Armed Forces Pension Scheme

(Incorporating the Armed Forces Compensation Scheme)

Annual Accounts 2010-11

HC 979

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Annual Accounts
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(For the year ended 31 March 2011)

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The Armed Forces Pension Scheme (AFPS 75)

The Armed Forces Pension Scheme is an unfunded, defined benefit, salary-related, contracted-out occupational pension Scheme open to most members of the Armed Forces, administered by the Service Personnel and Veterans Agency (SPVA) formerly Armed Forces Personnel Administration Agency (AFPAA) and financed on an annual basis by the Consolidated Fund.

The Scheme is designed to meet the special requirements of Service life. Youth and fitness are important to the Services, and the Scheme provides immediate pension benefits to many of those who leave without completing a full career (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.

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 Armed Forces Pension and Compensation Schemes

The Armed Forces (Pension & Compensation) Act 2004 is the primary legislation covering the 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 Armed Forces Pension Scheme (known as AFPS 05) was introduced for all new members of the Armed Forces. The AFPS 05 is also an unfunded, defined benefit, salary-related, contracted out, occupational pension Scheme. 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. Pensions may be payable to the spouse, civil partner, partner or to eligible children. Death-in-service lump sums are payable subject to nomination. There are no attributable ill-health benefits under the AFPS 05 as these are considered under the War Pensions Scheme (WPS) or the Armed Forces Compensation Scheme (AFCS).

The Scheme includes an Early Departure Payment (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.

Decrease in the total liability of the AFPS

The total liability of the AFPS is £99.7Bn as at 31 March 2011 (£120.7Bn as at 31 March 2010). A full reconciliation of the change in liability over the year is provided in Note 17.4, page 34. The total change in liability represents a decrease of £21Bn and resulted in an actuarial gain of £10.5Bn and a negative Past Service Cost of £14.6Bn. 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 2010-11 the increase in the discount rate (from 1.8% to 2.9% (inclusive of the change in pension indexation to the Consumer Price Index (CPI)) has lead to a decrease in the future liability. This increase in the discount rate (excluding the 0.75% pa change in respect of the pension indexation change) accounted for the majority of the £9.0Bn actuarial gain attributable to changes in the assumptions underlying the Scheme liabilities. The remaining £1.5Bn was as a result of an experience gain. An experience gain reflects the extent to which events over the reporting period have not coincided with the actuarial assumptions made for the last assessment. A similar approach has been taken in determining the negative Past Service Cost adjustment which is explained in the Report of the Actuary on pages 9 to 12.

The Armed Forces Compensation Scheme (AFCS)

The AFCS was introduced on 6 April 2005, replacing two separate compensation arrangements under the AFPS 75 and the WPS. 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.

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 has taken place 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 will be undertaken by SPVA to revisit previous awards.

It is estimated there are some 10,000 awards to revisit and revalorise. All those who have previously received an award wil be contacted by the Agency between May 2011 and June 2012 with details of additional payments due.

As the legislation was not enacted until after the end of the accounting year, no estimate is made in these accounts for the potential additional cost of the additional payments which may fall due.

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 (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. 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). However, with effect from 1 July 1988 members of the NRPS may, if they wish, leave the NRPSPS to take out a personal pension. The choice to join the NRPSPS or arrange a personal pension is also available to joining members of the NRPS.

Gurkha Pension Scheme

The Gurkha Pension Scheme (GPS) is similar to the Indian Army model and provides an immediate pension at Indian Army rates to those who have completed at least 15 years service.

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

Changes to the Armed Forces Pension Scheme

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

The Pensions increase rate was 0.0% (2009 5.0%) with effect from 12 April 2010 (6 April 2009).

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, buy additional years of service (see Note 11).

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. The NFI 2010 results were not available when the table below was produced.

NFI Exercise	Total Cases	Total Identified £000	Recovered £000	Written-off £000	Outstanding at 31/03/2011 £000
NFI 2002	240	1,071	636	385	50
NFI 2004	163	426	273	141	12
NFI 2006	184	789	447	321	21
NFI 2008	175	959	430	438	91

Changes in Accounting standards

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

Principal Purpose and Administrative Aim

In administering the AFPS and AFCS on behalf of the Ministry of Defence (MOD), the Service Personnel and Veterans Agency (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 Executive Boards

The AFPS and AFCS are managed and operated by SPVA, an Agency within the MOD. The costs of administering the Scheme are borne by the MOD and are reflected in the 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.

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

SPVA Executive Board

Mrs K Barnes	Chief Executive
Commodore R Albon	Deputy Chief Executive / Head Strategy and Programmes
Mrs A Sansome (until 01 Oct 2010)	Head Veterans Services
Mr J Parkin (from 04 Oct 2010)	Head Veterans Services
Mrs K Humberstone	Head Corporate Services
Air Commodore C Bray	Head Military Services
Mr A Jablonowski	Non Executive Director
Mrs B Curtis	Non Executive Director

Auditors

The accounts of the AFPS and AFCS are audited by the Comptroller and Auditor General under the Government Resources and Accounts Act 2000.

Audit

As Accounting Officer of the AFPS, I am responsible for the disclosure of the relevant audit information. I can confirm that:

- There is no relevant audit information of which the auditors are unaware;
- I have taken all necessary steps to ensure that I am aware of relevant audit information; and
- I have taken all necessary steps to establish that the auditors are aware of the information.

