u>(469,888)</u> | <u>(452,560)</u> |
| Combined Schemes – Total net liabilities | | <u>(106,908,100)</u> | <u>(101,492,606)</u> | <u>(122,754,415)</u> |
| Taxpayers' equity: | | | | |
| General fund | | (106,908,100) | (101,492,606) | (122,754,415) |
| | | <u>(106,908,100)</u> | <u>(101,492,606)</u> | <u>(122,754,415)</u> |

* The Statement of Financial Position, and the relevant supporting notes, as at 31 March 2010 and 31 March 2011 have been restated to include a prior period adjustment in respect of additional Deferred members. Additional detail is provided at Note 20 to the accounts.

Ursula Brennan
Accounting Officer for the Armed Forces Pension Scheme
and Armed Forces Compensation Scheme

25 June 2012

The Notes on pages 29 to 42 form part of these accounts.

Combined Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2012

| | | 2011-12 | 2010-11 |
|--|------|----------------------|----------------------|
| | Note | £000 | Restated £000 |
| Balance at 31 March | | (101,492,606) | (121,554,415) |
| Prior period adjustment | 20 | - | (1,200,000) |
| Restated balance as at 1 April | | (101,492,606) | (122,754,415) |
| Net Parliamentary Funding – draw down | | 1,868,682 | 1,663,190 |
| Net Parliamentary Funding – deemed | | 40,400 | 92,723 |
| Consolidated Fund Standing Services | | - | - |
| Supply payable/(receivable) adjustment | 14 | (92,344) | (40,400) |
| Excess Vote – Prior Year | | - | - |
| Excess Vote - Appropriations-in-Aid | | - | - |
| CFERs payable to the Consolidated Fund | | - | - |
| Combined Net Expenditure for the Year | 4 | (6,171,710) | 9,015,752 |
| Actuarial (loss) / gain – Armed Forces Pension Scheme | 16.7 | (1,046,322) | 10,505,444 |
| Actuarial (loss) / gain – Armed Forces Compensation Scheme | 19 | (14,200) | 25,100 |
| Net change in Taxpayers' Equity | | (5,415,494) | 21,261,809 |
| Balance at 31 March | | (106,908,100) | (101,492,606) |

The Notes on pages 29 to 42 form part of these accounts.

Combined Statement of Cash Flows

for the year ended 31 March 2012

| | | 2011-12 | 2010-11 |
|--|------|--------------------|--------------------|
| | | £000 | Restated £000 |
| Note | | £000 | £000 |
| Cash flows from operating activities | | | |
| Combined net (expenditure) / income for the year | 4 | (6,171,710) | 9,015,752 |
| Adjustments for non-cash transactions: | | | |
| (Increase) in receivables – principal arrangements | | (862) | (684) |
| Decrease / (Increase) in receivables - AFCS | | 133 | (88) |
| Increase in payables – principal arrangements | | 52,901 | 21,547 |
| (Decrease) / Increase in payables - AFCS | | (3) | 192 |
| Increase / (Decrease) in pension provision | 16.4 | 7,787,496 | (7,261,249) |
| Increase in pension provision – enhancements and transfers in | 16.4 | 2,334 | 2,729 |
| Use of provisions – pension liability | 16.5 | (3,810,509) | (3,519,390) |
| Use of provisions – refunds and transfers | 16.6 | (25,643) | (16,646) |
| Increase in provisions – compensation Scheme | 19 | 490,601 | 101,839 |
| Use of provisions – compensation Scheme | 19 | (141,476) | (59,515) |
| | | (1,816,738) | (1,715,513) |
| Cash flows from financing activities | | | |
| From the Consolidated Fund (Supply): current year | | 1,909,082 | 1,755,913 |
| From the Consolidated Fund (Supply): prior year | | (40,400) | (92,723) |
| | | 1,868,682 | 1,663,190 |
| Net Parliamentary financing | | | |
| Adjustments for payments and receipts not related to Supply: | | | |
| Payments to the Consolidated Fund | 5 | - | (620) |
| | | 1,868,682 | 1,662,570 |
| Net Financing | | | |
| | | 1,868,682 | 1,662,570 |
| Net Increase / (Decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund | | | |
| | | 51,944 | (52,943) |
| Payments of amounts due to the Consolidated Fund | 5 | - | - |
| Amounts due to the Consolidated Fund, received and not paid over - excess appropriations in aid relating to current year | 5 | - | - |
| | | 51,944 | (52,943) |
| Net Increase / (Decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund | | | |
| | | 51,944 | (52,943) |
| Cash and cash equivalents at the beginning of the period | 14 | 40,400 | 93,343 |
| Cash and cash equivalents at the end of the period | 14 | 92,344 | 40,400 |

