Armed Forces Pension Scheme
(Incorporating the Armed Forces Compensation Scheme)

Resource Accounts 2009-10

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Resource Accounts 2009-10

(For the year ended 31 March 2010)

Presented to the House of Commons pursuant to section 6(4) of the Government Resources and Accounts Act 2000.

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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. 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 the new “Prerogative Instruments” that derive their authority from Her Majesty The Queen and are not subject to approval, annulment or amendment by Parliament. The new 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.

Increase in the total liability of the AFPS

The total liability of the AFPS is £120.7Bn as at 31 March 2010 (£91.0Bn as at 31 March 2009). This represents an increase of £29.7Bn and resulted in an acturial loss of £26.1Bn. A reduction in the discount rate (from 3.2% to 1.8% - under UK and international GAAP, 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 2009/10 the significant reduction in the discount rate has lead to an increase in the future liability) accounted for £27.7Bn of the acturial loss, changes in mortality assumptions accounted for £1.9Bn of the loss and the remaining £3.5Bn was 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.

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 quick, consistent and equitable decisions, using an evidence-based approach.

On 29 July 2009, the Secretary of State for Defence announced that he was bringing forward a planned review of the AFCS. Given the importance of ensuring the Armed Forces were receiving the right level of compensation where they are injured or made ill as a result of Service, the Secretary of State asked former Chief of the Defence Staff, Admiral the Lord Boyce, to lead the review as an independent chairman. Lord Boyce was supported by a mixed military and civilian team drawn from the Ministry of Defence (MOD), and also chaired an Independent Scrutiny Group made up of medical and legal experts in injury and compensation. The Independent Scrutiny Group also included representatives of the Confederation of British Service and ex-Service Organisations, the Royal British Legion, Service Family Federations, War Widows and an injured soldier who has claimed under the AFCS.

Overall the Review Team spoke to, or received comments from, over 200 individuals and groups through a public engagement exercise. These included serving members of the Armed Forces, their families, reservists, veterans, and the general public. Lord Boyce and his team visited serving Royal Navy, Army and RAF personnel in their bases and at Headley Court. Lord Boyce also spoke to Ministers, the Chief of the Defence Staff, the heads of the three Services and the judiciary.

The Review was asked to look at the entirety of the Scheme: its principles, the compensation it provides injured Service men and women, and how the Scheme evaluates claims. On the whole, the Review concluded that the basic principles of the AFCS were right. It is an improvement on the War Pension Scheme (WPS), and has been further enhanced over the last 3 years. However, it also found areas where further improvements needed to be made. All members of the Independent Scrutiny Group have agreed the findings. Defence Ministers have agreed in principle to implement all the recommendations. Key proposals that will be taken forward include an investigation of the following:

- 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.

Together all the intended changes will ensure that the most seriously injured receive the most appropriate compensation in a clear and transparent manner.

Some of the changes arising from the Review and which have been investigated are being actioned now and will be in place by July 2010 (no retrospective changes have been applied at this point). These include extending the time-limits for claiming, increasing the bereavement grant to £25,000 and increasing the majority of awards for hearing loss.

The other changes arising from Lord Boyce's Review will take some time to translate the high level recommendations into detailed legislation. These are expected to be in place by February 2011 with additional payments made to existing claimants by June 2012.

Importantly, no one will lose out as a result of these changes. All those who have already made a claim will benefit from the Review and will be contacted about their increased payment once their case has been revisited. This will happen after all the changes have been implemented through the new legislation.

It is estimated that there will be over 9,000 claims to re-visit and re-valorise so inevitably this process will take some time.

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 Departmental Resource Accounts (DRAc).

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
Brigadier R Bacon (until 20/07/09)	Head Future Contract
Mrs A Sansome	Head Veterans Services
Mrs K Humberstone	Head Corporate Services
Air Commodore P Nash	Head Change
Commodore A Ross (until (01/12/09)	Head Military Services
Air Commodore C Bray (from (05/10/09)	Head Military Services
Mr A Jablonowski	Non Executive Director
Mrs B Curtis	Non Executive Director

Other Schemes

The Scheme Statements summarise the transactions of not only the AFPS and AFCS but also the three smaller pension schemes: The Gurkha Pension Scheme (GPS), the Non-Regular Permanent Staff Pension Scheme (NRPS), and the Reserve Forces Pension Scheme (RFPS), also managed and operated by SPVA, whose members amount to 3.2% of the AFPS total membership.