Managers, Advisers and Employers

Managers

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

Director General of Finance:
Mr J Thompson
Ministry of Defence
Whitehall
London SW1A 2HB

AFPS & AFCS Scheme Administrator:
Mrs K Barnes
Chief Executive
Service Personnel & Veterans Agency
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Gosport PO13 9XA

Pension Policy:
Mr J Garrett
Head of Pensions, Compensation and Veterans
Ministry of Defence
Whitehall
London SW1A 2HB

Advisers

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

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

Legal Advisers:
MOD Treasury Solicitors
Ministry of Defence
Whitehall
London SW1A 2HB

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

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

Employers

Ministry of Defence

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: AFPS benefits due at some future date or have not been claimed, that are attributable to former Active Members or their divorced spouses.
- Benefits in Payment: payments to former actives or divorced spouses, 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 2010	198,032
	Adjustment (see Membership Statistics note 5)	6,214
	Total active members at 31 March 2010	**204,246**
Add:	New entrants in year	15,496
	Transfers in	25
Less:	Deaths in service	(173)
	Left active service with under 2 years service and no benefits	(5,187)
	Left active service with deferred benefits	(8,915)
	Left active service and received benefits	(6,253)
	Active members at 31 March 2011	**199,239**

Deferred and unclaimed benefits

	Deferred members brought forward from 31 March 2010	405,865
	Adjustments (see Membership Statistics note 5)	(10)
		405,855
	Being:	
	Deferred Benefits	391,309
	Benefits due but unclaimed	14,546
	Total deferred and unclaimed benefits at 1 April 2010	**405,855**
Add:	Benefits not immediately payable	13,260
	New benefit on divorce	189
Less:	Transfers out	(416)
	Benefits taken up	(3,894)
	Benefits elapsed (see Membership Statistics note 4)	(898)
		414,096
	Being:	
	Deferred benefits	397,790
	Benefits due but unclaimed	16,306
	Total deferred and unclaimed benefits 31 March 2011 (371,673 members) (see Membership Statistics note 2)	**414,096**

Benefits in payment

	Benefits brought forward from 31 March 2010	
	- Members	323,714
	- Dependants	75,126
	Total	398,840
	Adjustments due to data received post 31 March 2010	
	- Members	(68)
	- Dependants	(326)
	Total benefits at 1 April 2010	**398,446**
Add:	Benefits that became payable in the year	
	- Members	10,197
	- Dependants	3,963
Less:	Benefits that have ceased in the year	
	- Members	(6,422)
	- Dependants	(5,442)
		400,742
	Being:	
	- Members	327,421
	- Dependants	73,321
	Total benefits in payment at 31 March 2011	**400,742**

Membership Statistics Notes

1 Individuals may be a member of more than one Scheme, and a member may be entitled to more than one benefit under a Scheme.

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

3 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.

4 Where a member has not claimed benefits by the age of 72, they are assumed not to claim.

5 The Active and Deferred Members brought forward from 31 March 2010 have been restated to account for better information obtained from the membership database. The database used to manage these 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, hence the adjustments present in the membership table.

6 The GAD valuation includes a number of members with estimated benefits. This is due to one or more of the elements required to determine the benefit being missing from the database.

Further information

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

The Scheme Administrator
Service Personnel and Veterans Agency
Tomlinson House, Norcross
Blackpool FY5 3WP

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

13 July 2011

Report of the Actuary for the Armed Forces Pension Scheme for Accounts for the Year Ended 31 March 2011

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 2010-11 Annual 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 2011 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 2011 are based on data provided as at 28 February 2011. SPVA has indicated that the number of deferred members provided for the assessment as at 31 March 2011 (371,673) corresponds with the number of benefit records (414,096), including members of NRPS, to be disclosed in the resource accounts. 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 and its auditors. Any subsequent revisions to this data may cause consequential changes in the liabilities as at 31 March 2011 disclosed in this assessment,

5. Tables A to C summarise the principal membership data as at 31 March 2008 and 31 March 2011 used to prepare this statement.

Table A – Active members

31 March 2008		31 March 2011
Number (thousands)	Total Pensionable Pay † (£ million pa)	Total Pensionable Pay (£ million pa)
198	5,922	6,321

† Including increases applying in April of year

Table B – Deferred members

31 March 2008	31 March 2011
Number (thousands)	Number (thousands)
356	372

Table C – Pensions in payment

31 March 2008		31 March 2011
Number (thousands)	Total Pension † (£ million pa)	Total Pension (£ million pa)
361	2,673	3,097

† Including increases applying in April of year

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, and the principal financial assumptions applying to the 2010-11 Resource Accounts. The contribution rate for accruing costs in the year ended 31 March 2011 was determined using the Projected Unit Method and the principal financial assumptions applying to the 2009-10 Resource 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 2011, the assumed rate of return in excess of prices was increased from 1.8% a year to 2.9% a year, and the assumed rate of return in excess of earnings was increased from 0.3% a year to 0.7% a year. In addition, with effect from 31 March 2011, the assumed rate of future pension increases is 2.65% a year and the assumed nominal rate of salary growth is 4.9% a year (changed from 2.75% and 4.3% respectively as at 31 March 2010).

Table D – Principal financial assumptions

Assumption	31 March 2011	31 March 2010
Rate of return (discount rate)	5.6%	4.60%
Rate of return in excess of:		
Earnings increases	0.7%	0.3%
Pension increases	2.9%	1.8%*
Expected return on assets:	n/a	n/a

*Increased to 2.5% from 22 June 2010 following the Government's announcement that future pension increases would be based on CPI

10. The pension increase assumption as at 31 March 2011 is based on the Consumer Price Index (CPI) expectation of inflation rather than the Retail Prices Index (RPI). This is a consequence of the Government's announcement that CPI is to be used for the indexation of public service pensions from April 2011.

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 years 2011-12 and 2012-13.

Demographic assumptions

12. The demographic assumptions adopted to prepare this statement were derived from the specific experience of the scheme membership.

13. The demographic assumptions (other than the mortality assumptions) adopted for the assessment of the liabilities as at 31 March 2011 are those adopted to determine the employer's charge to the scheme and have been derived with reference to the analysis of experience of the scheme that was undertaken as part of the funding valuation of the AFPS at 31 March 2005.

14. The standard mortality tables known as PXA-92 are used but with adjustments derived from recent scheme experience. An age rating of -1 year applies to officers, both current and future pensioners (that is they are assumed to experience the mortality rates given in the standard tables but at ages one year younger than their actual age). An age rating of +1 years applies to other ranks, both current and future pensioners. Mortality improvements are in accordance with those incorporated in the 2008-based principal population projections for the United Kingdom. These assumptions are the same as adopted for the 2009-10 Resource Accounts.

15. The contribution rate used to determine the accruing cost in 2010-11 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2009-10 Resource Accounts.

Liabilities

16. Table E summarises the assessed value as at 31 March 2011 of benefits accrued under the scheme prior to 31 March 2011 based on the data, methodology and assumptions described in paragraphs 3 to 14. The corresponding figures for the previous four year ends are also included in the table.