The Notes on pages 29 to 42 form part of these accounts.

Notes to the Scheme Statements

1. Basis of Preparation of the Scheme Statements

1.1 The financial statements of the combined Scheme have been prepared in accordance with the relevant provisions of the 2011-12 Government Financial Reporting Manual (FRoM) issued by HM Treasury. The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. IAS 19 Employee Benefits and IAS 26 Accounting and Reporting by Retirement Benefit Plans are of particular relevance to these statements.

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

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

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

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

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

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

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

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

1.10 The Report of the Actuary, shown on pages 11 to 15, which takes account of future obligations, has been prepared by the Government Actuary's Department and should be read in conjunction with the Scheme Statements. The Report of the Actuary has been prepared using the projected accrued benefit method, the actuarial valuation itself being undertaken on a quadrennial basis.

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

1.12 In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the

FReM requires that “the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years.”

The last formal actuarial valuation undertaken for the AFPS was as at 1 April 2005. Typically a valuation would be carried quadrennially, and so a formal actuarial valuation would have been due to be carried out as at 1 April 2009. However, formal actuarial valuations for unfunded public service pension schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions and while future scheme terms are developed as part of the reforms to public service pension provision. The primary purpose of the formal actuarial valuations is to set employer and employee contribution rates, and these are currently being determined under the new Scheme design.

Approximate actuarial assessments in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes. However, as the interval since the last formal actuarial valuation now exceeds four years, the amounts recognised in these financial statements have been prepared using full membership data as at 1 April 2008, such as would have been provided for a formal valuation. In undertaking this valuation, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

2. Statement of accounting policies

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

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

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.2 Pension contributions receivable

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

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

2.3 Transfers in

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

2.4 Other income

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

2.5 Current service cost

The current service cost is the increase in the present value of the Scheme liabilities arising from current members’ service in the current period and is recognised in the Statement of Comprehensive Net Expenditure. The cost is based on a discount rate of 2.9% real (i.e. 5.6% including inflation).

2.6 Past service costs

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

2.7 Interest on Scheme liabilities

The interest cost is the increase during the period in the present value of the Scheme liabilities because the benefits are one period closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure. The interest cost is based on the discount rate of 2.9% real (i.e. 5.6% including inflation).

2.8 Other payments

Other payments are accounted for on an accruals basis.

2.9 Scheme liability

2.9.1 Provision is made for liabilities to pay pensions and other benefits in the future. The Scheme liability is measured on an actuarial basis using the projected unit method and as at 31 March 2011 was discounted at 2.9% real (i.e. 5.6% including inflation). The discount rate changed on 31 March 2012 to 2.8% real (i.e. 4.85% including inflation) and the Scheme liability was discounted at this rate. Further details of the financial assumptions used are set out at Note 16 to these accounts and in the Report of the Actuary on pages 11 to 15.

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

2.10 Pensions benefits payable

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

2.11 Pension payments to those retiring at their normal retirement age

A retiring member has no choice over the allocation of benefits receivable between the value of the lump sum and the annual pension. The transaction is accounted for as a decrease in the Scheme liability on an accruals basis.