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:
Sir Bill Jeffrey KCB
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
Centurion Building
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:
HM Paymaster General
Bank of England
Threadneedle Street
London EC2R 8AH

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

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

Employers

Ministry of Defence

Changes to the 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).

As of April 2009 pensions can be drawn from the age of 55 in certain circumstances and this will add to future complexity.

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.

Stakeholder Pensions

Active members may contribute to a Stakeholder Pension scheme arranged with Scottish Widows.

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).

Pension Overpayments

During 2007-08 administrative checks revealed an inconsistency in the calculation of a number of individual pensions because of incorrect uprating being applied to an element known as the Guaranteed Minimum Pension or GMP. This resulted in both overpayments and underpayments of pensions. Since April 2008 Xafinity Paymaster and SPVA have been working together on resolving the issues identified with the process of notification of GMP liabilities from the National Insurance Contributions Officer (NICO) to Xafinity Paymaster. Between April 2008 and September 2008 work to assess the population affected and options for resolution was carried out across all pension schemes. Running as a formal project from September 2008 until October 2009, SPVA and Xafinity Paymaster worked together to identify pensioners who had not received a notification of their GMP liability and then apply and correct their pension as required. These corrections were carried out based on information received from NICO, which was validated through a data cleansing exercise carried out by Xafinity Paymaster. At the end of the project, 4,826 pensioners had been overpaid some £11.1M. The majority of overpaid pensioners saw no reduction in their pension (as the reduction was cancelled out by the inflation increase in April). A further 31 pensioners were identified as being underpaid some £0.02M. Revised processes are being put in place to avoid a repeat of this problem. The National Audit Office have conducted a review of the end to end process to identify causes of the error.

Changes in Accounting standards

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

Non-adjusting post-reporting period events

It was announced in the Budget on 22 June 2010 that the Government intends to adopt the Consumer Price Index (CPI) for the indexation of public service pensions from April 2011. This will have an impact upon the future operation of the AFPS and AFCS.

Membership Statistics

Membership statistics are comprised of the total of AFPS 75 and AFPS 05 schemes plus three minor schemes: GPS, NRPS and RFPS.

The HM Treasury standard format for government pension scheme accounts requires that membership data be published for Active Members, Deferred Members and for Pensioners, and for movements over the year within each category. In the past, the AFPS Resource Accounts have conformed to the basic format. However, due to the complexity of the schemes whose rules continue to change, disclosure under the basic format is no longer possible. The standard format has therefore been expanded to include additional information, but has also 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. This change in the presentation of the membership table has no effect on the financial statements.

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 (figures rounded to nearest 5)

	Active members brought forward from 31 March 2009	199,535
	Adjustment (see Membership Statistics note 6)	(4,917)
	Total active members at 31 March 2009	**194,618**
Add:	New entrants in year	22,399
	Transfers in	57
Less:	Deaths in service	(210)
	Left active service with under 2 years service and no benefits	(5,680)
	Transfers out	(860)
	Left active service with deferred benefits	(8,238)
	Left active service and received benefits	(4,054)
	Active members at 31 March 2010 *	**198,032**

Deferred and unclaimed benefits

	Deferred members brought forward from 31 March 2009	397,665
	Adjustments due to data received post 31 March 2009 (see Membership Statistics note 7)	2,336
		400,001
	Being:	
	Deferred Benefits	387,106
	Benefits due but unclaimed	12,895
	Total deferred and unclaimed benefits at 1 April 2009	**400,001**
Add:	Benefits not immediately payable	11,925
Less:	Benefits taken up	(5,251)
	Benefits elapsed (see Membership Statistics note 5)	(810)
		405,865
	Being:	
	Deferred benefits	390,397
	Benefits due but unclaimed (see Membership Statistics note 7)	15,468
	Total deferred and unclaimed benefits 31 March 2010 ** (368,079 members) (see Memebership Statistics note 2)	**405,865**