Table E – Statement of Financial Position

£ billion

	31 March 2011	31 March 2010	31 March 2009	31 March 2008	31 March 2007
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	(99.7)	(120.7)	(91.0)	(97.2)	(100.5)
Surplus/(Deficit)	(99.7)	(120.7)	(91.0)	(97.2)	(100.5)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Accruing costs

17. The cost of benefits accruing in the year ended 31 March 2011 (the Current Service Cost) is based on a standard contribution rate of 55.7% of Officer pensionable salaries, and 43.1% of Other Ranks pensionable salaries up to 22 June 2010 and of 48.0% of Officer pensionable salaries, and 36.8% of Other Ranks pensionable salaries thereafter. 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 2009-10 are also included in the table.

Table F – Contribution rate

Percentage of pensionable pay	**22 June 2010 to 31 March 2011**	**1 April 2010 to 21 June 2010**	**1 April 2009 to 31 March 2010**
Officers	48.0%	55.7%	39.8%
Other Ranks	36.8%	43.1%	23.7%

18. For the avoidance of doubt the employers' share of the standard contribution rate determined for the purposes of the Resource Accounts is not the same as the actual rate of contributions payable by employers, currently 39.1% for Officers and 23.2% 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 Resource Accounts and for scheme funding purposes is the discount rate net of price increases, which was 1.8% pa for the 2010-11 Current Service Cost up to 22 June 2010 and 2.5% thereafter (3.2% pa for 2009-10) compared with 3.5% pa for the existing scheme funding rate (note that the discount for scheme funding purposes has recently 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 Resource Accounts is set each year by HM Treasury to reflect the requirements of IAS19.

19. The pensionable payroll for the financial year 2010-11 was £6.3 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2010-11 (of 55.7% of Officer pensionable salaries, and 43.1% of Other Ranks pensionable salaries up to 22 June 2010 and of 48.0% of Officer pensionable salaries, and 36.8% of Other Ranks pensionable salaries thereafter) is assessed to be £2.6 billion.

20. The move to CPI (rather than RPI) indexation of pensions from April 2011 results in a past service cost of -£14.6 billion (ie. a negative past service cost). The total pension cost (the current service cost plus the past service cost) for 2010-11 is therefore -£12.0 billion.

Stephen Humphrey
Government Actuary's Department

13 July 2011

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.

With the exception of certain transactions (which are accounted for on a cash basis) the combined financial statements are prepared on an accruals basis and must give a true and fair view of the financial transactions of the combined Scheme during the year and the disposition, at the end of the financial year, of the combined net liabilities. Note 2 "Accounting Policies" to the financial statements describes those transactions which are accounted for on a cash basis, the use of which has no material effect on the net outgoings for the year nor on the combined net liabilities at the year end.

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.

Statement on Internal Control

Scope of responsibilities

1. As the Accounting Officer for the Armed Forces Pension Scheme (AFPS) and the Armed Forces Compensation Scheme (AFCS), I have responsibility for maintaining a sound system of internal control that supports the achievement of the AFPS and AFCS 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. As such, I am accountable for the propriety and regularity of AFPS and AFCS expenditure in compliance with Departmental rules. As Accounting Officer, I have delegated day-to-day management of the Schemes to the Service Personnel & Veterans Agency (SPVA) Chief Executive and the Senior Finance Officer role to SPVA Head of Corporate Services.

The purpose of the system of internal control

3. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the AFPS and the AFCS for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with current Treasury guidance.

Capacity to handle risk

4. AFPS and AFCS services are delivered through a combination of Ministry of Defence (MOD) Civilian/Service Personnel and Hewlett Packard Enterprise Services Ltd (HP) via a commercial partnering agreement. The arrangement for joint working with HP is managed via the Agency Management Group (AMG) chaired by the Chief Executive.

5. Risk and Performance Management processes within the SPVA have remained strong throughout the year. The systematic and consistent approach adopted by the Agency to manage risk, enhanced by the formation of the Assistant Heads Group (AHG) who review all risks and feed the most critical into the Operating Board (OB) and ultimately the quarterly AMG, ensures that risk registers are visible and remain current at all levels. The strategic level risks, which have the potential to impact across the Agency, are formally reviewed and updated at the Agency Executive Board (AEB) meetings. The risk management and performance management procedures themselves are formally reviewed by the AMG on an annual basis.

6. Risk owners and risk 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 staff via the SPVA Intranet.

7. Business and accounting operations of the AFPS and the AFCS are periodically reviewed by a number of audit bodies, including Defence Internal Audit (DIA) and the National Audit Office (NAO).

8. Externally, the AFPS and AFCS is represented on the HM Treasury led Public Sector Pension Scheme Accountants Forum which helps to promote consistency and shares best practice across all public sector pension schemes. Representatives from all public sector pension schemes attend along with members of HM Treasury, the Government Actuaries Department and the NAO.

The risk and control framework

9. Active management of risk is fundamental to the effective achievement of the SPVA's Vision, Mission and Strategic Objectives. The risk process and procedures give consideration to the probability and the impact on time, cost and performance against the Agency's objectives and internal measures of performance. Particular attention is also paid to the controls that are put in place to mitigate the risks based on the Agency's risk appetite. The risk policy includes procedures for the management and escalation of risks. The procedures outline the requirement to consider risks to the achievement of business and personal objectives. Agency Business Level risks are reviewed on a monthly basis by the AHG with the most critical being further reviewed by the OB. Strategic risks are linked to one of the five main Agency objectives and further reviewed on a quarterly basis by the AMG in its review of performance as detailed in the SPVA Strategic Scorecard. Strategic "MOD eyes only" e.g. financial, commercial in confidence risks are reviewed at the AEB (MOD attendees only). There are further quarterly reports on Risk and Performance supplied to DCDS (Pers) which are considered at Higher Level Budget Management Board meetings. Lower level risks are managed at Directorate, Project or Working Group levels and are each subject to regular review.