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

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

2.13 Lump sums payable on death in service

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

2.14 Actuarial gains and losses

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

2.15 Armed Forces Compensation Scheme

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

3. Net outturn

3.1 Analysis of net resource outturn by section

| 2011-12 | | | | | | | | 2010-11 | |
|----------------|--------|-----|-----------|--------|-----|----------|-----------|--------------------------------|-------|
| Outturn | | | | | | Estimate | | Outturn | |
| Administration | | | Programme | | | Total | Net Total | Net total compared to Estimate | Total |
| Gross | Income | Net | Gross | Income | Net | | | | |

Spending in Departmental Expenditure Limit
Voted:

| | | | | | | | | | | |
|------------|---|---|---|---|---|---|---|---|---|---|
| | - | - | - | - | - | - | - | - | - | - |
| Non Voted: | - | - | - | - | - | - | - | - | - | - |

Annually Managed Expenditure
Voted:

| | | | | | | | | | | |
|--|---|---|---|-----------|-----------|-----------|-----------|-----------|--------|-------------|
| A Retired pay, pensions and other payments to service pers | - | - | - | 9,180,431 | 2,108,721 | 7,071,710 | 7,071,710 | 7,090,002 | 18,292 | (8,766,036) |
| Non Voted: | - | - | - | - | - | - | - | - | - | - |
| Non-budget | - | - | - | - | - | - | - | - | - | - |

| | | | | | | | | | | |
|-------|---|---|---|-----------|-----------|-----------|-----------|-----------|--------|-------------|
| Total | - | - | - | 9,180,431 | 2,108,721 | 7,071,710 | 7,071,710 | 7,090,002 | 18,292 | (8,766,036) |
|-------|---|---|---|-----------|-----------|-----------|-----------|-----------|--------|-------------|

3.2 Analysis of net capital outturn by section

| 2011-12 | | | | | | 2010-11 |
|---------|--------|-----|----------|----------------------------------|--|---------|
| Outturn | | | Estimate | | | Outturn |
| Gross | Income | Net | Net | Net total compared with Estimate | | Net |

Spending in Departmental Expenditure Limit
Voted:

| | | | | | | |
|------------|---|---|---|---|---|---|
| | - | - | - | - | - | - |
| Non-voted: | - | - | - | - | - | - |

Annually Managed Expenditure
Voted:

| | | | | | | |
|-----------|---|---|---|---|---|---|
| | - | - | - | - | - | - |
| Non-voted | - | - | - | - | - | - |

| | | | | | | |
|-------|---|---|---|---|---|---|
| Total | - | - | - | - | - | - |
|-------|---|---|---|---|---|---|

4. Reconciliation of net resource outturn to net expenditure

| | | 2011-12 | 2010-11 |
|---|---|-------------------------|---------------------------|
| | | Outturn | Outturn |
| | | <u>£000</u> | <u>£000</u> |
| Total resource outturn in Statement of Parliamentary Supply | Budget Non-Budget | 7,071,710 - | (8,766,036) - |
| Net Resource Outturn | | <u>7,071,710</u> | <u>(8,766,036)</u> |
| Add: | Non-Supply Expenditure Prior Period Adjustments | - - | - - |
| Less: | Income Payable to the Consolidated Fund Prior Period Adjustments | - (900,000) | - (249,716) |
| Net Expenditure in Consolidated Statement of Comprehensive Net Expenditure | | <u>6,171,710</u> | <u>(9,015,752)</u> |

As explained in note 20, during the year a number of deferred members were identified who are entitled to a pension but were not included in the pension liability calculation in prior years. This has been reflected as a Prior Period Adjustment in the Statement of Financial Position and related notes and therefore it is not reflected in the Net Expenditure from the Consolidated Statement of Comprehensive Expenditure. However, this item is required to be accounted for in the current year outturn in the Statement of Parliamentary Supply. As a result a request for resource was made and granted by Parliament through the supplementary estimate procedure. The specific request for resource was made and granted under the Annually Managed Expenditure control total for this purpose and therefore this item has been included within the outturn for that category.