Benefits in payment

	Benefits brought forward from 31 March 2009	
	- Members	328,222
	- Dependants	68,289
	Total	396,511
	Adjustments due to data received post 31 March 2009	
	- Members	(8,097)
	- Dependants	6,995
	Total	(1,102)
	Total benefits at 1 April 2009	
	- Members	320,125
	- Dependants	75,284
	Total	**395,409**
Add:	Benefits that became payable in the year	
	- Members	10,069
	- Dependants	3,947
	Total	14,016
Less:	Benefits that have ceased in the year	
	- Members	(6,480)
	- Dependants	(4,105)
	Total	(10,585)
	Benefits in payment at 31 March 2010 ***	
	- Members	323,714
	- Dependants	75,126
	Total	**398,840**

* The split of active membership as at 31 March 2010 was 57.87% AFPS 75, 41.29% AFPS 05, 0.83% NRPS and 0.01% GPS (a breakdown of fulltime reservists is not available and therefore the active members of the AFPS 75 – FTRS and RFPS have been included within AFPS 75 and AFPS 05 depending on the time of joining)

** The split of deferred members' benefits as at 31 March 2010 was 98.12% AFPS 75, 1.04% RFPS, 0.73% AFPS 05 and 0.11% NRPS

*** The split of pensions in payment as at 31 March 2010 was 93.16% AFPS 75, 6.08% GPS, 0.38% AFPS 05, 0.35% NRPS and 0.03% RFPS

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.

3 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.

4 Comparison of movements between tables cannot be made due the use of Members in one table and Benefits in the other tables, as explained above.

5 Where a member has not claimed benefits by the age of 72, the member is out of time to claim.

6 The Active Members brought forward from 31 March 2009 have been restated due to timing differences and to account for the exclusion of certain Reservist membership categories. The exclusions were made because although the MOD pays the employer contributions to the

occupational pension scheme the categories are separate from the AFPS 75, AFPS 05, RFPS, NRPS and GPS.

7 The Deferred Members brought forward from 31 March 2009 have been restated to account for better information obtained from the membership database. The database used to manage 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 hence the adjustment line present in the membership table.

8 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

Sir Bill Jeffrey
Accounting Officer for the Armed Forces Pension Scheme
and Armed Forces Compensation Scheme

12 July 2010

Report of the Actuary for the Armed Forces Pension Scheme for Accounts for the Year Ended 31 March 2010

Introduction

1. This statement has been prepared by the Government Actuary's Department at the request of the Ministry of Defence ('MOD'). It summarises the pensions disclosures required for the 2009-10 Resource Accounts of the Armed Forces Pension Scheme ('AFPS').

2. The statement is based on the results of an interim valuation of the scheme carried out as at 31 March 2008, with an approximate updating to 31 March 2010 to reflect known changes.

Membership data

3. The data used to prepare this assessment was gathered from SPVA, MOD. This data has been compared with similar data provided as at 31 March 2009 as a reasonableness check. The number of deferred individuals used in the assessment as at 31 March 2010 (368,079) was provided by SPVA. I understand this figure was extracted using SPVA's 102 report which indicates that the corresponding number of benefit records to be disclosed in the resource accounts is 405,865.

Methodology

4. The value of the liabilities has been determined using the projected accrued benefit method, with allowance for expected future pay increases in respect of active members, and the principal financial assumptions applying to the 2009-10 Resource Accounts. The standard contribution rate for accruing costs in the year ended 31 March 2010 was determined using the entry age method. The accruing costs use the principal financial assumptions applying to the 2008-09 Resource Accounts.

5. This statement takes into account the benefits normally provided under the AFPS, including normal retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member.

6. 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.

7. Benefits payable from the Armed Forces Compensation Scheme have not been included.

Financial assumptions

8. Table A1 (in Appendix) shows the principal financial assumptions adopted to prepare this statement. With effect from 31 March 2010, the assumed rate of return in excess of prices decreased from 3.2% a year to 1.8% a year, and the assumed rate of return in excess of earnings decreased from 1.7% a year to 0.3% a year. With effect from 31 March 2010, the assumed rate of future price inflation is 2.75% a year and the assumed nominal rate of salary growth is 4.3% a year (both the same as at 31 March 2009).

9. In his June 2010 Budget the Chancellor announced that from April 2011 public service pensions would increase in line with the Consumer Prices Index, rather than the Retail Prices Index. No alowance has been made for any consequential impact this change may have upon the assumptions to be adopted for resource accounting.