10. In addition to reviewing data from the internal risk management processes, the AMG is always alert and responsive to feed-back from other groups, where these have bearing on the delivery of SPVA outputs. Furthermore, during the past year, SPVA has also been actively managing an increasingly high number of significant emerging risks. An example of this are those presented by the implementation of the recommendations of the Boyce Review, as the implications for risk became clear. This has involved tight project management, with input from a wide range of staff from across the Agency. This proactive approach to the management of risk has led to major reductions in the level of estimated residual risk and has translated through to a growing confidence within the relevant teams that the challenging targets to complete the retrospective work in a realistic timescale should be achieved. By taking this approach, the AMG ensures that all changes in legislation and developments in the increasingly challenging economic and financial environments are considered, thereby ensuring that SPVA is best positioned to spot and manage all emerging risks to the delivery of its critical outputs.

11. The SPVA contract with HP sets out the structure for the ownership and management of risk. While HP fully supports the SPVA risk management processes, they have also developed their own internal control and risk management procedures to embrace their business objectives.

12. The SPVA Audit Committee (AC)[1], under the chairmanship of one of its Non Executive Directors met quarterly throughout the year. DIA and NAO attended the AC and provided advice and guidance where appropriate.

13. The Agency Internal Assurance Team (IAT)[2] reviewed the systems of internal control that underpin the working practices of the SPVA to ensure that those systems operate effectively and that any MOD guidance, regulations and instructions are complied with by Agency staff.

Information Assurance

14. The Agency has made good progress within all three Information Assurance Maturity model (IAMM) levels, although there remains outstanding work still to be completed around Levels 2 and 3. While strong in areas covering levels of training, reporting and integration with HP, the Agency continues to strive for improvement in other aspects such as the maintenance of an effective IA Governance Infrastructure and embedding a behavioural change strategy and programme. Given the anticipated progress the Agency is aiming for a positive award of Level 2 status following the recent MOD CIO review. It is anticipated that Level 3 compliance will be achievable in the fullness of time subject to the Agency being able to maintain its resources commitment to the IAMM programme.

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1 The final SPVA Audit Committee sat on the 27th June 2011. A new Committee (The Audit and Scrutiny Committee) is to be formed to oversee risk and internal control moving forward.

2 Up until 30th April 2011 SPVA had its own Internal Assurance Team (IAT); this function was subsumed by DIA in line with recommendations of the Grimstone Review.

Business Continuity

15. SPVA site Business Continuity (BC) Plan production has dominated 2010-2011, with all site plans either completed or at final draft stage. These plans are complemented by DIIF Disaster Recovery plans completed/updated in year for SPVA Imjin and SPVA Norcross. Critical business area and systems plans continue to be subject to update and a full schedule of recorded tests and exercises.

16. Throughout 2010-2011, due to the excellent team working of both MOD and HP staff the Agency has successfully managed a number of incidents deemed a potential threat to critical SPVA outputs. Extensive work has also been undertaken to ensure Agency BC is fully prepared for changes prompted by the Future Contract (FC), through the Service Requirement Document and the FC BC schedule (31) and the introduction of DIIF to Centurion Building.

17. The challenge for 2011-2012 will be to maintain the good standards of management achieved thus far, to extend further the continuity culture through publicity and awareness and to engage in planned BC projects ensuring compliance with MOD BC strategy and Joint Services Publication (JSP) 503.

Review of effectiveness

18. As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the MOD internal auditors, SPVA's own internal assurance team and 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 system of internal control by the SPVA Board and AC and a plan to address weaknesses and ensure continuous improvement of the system is in place.

19. In the current year the effectiveness of the system of internal control operating within the SPVA has been subject to continuous review. Activities that have significantly contributed to maintaining and improving effectiveness include:

- The SPVA AEB, AMG and OB met on a regular basis in order to advise and support me in developing a strategy and overseeing plans for delivering the Agency's objectives and internal measures of performance. This year has been particularly challenging in the light of the financial pressures imposed on MOD. All of my Boards have 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 AMG, the AC and the SPVA AEB;

- The AC 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 AC monitored progress made on audit recommendations (made by IAT, DIA and the NAO) and progress with current initiatives.

- The IAT completed a number of compliance and assurance activities in relation to both financial propriety and business risks, the scopes of which specifically embraced the examination of records for potential fraud. They also worked closely with business areas to assist them to develop adequate management controls.

- The Agency has a fraud focal point situated within the IAT offering advice and guidance on fraud related matters, additionally all staff have direct access to the Defence Fraud Analysis Unit to escalate any instances of suspected fraud. In addition to the work of the IAT, the Agency continued to utilise the National Fraud Initiative (NFI) to identify potential Armed Forces Pension Scheme (AFPS) fraudulent claims and a small internal team is resourced to investigate any potential fraudulent Armed Forces Compensation Scheme claims.

- Two audits of selected AFPS pension payments and related procedures were also undertaken 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;

- An exercise has commenced to revisit the AFPS and AFCS Risk and Control Framework with the aim of updating documents to the format and standard used for JPA; on completion the process maps will become working documents that will be regularly updated to ensure that controls remain relevant and robust.

Significant internal control problems

20. In the 2008-2009 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. Notwithstanding, the external audit of AFPS has identified the need to further improve the processes used by the Agency to extract membership data used to drive the calculation of the Scheme's overall liability. The Agency will review its reporting process in the light of these findings and any changes will be reflected in the 2011-12 Annual Accounts.

Ursula Brennan
Accounting Officer for the Armed Forces Pension Scheme
and Armed Forces Compensation Scheme 13 July 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 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Combined Statement of Comprehensive Net Expenditure, the Combined Statement of Financial Position, the Combined Statement of Changes in Taxpayer's Equity, the Combined Statement of Cash Flows and the 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 Armed Forces Pension Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Armed Forces Pension Scheme; 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 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.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on the 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 2011, and of its net cash requirement, net resource outturn, and net expenditure for the year then ended; and

- the financial statements have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000.