5. Reconciliation of Net Cash Requirement to increase/(decrease) in cash

| | | 2011-12 | 2010-11 |
|---|--|----------------------|------------------------|
| | | Outturn | Restated |
| | | <u>£000</u> | <u>£000</u> |
| Net cash requirement – core scheme and agencies | | (1,816,738) | (1,715,513) |
| From the Consolidated Fund (Supply) – current year | | 1,909,082 | 1,755,913 |
| From the Consolidated Fund (Supply) – prior year | | (40,400) | (92,723) |
| Amounts due to the Consolidated Fund received and not paid over | | - | - |
| Amounts due to the Consolidated Fund received in prior year and paid over | | - | (620) |
| Increase/(decrease) in cash held by core scheme and agencies | | <u>51,944</u> | <u>(52,943)</u> |
| Add – Increase/(decrease) in cash held by any arms length bodies | | - | - |
| Net increase/(decrease) in cash held by scheme group | | <u>51,944</u> | <u>(52,943)</u> |

Statement of Comprehensive Net Expenditure – Armed Forces Pension Scheme

6. Pension contributions receivable

| | 2011-12 | 2010-11 Restated |
|------------------------------|-------------------------|-----------------------------|
| | <u>£000</u> | <u>£000</u> |
| Employers | 2,106,387 | 1,856,313 |
| Employees: | | |
| Purchase of additional years | 698 | 703 |
| | <u>2,107,085</u> | <u>1,857,016</u> |

£2,074 million contributions are expected to be payable to the Scheme in 2012-13.

7. Pensions transfers-in (see also Note 11)

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

| | 2011-12 | 2010-11 Restated |
|--|---------------------|-----------------------------|
| | <u>£000</u> | <u>£000</u> |
| Individual transfers in from other Schemes | 1,636 | 2,026 |
| | <u>1,636</u> | <u>2,026</u> |

8. Other pension income

Miscellaneous income consists of contributions to enhance $\frac{1}{3}$ rate Forces Family Pensions to $\frac{1}{2}$ rate, and refunds of resettlement commutation on re-entry into the pension Scheme.

| | 2011-12 | 2010-11 Restated |
|---|-----------------|-----------------------------|
| | <u>£000</u> | <u>£000</u> |
| Miscellaneous income (including refund of gratuities) | - | 29 |
| | <u>-</u> | <u>29</u> |

9. Pension cost

| | 2011-12 | 2010-11 Restated |
|--------------------------------------|-------------------------|-----------------------------|
| | <u>£000</u> | <u>£000</u> |
| Current service cost (see Note 16.4) | 2,196,407 | 2,577,399 |
| Past service cost (see Note 16.4) | - | (14,900,000) |
| | <u>2,196,407</u> | <u>(12,322,601)</u> |

The £14.9Bn negative past service cost in 2010-11 relates to the adoption of the Consumer Price Index for the price indexation of public service pensions.

10. Enhancements (see also Report of the Managers and Note 16.4)

| | 2011-12 | 2010-11 Restated |
|-----------------------------------|-------------------|-----------------------------|
| | <u>£000</u> | <u>£000</u> |
| Employees purchase of added years | 698 | 703 |
| | <u>698</u> | <u>703</u> |

11. Transfers in – additional liability

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

| | 2011-12 | 2010-11 Restated |
|--|---------------------|-----------------------------|
| | <u>£000</u> | <u>£000</u> |
| Individual transfers in from other Schemes | 1,636 | 2,026 |
| | <u>1,636</u> | <u>2,026</u> |

12. Interest on Scheme liabilities (see also Note 16.4)

| | 2011-12 | 2010-11 Restated |
|------------------------------|-------------------------|-----------------------------|
| | <u>£000</u> | <u>£000</u> |
| Interest charge for the year | 5,591,089 | 5,061,352 |
| | <u>5,591,089</u> | <u>5,061,352</u> |

Statement of Financial Position – Armed Forces Pension Scheme

13. Receivables

13.1 Analysis by type

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

| | 2011-12 | 2010-11 Restated | 2009-10 Restated |
|--|---------------------|-----------------------------|-----------------------------|
| | <u>£000</u> | <u>£000</u> | <u>£000</u> |
| Amounts falling due within one year: | | | |
| Overpaid pensions | 3,633 | 3,927 | 3,076 |
| Ministry of Defence – Bereavement Scholarship Scheme | 200 | - | - |
| Ministry of Defence – SCAPE receipts | 143 | - | - |
| | <u>3,976</u> | <u>3,927</u> | <u>3,076</u> |
| Amounts falling due after more than one year: | | | |
| Overpaid pensions | 1,267 | 454 | 621 |
| | <u>5,243</u> | <u>4,381</u> | <u>3,697</u> |