Demographic assumptions

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

11. The demographic assumptions (other than the mortality assumptions) adopted for the assessment of the liabilities as at 31 March 2010 are those adopted to determine the employer's charge to the scheme and have been derived with reference to the analysis of the experience of the scheme that was undertaken as part of the full actuarial valuation of the AFPS at 31 March 2005.

12. The mortality assumptions adopted for the purpose of the Resource Accounts as at 31 March 2010 include greater allowance for future mortality improvement than those adopted for the 2005 valuation and the Resource Accounts as at 31 March 2009. These revised assumptions include allowance for future mortality improvement in accordance with the UK 2008-based principal population projections.

13. The contribution rate used to determine the accruing cost in 2009-10 was based on the demographic assumptions applicable at the start of the year: that is, those adopted for the 2008-09 Resource Accounts.

Liabilities

14. Table 1 summarises the capital value as at 31 March 2010 of benefits accrued under the AFPS prior to 31 March 2010 based on the data, methodology and assumptions described in paragraphs 3 to 13.

Table 1

Past service liabilities as at 31 March 2010

Value of liability in respect of	£ billion
Pensions in payment	66.0
Deferred pensions	17.1
Active members (past service)	37.6
Total	**120.7**

Accruing costs

15. The cost of benefits accruing in the year ended 31 March 2010 (the 'current service cost') as determined at the start of the year is shown in Table 2. The AFPS is non-contributory for members. The cost of benefits accruing for each year of service is met by the employer.

Table 2

Current Service Cost 2009-10

Current Service Cost	Percentage of pensionable pay
Officers	39.8%
Other Ranks	23.7%

16. The employers' share of the standard contribution rate determined for the purposes of the Resource Accounts is not the same as the actual rate charged to employers (which is based on the methodology and the financial and demographic assumptions adopted for the SCAPE valuation of the Scheme).

17. The actual rates being charged to the employer (on a pensionable pay basis) are 37.3% p.a. for Officers and 21.4% for Other Ranks. This excludes the cost of the Armed Forces Compensation Scheme.

Disclosures

18. Tables A2 and A3 (in Appendix) show the Balance sheet and the Profit and loss disclosures as at 31 March 2010.

S Humphrey FIA
Government Actuary's Department

29 June 2010

Appendix to Actuarial Statement for the Armed Forces Pension Scheme for Accounts for the Year Ended 31 March 2010

Table A1 – Financial assumptions

Assumption	31 March 2010	31 March 2009
Rate of return (discount rate)	4.60%	6.04%
Rate of return in excess of:		
Earnings increases	0.3%	1.7%
Pension increases	1.8%	3.2%
Price Inflation	2.75%	2.75%
Expected return on assets:	n/a	n/a

Table A2 – Statement of Financial Position disclosures

	31 March 2010 £billion	31 March 2009 £billion
Total market value of assets	Nil	Nil
Value of liabilities	-120.7	-91.0
Surplus (deficit)	-120.7	-91.0
of which recoverable by employers	n/a	n/a

Table A3 – Profit & loss disclosures

£ billion

	Year ending 31 March 2010
Analysis of amount charged to pension cost	
Current service cost	- 1.7
Past service cost	-
Total operating charge	- 1.7
Analysis of the amount debited from other finance income	
Expected return on scheme assets	-
Interest on pension liabilities (@ 6.04%)	- 5.4
Net return	- 5.4
Analysis of amount recognised in other comprehensive net expenditure	
Actual return less expected return on scheme assets	-
Experience gains and losses arising on pension liabilities	3.5
Changes in mortality assumptions	- 1.9
Changes in demographic assumptions (other than mortality)	-
Changes to financial assumptions from 31 March 2010	- 27.7
Actuarial gain (loss) recognised in other comprehensive net expenditure	- 26.1
Movement in surplus during the year	
Surplus at 31 March 2009	- 91.0
Current service cost	-1.7
Benefits paid during the year	3.5
Past service costs	-
Other finance income	- 5.4
Actuarial gain (loss)	- 26.1
Surplus at 31 March 2010	- 120.7

Government Actuary's Department
29 June 2010

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 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 Government Financial Reporting Manual.

Statement on the System of 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 2010 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 by the SPVA through a combination of MOD Civilian/ Service Personnel and Hewlett Packard Enterprise Services Ltd (HP) via a commercial partnering agreement.[1] 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 creation of the Operating Board (OB), 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 AMG 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 and the National Audit Office.