Opinion on other matters

In my opinion, the information given in the Report of the Managers for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters for 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
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

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

18 July 2011

Statement of Parliamentary Supply

Summary of Resource Outturn 2010-11

	2010-11 Estimate			2010-11 Outturn				2009-10 Outturn
Request for Resources	Gross Expenditure	A-in-A	Net Total	Gross Expenditure	A-in-A	Net Total	Net Total outturn compared with Estimate savings/ (excess)	Net Total
	£000	£000	£000	£000	£000	£000	£000	£000
Armed Forces Retired Pay, Pensions etc	8,663,501	1,870,964	6,792,537	(6,906,965)	1,859,071	(8,766,036)	15,558,573	5,599,943
Non-budget	-	-	-	-	-	-	-	-
Total Resources	**8,663,501**	**1,870,964**	**6,792,537**	**(6,906,965)**	**1,859,071**	**(8,766,036)**	**15,558,573**	**5,599,943**

Summary of Net Cash Requirement 2010-11

		2010-11			2009-10
		Estimate	Outturn	Net Total outturn compared with Estimate savings/(excess)	Outturn
	Note	£000	£000	£000	£000
Net Cash Requirement	4	1,755,914	1,715,513	40,401	1,718,090

Summary of Income Payable to the Consolidated Fund

In addition to appropriations-in-aid, the following income relates to the Scheme and is payable to the Consolidated Fund (cash receipts being shown in italics)

		Forecast 2010-11		Outturn 2010-11	
		Income	Receipts	Income	Receipts
	Note	£000	£000	£000	£000
Total	5	-	-	-	-

Explanation of the variation between Resource Estimate and Outturn:

The Outturn is less than the Estimate due, in the main, to the adoption of the Consumer Price Index for the indexation of Public Service Pensions which has reduced the Schemes' liabilities through a negative past service cost of £14.6Bn. This in turn reduced both the interest charge and current service cost. In addition, the valuation of the Armed Forces Compensation Scheme (AFCS) liability was lower than expected due to a delay in the Boyce Review enactment date.

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 25 to 37 form part of these accounts.

Combined Statement of Comprehensive Net Expenditure

for the year ended 31 March 2011

	Note	2010-11 £000	2009-10 £000
Principal Arrangement – Armed Forces Pension Scheme			
Income			
Contributions receivable	7	(1,857,016)	(1,710,352)
Transfers in	8	(2,026)	(2,459)
Other pension income	9	(29)	(17)
Expenditure			
Current service cost	10	2,577,399	1,735,385
Past service cost	10	(14,600,000)	-
Enhancements	11	703	580
Transfers in	12	2,026	2,459
Interest on Scheme liabilities	13	5,011,068	5,441,460
Net (Income) / Expenditure		**(8,867,875)**	**5,467,056**
Armed Forces Compensation Scheme			
Movement in provision for AFCS	20	78,785	112,645
Interest on Scheme liabilities	20	23,054	19,622
Net Expenditure		**101,839**	**132,267**
Combined Net (Income) / Expenditure	3	**(8,766,036)**	**5,599,323**
Other Comprehensive Net Expenditure			
Recognised gains and losses for the financial year:			
Actuarial (gain) / loss – Armed Forces Pension Scheme	17.7	(10,455,160)	26,019,936
Actuarial (gain) / loss – Armed Forces Compensation Scheme	20	(25,100)	-
Total Comprehensive Net (Income) / Expenditure for the year ended 31 March 2011		**(19,246,296)**	**31,619,259**

The Notes on pages 25 to 37 form part of these accounts.

Combined Statement of Financial Position

as at 31 March 2011

		2010-11	2009-10
Principal arrangement – Armed Forces Pension Scheme	Note	£000	£000
Current assets:			
Receivables	14.1	4,381	3,697
Cash and cash equivalents	15	40,400	93,343
Total current assets		44,781	97,040
Current liabilities:			
Payables (within 12 months)	16.1	(467,499)	(498,895)
Total current liabilities		(467,499)	(498,895)
Net liabilities, excluding pension liability		**(422,718)**	**(401,855)**
Pension liability	17.4	(99,700,000)	(120,700,000)
Net liabilities, including pension liability		**(100,122,718)**	**(121,101,855)**
Armed Forces Compensation Scheme			
Receivables	18	200	112
Payables (within 12 months)	19	(2,393)	(2,201)
Provisions for liabilities and charges	20	(467,695)	(450,471)
Net liabilities		**(469,888)**	**(452,560)**
Combined Schemes – Total net liabilities		**(100,592,606)**	**(121,554,415)**
Taxpayers' equity:			
General fund		(100,592,606)	(121,554,415)
		(100,592,606)	**(121,554,415)**

Ursula Brennan
Accounting Officer for the Armed Forces Pension Scheme
and Armed Forces Compensation Scheme 13 July 2011

The Notes on pages 25 to 37 form part of these accounts.

Combined Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2011

	Note	2010-11 £000	2009-10 £000
Balance at 1 April		**(121,554,415)**	**(91,652,626)**
Net Parliamentary Funding – draw down		1,663,190	1,801,000
Net Parliamentary Funding – deemed		92,723	9,813
Consolidated Fund Standing Services		-	
Supply payable adjustment	16.1	(40,400)	(92,723)
Excess Vote – Prior Year		-	-
Excess Appropriations-in-Aid		-	(620)
Extra receipts payable to the Consolidated Fund		-	-
Combined Net Expenditure for the Year	3	8,766,036	(5,599,323)
Actuarial gain / (loss) – Armed Forces Pension Scheme	17.7	10,455,160	(26,019,936)
Actuarial gain / (loss) – Armed Forces Compensation Scheme	20	25,100	-
Net change in Taxpers' Equity		**20,961,809**	**(29,901,789)**
Balance at 31 March		**(100,592,606)**	**(121,554,415)**

The Notes on pages 25 to 37 form part of these accounts.