13.2 Analysis by organisation

| | Amounts falling due within one year | | | Amounts falling due after more than one year | | |
|--|-------------------------------------|-----------------------------|-----------------------------|--|-----------------------------|-----------------------------|
| | 2011-12 | 2010-11 Restated | 2009-10 Restated | 2011-12 | 2010-11 Restated | 2009-10 Restated |
| | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> | <u>£000</u> |
| Balances with other central government bodies: | | | | | | |
| Ministry of Defence | 343 | - | - | - | - | - |
| Balances with bodies external to government | 3,633 | 3,927 | 3,076 | 1,267 | 454 | 621 |
| Total receivables | <u>3,976</u> | <u>3,927</u> | <u>3,076</u> | <u>1,267</u> | <u>454</u> | <u>621</u> |

14. Cash and cash equivalents

| | 2011-12 | 2010-11 Restated | 2009-10 Restated |
|---|----------------|-----------------------------|-----------------------------|
| | £000 | £000 | £000 |
| Balance at 1 April | 40,400 | 93,343 | 51,505 |
| Net change in cash balances | 51,944 | (52,943) | 41,838 |
| Balance at 31 March | 92,344 | 40,400 | 93,343 |
| The following balances at 31 March were held at: Government Banking Services | 92,344 | 40,400 | 93,343 |
| Balance at 31 March | 92,344 | 40,400 | 93,343 |

15. Payables

15.1 Analysis by type

| | 2011-12 | 2010-11 Restated | 2009-10 Restated |
|--|----------------|-----------------------------|-----------------------------|
| | £000 | £000 | £000 |
| Amounts falling due within one year: | | | |
| Pensions | 426,946 | 374,982 | 356,843 |
| HM Revenue & Customs | 52,300 | 51,399 | 48,029 |
| Third party organisations | 754 | 718 | 680 |
| | 480,000 | 427,099 | 405,552 |
| Amounts issued from the Consolidated Fund for supply not spent at year end | 92,344 | 40,400 | 92,723 |
| Consolidated Fund extra receipts due to be paid to the Consolidated Fund | - | - | 620 |
| | 572,344 | 467,499 | 498,895 |

15.2 Analysis by organisation

| | Amounts falling due within one year | | |
|--|--|-----------------------------|-----------------------------|
| | 2011-12 | 2010-11 Restated | 2009-10 Restated |
| | £000 | £000 | £000 |
| Balances with other central government bodies: | | | |
| HM Revenue & Customs | 52,300 | 51,399 | 48,029 |
| Consolidated Fund | 92,344 | 40,400 | 93,343 |
| Balances with bodies external to government | 427,700 | 375,700 | 357,523 |
| Total payables | 572,344 | 467,499 | 498,895 |

16. Provisions for pension liabilities

16.1 Assumptions underpinning the provision for pension liability

The Armed Forces Pension Scheme is an unfunded defined benefit Scheme. The Government Actuary's Department carried out the last full assessment of the Scheme liabilities as at 31 March 2005. The Report of the Actuary on pages 11 to 15 sets out the scope, methodology and results of the work the actuary has carried out.

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

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

The major assumptions used by the Actuary were:

| | At 31 March 2012 | At 31 March 2011 | At 31 March 2010 | At 31 March 2009 | At 31 March 2008 |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| Rate of increase on salaries* | 4.25% | 4.9% | 4.3% | 4.3% | 4.3% |
| Inflation assumption | 2.00% | 2.65% | 2.75% | 2.75% | 2.75% |
| Discount rate net of pension increases | 2.8% | 2.9% | 1.8% | 3.2% | 2.5% |
| Mortality rate at age 60 | | | | | |
| - Current Pensioners | | | | | |
| • Officers Men | 29.0 | 29.2 | 29.1 | 28.6 | 28.5 |
| • Officers Women | 32.4 | 32.5 | 32.3 | 31.8 | 31.7 |
| • Other Ranks Men | 27.0 | 27.1 | 27.0 | 26.5 | 26.4 |
| • Other Ranks Women | 30.4 | 30.4 | 30.2 | 29.7 | 29.6 |
| - Future Pensioners (from active status) ** | | | | | |
| • Officers Men | 31.5 | 31.1 | 31.0 | 30.2 | 30.1 |
| • Officers Women | 35.0 | 34.6 | 34.5 | 33.3 | 33.2 |
| • Other Ranks Men | 29.4 | 29.0 | 29.0 | 28.3 | 28.2 |
| • Other Ranks Women | 32.9 | 32.5 | 32.4 | 31.4 | 31.3 |