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 National Audit Office.

[1] Up until Nov 2009 SPVA had a separate contract with Xafinity Paymaster to manage the payment of authorised pensions. Post November the contractual arrangements with HP changed and Xafinity Paymaster became a third party provider responsible to HP.

The risk and control framework

9. Active management of risk is fundamental to the effective achievement of the SPVA's Vision, Mission, Strategic Objectives, Key Performance Targets and other key deliverables. The risk process and procedures give consideration to the probability and the impact on time, cost and performance against the Agency's objectives and key targets. 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 OB. Major Business Level 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. There are further quarterly reports on Risk and Performance supplied to Deputy Chief of Defence Staff(Personnel) (DCDS(Pers)) which are considered at Higher Level Budget (HLB) Management Board meetings. Lower level risks are managed at Directorate, Project or Working Group levels and are each subject to regular review.

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

11. The SPVA Audit Committee (AC), under the chairmanship of one of its Non Executive Directors, is well established and meets quarterly. Defence Internal Audit and the National Audit Office attend the AC and provide advice and guidance where appropriate.

12. The Agency Internal Assurance Team (IAT) review 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.

13. In the past year the SPVA has further enhanced its physical controls around data storage and introduced additional controls over the movement of data. It is also working towards compliance with the Information Assurance Maturity Model. Controls in place ensure compliance with the Data Protection Act and accord with Cabinet Office guidelines. Data management is also subject to debate at each AC and AMG.

Business Continuity

14. Agency Business Continuity (BC) Plans were extended to include a Pandemic Flu plan in April 09. This was given full endorsement and declared fit for purpose by the MOD Pandemic Flu Crisis Management Team. As well as BC and Disaster Recovery (DR) Plans covering critical outputs, the Agency continues to develop site plans and, as in 2008/2009, a full schedule of BC and DR testing has taken place covering all major systems.

15. Extensive work has been done to ensure Business Continuity is fully prepared for changes prompted by the Interim Contract (IC) and the ongoing Service Transfer project. In 2010-11 the aim will be to maintain the good standards of management achieved thus far and improve the continuity culture through publicity and education, completing outstanding BC Plan projects and ensuring compliance with MOD BC strategy as per Joint Service Publication (JSP) 503.

Review of effectiveness

16. 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.

17. 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 Management Boards met on a regular basis in order to advise and support the development of a strategy and plans for delivering the Pensions Strategic Objectives and Key Performance Targets;

- The SPVA Non-Executive Directors were fully involved in the management of the Pensions Systems providing independent advice to the Centre, the AMG, the AC and the SPVA Executive Board;

- 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;

- A risk assurance workshop with Xafinity Paymaster was held to ensure all risks were identified and control processes in place for all pension payments. An annual assurance statement is signed by the Executive Board of Xafinity Paymaster;

- 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;

- In addition to the work of the IAT, the AFPS continues to participate in the National Fraud Initiative (NFI) to identify potential AFPS fraudulent claims. The scheme runs every two years with the latest exercise having commenced in 2009. Anomalies are still being investigated. SPVA also has a small team that investigates potential AFCS fraudulent claims and 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;

- Quarterly audits of selected AFPS pension payments and related procedures were also undertaken in respect of services provided by Xafinity Paymaster. Additionally, the Quality Assurance Team undertook financial accuracy post payment checks on a sample of AFCS payments;

- Procedures introduced in FY2008/2009 to provide more advanced information on injuries has proved successful in helping to more accurately predict AFCS expenditure on claims for current and historic injuries. The model can also be used to predict the potential cost of changes to operational tempo; and

- 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

18. 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 has been undertaken during 2009/10 to improve the reliability of membership data extracted from the Compensation and Pension System (CAPS), particularly in relation to deferred pensions. The output information is being analysed monthly for variances using a rule of reasonableness, and other than presentation no significant issues have been encountered.