Combined Statement of Cash Flows

for the year ended 31 March 2011

	Note	2010-11 £000	2009-10 £000
Cash flows from operating activities			
Combined net income / (expenditure) for the year	3	8,766,036	(5,599,323)
Adjustments for non-cash transactions:			
(Increase) / Decrease in receivables – principal arrangements		(684)	67
Increase in receivables - AFCS		(88)	(66)
Increase in payables – principal arrangements		21,547	102,670
Increase in payables - AFCS		192	1,034
(Decrease) / Increase in pension provision	17.4	(7,011,533)	7,176,845
Increase in pension provision – enhancements and transfers in	17.4	2,729	3,039
Use of provisions – pension liability	17.5	(3,519,390)	(3,468,588)
Use of provisions – refunds and transfers	17.6	(16,646)	(31,232)
Increase in provisions – compensation Scheme	20	101,839	132,267
Use of provisions – compensation Scheme	20	(59,515)	(34,183)
Net cash outflows from operating activities		**(1,715,513)**	**(1,717,470)**
Cash flows from financing activities			
From the Consolidated Fund (Supply): current year		1,663,190	1,801,000
Net Parliamentary financing		**1,663,190**	**1,801,000**
Adjustments for payments and receipts not related to supply:			
Payments to the Consolidated Fund	3	(620)	(41,692)
Net Financing		**1,662,570**	**1,759,308**
Net (Decrease) / Increase in cash and cash equivalents in the period before adjustments for receipts and payments to the Consolidated Fund		**(52,943)**	**41,838**
Payments of amounts due to the Consolidated Fund	3	-	(620)
Amounts due to the Consolidated Fund, received and not paid over - excess appropriations in aid relating to current year	3	-	620
Net (Decrease) / Increase in cash and cash equivalents in the period after adjustments for receipts and payments to the Consolidated Fund	15	**(52,943)**	**41,838**
Cash and cash equivalents at the beginning of the period	15	**93,343**	**51,505**
Cash and cash equivalents at the end of the period	15	**40,400**	**93,343**

The Notes on pages 25 to 37 form part of these accounts.

Notes to the Scheme Statements

1. Basis of Preparation of the Scheme Statements

1.1 The combined Scheme statements have been prepared in accordance with the relevant provisions of the 2010-11 Financial Reporting Manual (FReM) issued by HM Treasury, which reflect the requirements of IAS 19 Employee Benefits and IAS 26 Accounting and Reporting by Retirement Benefit Plans. These accounts show the unfunded pension liability and movements in that liability during the year.

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

1.3 The Scheme Statements summarise the transactions of the Armed Forces Pension Scheme (AFPS) incorporating the Armed Forces Compensation Scheme (AFCS). The Statement of Financial Position shows the deficit on the Schemes; the Statement of Comprehensive Net Expenditure shows, amongst other things, the movements in the liabilities analysed between the pension cost, enhancements and transfers in, and the interest on the Schemes' liabilities. The actuarial position of the pension Scheme is dealt with in the Report of the Actuary, and the Scheme Statements should be read in conjunction with that report.

1.4 The AFPS is a contracted-out, unfunded, defined benefit pay-as-you-go occupational pension Scheme operated by the MOD on behalf of members of the Armed Forces who satisfy certain membership criteria. 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 Administration expenses (staff, office facilities, etc.) are borne through the Statement of Comprehensive Net Expenditure of the MOD.

1.7 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 and the AFCS. These are administered and managed in a similar way to the AFPS.

1.8 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. Benefit payments are accounted for on an accruals basis.

1.9 The Report of the Actuary, shown on pages 9 to 12, 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.

1.10 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.

1.11 In the UK Budget Statement of 22 June 2010, the Chancellor of the Exchequer announced that, with effect from 1 April 2011, the Government would use the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) for the price indexation of benefits and tax credits; and that this would also apply to public service pensions through the statutory link to the indexation of the Second State Pension.

The change from RPI to CPI for the purpose of uprating index-linked features of post employment benefits has been recognised as a negative past service cost in accordance with IAS 19. This accounting treatment has been adopted by all central Government reporting entities where RPI has been used for inflation indexing for many years.

The question of whether, as regards the main public service public pension schemes, there is a legitimate expectation that RPI will be used for inflation indexing is currently before the courts in judicial review proceedings. The Government case is that no legitimate expectation exists and that, in any event, even if there was a legitimate expectation this was overridden by the clear public interest in making very substantial savings at a time when the Government had adjudged that deficit reduction was a fundamental objective for the country. If the Government's case is proven, there would be no change to the accounting treatment adopted in these accounts.

2. Statement of accounting policies

The accounting policies contained in the FReM follow IFRS to the extent that it is meaningful and appropriate to the public sector.

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 accounts.

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 amounts received in respect of the purchase of added years of service 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 and out

Transfers in and out of 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 1.8% real (i.e. 4.6% including inflation) up until 22 June 2010, thereafter a 0.75% increase applies in respect of CPI.

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 1.8% real (i.e. 4.6% including inflation) up until 22 June 2010, thereafter a 0.75% increase applies in respect of CPI. The £14.6Bn past service saving reduces the liability on which the interest cost is based at that date.

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 2010 was discounted at 1.8% real (i.e. 4.6% including inflation).The discount rate increased on 22 June 2010 from 1.8% to 2.55% due to the implementation of CPI, and then changed on 31 March 2011 to 2.9% and the Scheme liability was discounted at this rate. In financial year 2010-11, a rate of 1.8% was used to derive the Current Service Cost up until 22 June 2010, at which date a 0.75% increase was applied in respect of CPI (see Note 2.5). Further details of the financial assumptions used are set out at Note 17 to these accounts and in the Report of the Actuary on pages 9 to 12.

2.9.2 Full actuarial valuations by a professionally qualified actuary are typically obtained at intervals not exceeding four years. 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

Where 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.

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

The Armed Forces Compensation Scheme came into effect on 6 April 2005. 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 that date and which are considered to be attributable to service in the Armed Forces.

3. Reconciliation of net resource outturn to combined net outgoings

	Note	Outturn	Supply Estimate	2010-11 Outturn compared with Estimate	2009-10 Outturn
		£000	£000	£000	£000
Net Resource outturn		(8,766,036)	6,792,537	15,558,573	5,599,943
Non-supply income (CFERs)	6	-	-	-	(620)
Combined Net Outgoings		**(8,766,036)**	**6,792,537**	**15,558,573**	**5,599,323**

4. Reconciliation of resources to net cash requirement

	Note	Estimate	Outturn	Net Total outturn compared with Estimate: savings/ (excess)
		£000	£000	£000
Net Resource Outturn	3	6,792,537	(8,766,036)	15,558,573
Accruals adjustments:				
Non cash items		(8,663,501)	6,906,965	(15,570,466)
Changes in working capital other than cash		20,677	(20,967)	41,644
Use of provision:				
Pension		3,557,857	3,536,036	21,821
Compensation Scheme		48,344	59,515	(11,171)
Net cash requirement		**1,755,914**	**1,715,513**	**40,401**

5. Analysis of income payable to the Consolidated Fund

In addition to appropriations-in-aid, the following income relates to the Scheme and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Forecast 2010-11		Outturn 2010-11	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Operating income and receipts – excess A-in-A	-	-	-	-
Total income payable to the Consolidated Fund	**-**	**-**	**-**	**-**

6. Reconciliation of income recorded within the Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund

Operating income in excess of the authorised appropriations-in-aid estimate is payable to the Consolidated Fund.