*The 2013 public sector two year pay increase of 1% per annum has been factored into the earnings assumptions used to determine the rate of increase on salaries.

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

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

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

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

Analysis of the provision for pension liability

| | At 31 March 2012 £Bn | At 31 March 2011 £Bn | At 31 March 2010 £Bn | At 31 March 2009 £Bn | At 31 March 2008 £Bn |
|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | | Restated | Restated | Restated | Restated |
| Pensions in Payment | 62.6 | 58.3 | 66.0 | 55.2 | 56.5 |
| Deferred Pensions | 14.4 | 13.8 | 18.3 | 11.6 | 12.7 |
| Active Members (Past Service) | 28.6 | 28.5 | 37.6 | 25.0 | 28.9 |
| Total | 105.6 | 100.6 | 121.9 | 91.8 | 98.1 |

These figures do not include the liabilities of the Minor Pension Schemes which are estimated at £0.1Bn in total

16.2 Pension Scheme liabilities accrue over employees' periods of service and are discharged over the period of retirement and, where applicable, the period for which a spouse or eligible partner survives the pensioner. In valuing the Scheme liability, the Actuary must estimate the impact of several inherently uncertain variables into the future. These variables include not only the key financial assumptions noted in the table above, but also assumptions about the changes that will occur in the future in the mortality rate, the age of retirement and the age from which a pension becomes payable.

16.3 The value of the liability included on the Statement of Financial Position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rate of inflation, or increases in salaries, the value of the pension liability will increase or decrease. The managers of the Scheme accept that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in notes 16.7 and 16.8. 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.

16.4 Analysis of movements in the Scheme liability

| | 2011-12 | 2010-11 | 2009-10 |
|---|----------------------|----------------------|----------------------|
| | | Restated | Restated |
| | £000 | £000 | £000 |
| Scheme liability as at 1 April | (100,600,000) | (121,900,000) | (91,800,000) |
| Current service cost (Note 9) | (2,196,407) | (2,577,399) | (1,735,385) |
| Past Service Cost (Note 9) | - | 14,900,000 | - |
| Interest on pension Scheme liability (Note 12) | (5,591,089) | (5,061,352) | (5,489,764) |
| Enhancements (Note 10) | (698) | (703) | (580) |
| Pension transfers in (Note 11) | (1,636) | (2,026) | (2,459) |
| | (7,789,830) | 7,258,520 | (7,228,188) |
| Benefits payable (Note 16.5) | 3,810,509 | 3,519,390 | 3,468,588 |
| Pension payments to and on account of leavers (Note 16.6) | 25,643 | 16,646 | 31,232 |
| | 3,836,152 | 3,536,036 | 3,499,820 |
| Actuarial (loss) / gain (Note 16.7) | (1,046,322) | 10,505,444 | (26,371,632) |
| Scheme liability at 31 March | (105,600,000) | (100,600,000) | (121,900,000) |

16.5 Analysis of benefits paid

| | 2011-12 | 2010-11 Restated |
|--|-------------------------|-----------------------------|
| | <u>£000</u> | <u>£000</u> |
| Pensions to retired employees and dependants (net of recoveries or overpayments) | 3,241,851 | 3,086,265 |
| Commutations and lump sum benefits on retirement | 568,658 | 433,125 |
| Per Combined Statement of Cash Flows | <u>3,810,509</u> | <u>3,519,390</u> |