	2010-11	**2009-10**
	£000	£000
Operating income	(1,859,071)	(1,712,828)
Income authorised to be appropriated-in-aid	1,870,964	1,712,208
Operating income payable to the Consolidated Fund	**-**	**(620)**

Statement of Comprehensive Net Expenditure

7. Pensions contributions receivable

During the year ended 31 March 2011 Employers' contributions are receivable from MOD in respect of active members of the AFPS and amount to an average of 29.38% of pensionable pay. This rate is forecast to increase to 33.88% in 2011/12 and to 33%, 34% and 35% in the following three years respectively.

	2010-11	**2009-10**
	£000	£000
Employers	1,856,313	1,709,772
Employees:		
Purchase of additional years	703	580
	1,857,016	**1,710,352**

8. Pensions transfers-in (see also Note 12)

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

	2010-11	**2009-10**
	£000	£000
Individual transfers in from other Schemes	2,026	2,459
	2,026	**2,459**

9. Other pension income

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

	2010-11	**2009-10**
	£000	£000
Miscellaneous income (including refund of gratuities)	29	17
	29	**17**

10. Pension cost

	2010-11	2009-10
	£000	£000
Current service cost (see Note 17.4)	2,577,399	1,735,385
Past service cost (see Note 17.4)	(14,600,000)	-
	(12,022,601)	**1,735,385**

11. Enhancements (see also Report of the Managers and Note 17.4)

	2010-11	2009-10
	£000	£000
Employees purchase of added years	703	580
	703	**580**

12. Transfers in (see also Note 8)

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.

	2010-11	2009-10
	£000	£000
Individual transfers in from other Schemes	2,026	2,459
	2,026	**2,459**

13. Interest on Scheme liabilities (see also Note 17.4)

	2010-11	2009-10
	£000	£000
Interest charge for the year	5,011,068	5,441,460
	5,011,068	**5,441,460**

Statement of Financial Position – Armed Forces Pension Scheme

14. Receivables

14.1 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.

	2010-11	2009-10
	£000	£000
Amounts falling due within one year:		
Overpaid pensions	3,927	3,076*
	3,927	**3,076**
Amounts falling due after more than one year:		
Overpaid pensions	454	621
	4,381	**3,697**

* AFCS Receivables are now shown seperately within Note 18.

14.2 Intra-Government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	2010-11	2009-10	2010-11	2009-10
	£000	£000	£000	£000
Balances with other central government bodies:				
Ministry of Defence	-	-	-	-
Balances with bodies external to government	3,927	3,076	454	621
At 31 March	**3,927**	**3,076**	**454**	**621**

15. Cash and cash equivalents

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

16. Payables

16.1 Analysis by type*

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

* AFCS Payables are now shown seperately within Note 19.

16.2 Intra-Government balances

	Amounts falling due within one year 2010-11	2009-10
	£000	£000
Balances with other central government bodies:		
HM Revenue & Customs	51,399	48,029
Consolidated Fund	40,400	93,343
Balances with bodies external to government	375,700	357,523
At 31 March	**467,499**	**498,895**

17. Provisions for pension liabilities

17.1 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 liabilites as at 31 March 2005. The Report of the Actuary's on pages 9 to 12 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 profile, active membership, deferred pensioners and pensioners;
- benefit structure, including details of any discretionary benefits and any proposals to amend the Scheme;
- income and expenditure, including details of expected bulk transfers into or out of the Scheme; and,
- following consultation with the Actuary, the key assumptions that should be used to value the Scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

The major assumptions used by the Actuary were:

	At 31 March 2011	At 31 March 2010	At 31 March 2009	At 31 March 2008	At 31 March 2007
Rate of increase on salaries*	4.9%	4.3%	4.3%	4.3%	4.3%
Inflation assumption	2.65%	2.75%	2.75%	2.75%	2.75%
Discount rate	2.9%	1.8%	3.2%	2.5%	1.8%
Mortality rate at age 60					
- Current Pensioners					
• Officers Men	29.2	29.1	28.6	28.5	25.6
• Officers Women	32.5	32.3	31.8	31.7	28.6
• Other Ranks Men	27.1	27.0	26.5	26.4	23.6
• Other Ranks Women	30.4	30.2	29.7	29.6	26.6
- Future Pensioners (from active status) **					
• Officers Men	31.1	31.0	30.2	30.1	27.5
• Officers Women	34.6	34.5	33.3	33.2	30.5
• Other Ranks Men	29.0	29.0	28.3	28.2	25.6
• Other Ranks Women	32.5	32.4	31.4	31.3	28.5

* The 2012 public sector pay-freeze 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. HM Treasury advise the relevant rate each year, based on the advice of the Government Actuary's Department. The inflation assumption reflects the long-term assumption for the Consumer Price Index (CPI) used in Treasury forecasting. 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 2011 £Bn	At 31 March 2010 £Bn	At 31 March 2009 £Bn	At 31 March 2008 £Bn	At 31 March 2007 £Bn
Pensions in Payment	58.3	66.0	55.2	56.5	54.6
Deferred Pensions	12.9	17.1	10.8	11.8	13.0
Active Members (Past Service)	28.5	37.6	25.0	28.9	32.9
Total	**99.7**	**120.7**	**91.0**	**97.2**	**100.5**

17.2 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.

17.3 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, then 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 17.7 and 17.8. 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.