16.6 Analysis of payments to and on account of leavers

| | 2011-12 | 2010-11 Restated |
|---|----------------------|-----------------------------|
| | <u>£000</u> | <u>£000</u> |
| Individual transfers to other Schemes | 25,643 | 16,646 |
| Per Combined Statement of Cash Flows | <u>25,643</u> | <u>16,646</u> |

16.7 Analysis of actuarial gain / (loss)

| | 2011-12 | 2010-11 Restated | 2009-10 Restated |
|---|---------------------------|-----------------------------|-----------------------------|
| | <u>£000</u> | <u>£000</u> | <u>£000</u> |
| Experience (losses) / gains arising on Scheme liabilities | (746,322) | 1,505,444 | 1,728,368 |
| Changes in assumptions underlying the present value of Scheme liabilities | (300,000) | 9,000,000 | (28,100,000) |
| Per Statement of Combined Changes in Taxpayers Equity | <u>(1,046,322)</u> | <u>10,505,444</u> | <u>(26,371,632)</u> |

16.8 History of experience (gains) / losses

| | <u>2011-12</u> | <u>2010-11 Restated</u> | <u>2009-10 Restated</u> | <u>2008-09 Restated</u> | <u>2007-08 Restated</u> |
|--|-----------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Experience losses/(gains) on Scheme liabilities: (£000) | 746,322 | (1,505,444) | (1,728,368) | 2,755,183 | 623,665 |
| Percentage of the present value of the Scheme liabilities | 0.71% | (1.50%) | (1.42%) | 3.00% | 0.64% |
| Losses/(gains) arising due to changes in actuarial assumptions: (£000) | 300,000 | (9,000,000) | 28,100,000 | (12,800,000) | (7,800,000) |
| Percentage of the present value of the Scheme liabilities | 0.28% | (8.95%) | 23.05% | (13.94%) | (7.95%) |
| Total amount recognised in Combined Statement of Comprehensive Net Expenditure: (£000) | 1,046,322 | (10,505,444) | 26,371,632 | (10,044,817) | (7,176,335) |
| Percentage of the present value of the Scheme liabilities | 0.99% | (10.44%) | 21.63% | (10.94%) | (7.32%) |
| Total cumulative actuarial loss/(gain): (£000) | 35,292,235 | 34,245,913 | 44,751,357 | 18,379,725 | 28,424,542 |

Statement of Financial Position – Armed Forces Compensation Scheme

17. Receivables

| | 2011-12 | 2010-11 Restated |
|---|------------------|-----------------------------|
| | <u>£000</u> | <u>£000</u> |
| Amounts falling due within one year: | | |
| Overpaid compensation | 67 | 200 |
| | <u>67</u> | <u>200</u> |

18. Payables

| | 2011-12 | 2010-11 Restated |
|---|---------------------|-----------------------------|
| | <u>£000</u> | <u>£000</u> |
| Amounts falling due within one year: | | |
| Compensation | 2,390 | 2,393 |
| | <u>2,390</u> | <u>2,393</u> |

19. Provision for liabilities and charges

Armed Forces Compensation Scheme

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

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

From 10 May 2011 the Scheme rules were amended following recommendations made by the Boyce Review. These amendments have resulted in more favourable compensation awards to injured service personnel which in turn has resulted in an increase in the Scheme liability.

Further details of the Scheme can be found within the Report of the Managers, page 5.

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 2012 | 31 March 2011 |
|------------------------------------|----------------------|----------------------|
| Gross discount rate | 4.85% | 5.6% |
| RPI inflation | N/A | 3.4% |
| CPI inflation | 2.00% | 2.65% |
| GIP increases | 2.00% | 2.65% |
| Discount rate net of RPI | N/A | 2.1% |
| Discount rate net of CPI | 2.8% | 2.9% |
| Discount rate net of GIP increases | 2.8% | 2.9% |

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 2012. The levels of future mortality improvement have been assumed in accordance with the improvements incorporated in the published 2010-based principal population projections for the United Kingdom (prepared by Office of National Statistics).

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

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

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

| | 2011-12 | 2010-11 Restated |
|---|------------------|-----------------------------|
| | £000 | £000 |
| AFCS Provision | | |
| Balance at 1 April | (467,695) | (450,471) |
| Use of provision in year | 141,476 | 59,515 |
| Interest on Scheme Liabilities | (34,232) | (23,054) |
| Revaluation at year end | (456,369) | (78,785) |
| Actuarial gain / (loss) | (14,200) | 25,100 |
| Balance at 31 March | (831,020) | (467,695) |
| Breakdown of Balance at 31 March | | |
| Incidents incurred but not yet claimed – Lump Sums and Guaranteed Income Payments | (252,920) | (171,695) |
| Guaranteed Income Payments – “In Payment” | (319,400) | (144,900) |
| Guaranteed Income Payments – “Underlying Entitlement” | (258,700) | (151,100) |
| | (831,020) | (467,695) |

20. Prior Period Adjustment

The effect of the restatement on the financial statements is summarised below, there is no effect in the year ended 31 March 2012. The prior period adjustment has resulted from the non-inclusion of a group of AFPS deferred members in the scheme liability in prior periods which was identified following analysis of the scheme membership database and the creation of a new scheme membership report.

| | 2009-10 Published | 2009-10 Adjustment | 2009-10 Restated |
|-------------------------------|------------------------------|-------------------------------|-----------------------------|
| | £000 | £000 | £000 |
| AFPS liability as at 1 April | (91,000,000) | (800,000) | (91,800,000) |
| Interest on AFPS liability | (5,441,460) | (48,304) | (5,489,764) |
| Actuarial loss | (26,019,936) | (351,696) | (26,371,632) |
| | | | |
| | 2010-11 Published | 2010-11 Adjustment | 2010-11 Restated |
| | £000 | £000 | £000 |
| AFPS liability as at 1 April | (120,700,000) | (1,200,000) | (121,900,000) |
| AFPS liability as at 31 March | (99,700,000) | (900,000) | (100,600,000) |
| Interest on AFPS liability | (5,011,068) | (50,284) | (5,061,352) |
| Past service cost | (14,600,000) | (300,000) | (14,900,000) |
| Actuarial gain | 10,455,160 | 50,284 | 10,505,444 |

The impact on the Combined Statement of Changes in Taxpayers' Equity is summarised below:

| | <u>£000</u> |
|--|-----------------------------|
| Balance at 31 March 2010 as previously published | (121,554,415) |
| Prior period adjustment | <u>(1,200,000)</u> |
| Balance at 31 March 2010 as restated | (122,754,415) |
| Net change in Taxpayers' equity as restated | <u>21,261,809</u> |
| Balance at 31 March 2011 | (101,492,606) |
| Net change in Taxpayers' equity | (5,415,494) |
| Balance at 31 March 2012 | <u>(106,908,100)</u> |

21. 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.

22. Losses

During the year, losses arose in 4,818 cases (2010-11; 5,140 cases). The total loss was £727,548.08 (2010-11; £756,596.35). The losses all relate to the write-off of pension overpayments. In addition, with the consent of HM Treasury, abatements have been foregone in 263 AFPS 75 cases where the MoD has settled civilian compensation claims since 1987. The circumstances are explained in detail in the Report of the Managers on page 8 and the Governance Statement on page 20. For the reasons explained there it has not been possible to calculate the exact amount of the foregone abatements. The amount has been estimated as £11.6M from 1987 to 31 March 2012, with an ongoing amount of £0.96M per annum for cases still in payment.

23. Related-party transactions

The Schemes fall within the ambit of the MOD, which is regarded as a related party. During the year, the Schemes received employers' contributions (SCAPE) and employees' contributions from MOD in respect of active members of the AFPS. These contributions totalled £2.11Bn (see Note 6), none of which were outstanding at year-end. None of the managers of the Schemes, key managerial staff or other related parties has undertaken any material transactions with the Schemes during the year.

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

24. IFRSs in issue but not yet effective

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

Date of authorisation for issue

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



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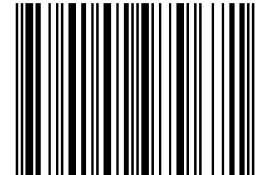
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ISBN 978-0-10-297967-1



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