17.4 Analysis of movements in the Scheme liability

	2010-11	2009-10
	£000	£000
Scheme liability as at 1 April	**(120,700,000)**	**(91,000,000)**
Past Service Cost (Note 10)	14,600,000	-
Current service cost (Note 10)	(2,577,399)	(1,735,385)
Interest on pension Scheme liability (Note 13)	(5,011,068)	(5,441,460)
	7,011,533	(7,176,845)
Enhancements (Note 11)	(703)	(580)
Pension transfers in (Note 12)	(2,026)	(2,459)
	7,008,804	(7,179,884)
Benefits payable (Note 17.5)	3,519,390	3,468,588
Pension payments to and on account of leavers (Note 17.6)	16,646	31,232
	3,536,036	3,499,820
Actuarial gain / (loss) (Note 17.7)	10,455,160	(26,019,936)
Scheme liability as at 31 March	**(99,700,000)**	**(120,700,000)**

17.5 Analysis of benefits paid

	2010-11	2009-10
	£000	£000
Pensions to retired employees and dependants (net of recoveries of overpayments)	3,086,265	3,087,427
Commutations and lump sum benefits on retirement	433,125	381,161
Per Combined Statement of Cashflows	**3,519,390**	**3,468,588**

17.6 Analysis of payments to and on account of leavers

	2010-11	2009-10
	£000	£000
Individual transfers to other Schemes	16,646	29,383
Refunds to members leaving service	-	1,849
Per Combined Statement of Cashflows	**16,646**	**31,232**

17.7 Analysis of actuarial gain / (loss)

	2010-11	2009-10
	£000	£000
Experience gain / (loss) arising on Scheme liabilities	1,555,160	3,580,064
Changes in assumptions underlying the present value of Scheme liabilities	8,900,000	(29,600,000)
Per Statement of Comprehensive Net Expenditure	**10,455,160**	**(26,019,936)**

17.8 History of experience (gains) / losses

	2010-11	2009-10	2008-09	2007-08	2006-07
Experience (gains)/ losses on Scheme liabilities: (£000)	(1,555,160)	(3,580,064)	2,702,898	697,902	4,214,312
Percentage of the present value of the Scheme liabilities	(1.56%)	(2.97%)	2.97%	0.72%	4.19%
(Gains)/losses arising due to changes in actuarial assumptions: (£000)	(8,900,000)	29,600,000	(12,600,000)	(7,700,000)	17,235,000
Percentage of the present value of the Scheme liabilities	(8.93%)	24.52%	(13.85%)	(7.92%)	17.14%
Total amount recognised in Statement of Comprehensive Net Expenditure: (£000)	(10,455,160)	26,019,936	(9,897,102)	(7,002,098)	21,449,312
Percentage of the present value of the Scheme liabilities	(10.49%)	21.56%	(10.88%)	(7.20%)	21.33%
Discount rate adjustment: (£000)	-	-	-	-	-
Total cumulative actuarial (gain)/loss: (£000)	34,266,453	44,721,613	18,701,677	28,598,779	35,600,877

Statement of Financial Position – Armed Forces Compensation Scheme

18. Receivables

	2010-11	2009-10
	£000	£000
Amounts falling due within one year:		
Overpaid compensation	200	112
	200	**112**

19. Payables

	2010-11	2009-10
	£000	£000
Amounts falling due within one year:		
Compensation	(2,393)	(2,201)
	(2,393)	**(2,201)**

20. 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 5 years (7 years from 2011/12) to make a claim under the AFCS.

Further details of the Scheme can be found within the Report of the Managers, page 3.

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. Following the change to CPI indexation announced in the Budget on 22 June 2010, GIP increases are now in line with CPI rather than RPI from April 2011 onwards.

% per annum	**31 March 2011**	**31 March 2010**
Gross discount rate	5.6%	4.6%
RPI inflation	3.4%	2.75%
CPI inflation	2.65%	n/a
GIP increases	2.65%	2.75%
Discount rate net of RPI	2.1%	1.8%
Discount rate net of CPI	2.9%	n/a
Discount rate net of GIP increases	2.9%	1.8%

The key demographic assumption is in respect of mortality. The mortality assumptions adopted follow a consistent approach to the AFPS mortality assumptions for resource accounting as at 31 March 2011. The levels of future mortality improvement have been assumed in accordance with the improvements incorporated in the published 2008-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.

	2010-11	**2009-10**
AFCS Provision	£000	£000
Balance at 1 April	**(450,471)**	**(352,387)**
Use of provision in year	59,515	34,183
Interest on Scheme Liabilities	(23,054)	(19,622)
Revaluation at year end	(78,785)	(112,645)
Actuarial gain / (loss)	25,100	-
Balance at 31 March	**(467,695)**	**(450,471)**
Breakdown of Balance at 31 March		
Incidents incurred but not yet claimed – Lump Sums and Guaranteed Income Payments	(171,695)	(197,171)
Guaranteed Income Payments – “In Payment”	(144,900)	(128,800)
Guaranteed Income Payments – “Underlying Entitlement”	(151,100)	(124,500)
	(467,695)	**(450,471)**

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 5,140 cases (2009-10: 4,386 cases and 4,826 GMP cases). The total loss was £756,596.35 (2009-10: £580,366.78 and £11,019,666.64 GMP). The losses all relate to the write-off of pension overpayments.

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 £1.86Bn (see Note 7), none of which were outstanding at year-end. None of the managers of the Schemes, key managerial staff or other related parties have undertaken any material transactions with the Schemes during the year.

Certain key managerial staff and members of the Executive Board are members of the Scheme. The benefits they are entitled 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.

25. Non- Adjusting Events after the Reporting Period

25.1 As noted in the Report of the Managers on page 3, changes to the AFCS will be introduced from 9 May 2011, improving the levels of compensation payable to virtually all service personnel. These changes will retrospective with effect from 6 April 2005. However, as this new legislation is not yet effective as at 31 March 2011, the provision in these Accounts has been calculated using the guidelines in force as at 31 March 2011. The value of the provision will significantly increase in the 2011-12 Annual Accounts to reflect these changes.

25.2 As outlined in Note 1.11, the decision to uprate public service pensions using the Consumer Prices Index rather than the Retail Prices Index has been recognised in these accounts. This decision is currently before the courts in judicial review proceedings. The Government is robustly defending the case and therefore no adjustment has been made to the accounts for this matter. The financial implications consequent on the review finding against the government have not been assessed

25.3 These 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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