Sir Bill Jeffrey
Accounting Officer for the Armed Forces Pension Scheme
and Armed Forces Compensation Scheme

12 July 2010

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 2010 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Revenue Account, the Statement of Financial Position, the Statement of Recognised Gains and Losses, the 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 the financial statements in accordance with applicable law and 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 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 2010, and the net cash requirement, net resource outturn, combined net outgoings, recognised gains and losses and cash flows 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 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

14 July 2010

Statement of Parliamentary Supply
Summary of Resource Outturn 2009-10

	2009-10 Estimate			2009-10 Outturn				2008-09 Outturn
	Gross Expenditure	A-in-A	Net Total	Gross Expenditure	A-in-A	Net Total	Net Total outturn compared with Estimate savings/ (excess)	Net Total
Request for Resources	£000	£000	£000	£000	£000	£000	£000	£000
Armed Forces Retired Pay, Pensions etc	7,412,525	1,712,208	5,700,317	7,312,151	1,712,208	5,599,943	100,374	5,842,502
Non-budget	-	-	-	-	-	-	-	-
Total Resources	**7,412,525**	**1,712,208**	**5,700,317**	**7,312,151**	**1,712,208**	**5,599,943**	**100,374**	**5,842,502**

Summary of Net Cash Requirement 2009-10

		2009-10			2008-09
		Estimate	Outturn	Net Total outturn compared with Estimate savings/(excess)	Outturn
	Note	£000	£000	£000	£000
Net Cash Requirement	4	1,996,081	1,718,090	277,991	1,858,146

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 2009-10		Outturn 2009-10	
		Income	Receipts	Income	Receipts
	Note	£000	£000	£000	£000
Total	5	-	-	620	620

Explanation of the variation between Resource Estimate and Outturn:

The Outturn is less than the Estimate as the revaluation of the Armed Forces Compensation Scheme (AFCS) liability was lower than expected. The interest paid on the AFPS liabilities was greater than anticipated.

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

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

The notes on pages 27 to 40 form part of these accounts.

Combined Revenue Account

for the year ended 31 March

	Note	2009-10 £000	2008-09 £000
Income			
Contributions receivable	7	(1,710,352)	(1,505,925)
Transfers in	8	(2,459)	(1,221)
Other pension income	9	(17)	-
		(1,712,828)	**(1,507,146)**
Outgoings			
Pension cost	10	1,735,385	1,992,678
Enhancements	11	580	708
Transfers in	12	2,459	1,221
Interest on Scheme liabilities	13	5,441,460	5,131,670
		7,179,884	**7,126,277**
Net outgoings for the year		**5,467,056**	**5,619,131**

Armed Forces Compensation Scheme

	Note	£000	£000
Movement in provision for AFCS	18	112,645	168,076
Interest on scheme liabilities	18	19,622	13,603
Net outgoings for the year		**132,267**	**181,679**
Combined net outgoings for the year	3	**5,599,323**	**5,800,810**

Combined Statement of Recognised Gains and Losses

for the year ended 31 March

	Note	2009-10 £000	2008-09 £000
Actuarial loss / (gain)		26,019,936	(9,897,102)
Recognised losses / (gains) for the financial year	17.8	**26,019,936**	**(9,897,102)**

The notes on pages 27 to 40 form part of these accounts.

Combined Statement of Financial Position

As at	Note	**31 March 10** £000	**31 March 09*** £000	**01 April 08*** £000
Current assets:				
Receivables (within 12 months)	14.1	3,188	3,181	2,077
Cash and cash equivalents	15	93,343	51,505	75,692
		96,531	**54,686**	**77,769**
Payables (within 12 months)	16.1	(501,096)	(355,554)	(239,652)
Net current liabilities, excluding pension liability		**(404,565)**	**(300,868)**	**(161,883)**
Receivables (after 12 months)	14.1	621	629	594
Pension liability	17.5	(120,700,000)	(91,000,000)	(97,200,000)
Armed Forces Compensation Scheme	18	(450,471)	(352,387)	(204,198)
Net liabilities, including pension liability		**(121,554,415)**	**(91,652,626)**	**(97,565,487)**
Taxpayers' equity:				
General fund	19	(121,554,415)	(91,652,626)	(97,565,487)
		(121,554,415)	**(91,652,626)**	**(97,565,487)**

* The statement of Financial Position, and the relevant supporting notes, as at 1 April 2008 and 31 March 2009 have been restated to include disclosures required following adoption of IFRS for the first time. Additional detail is provided at Note 20 to the accounts.

Sir Bill Jeffrey
Accounting Officer for the Armed Forces Pension Scheme
and Armed Forces Compensation Scheme 12 July 2010

The notes on pages 27 to 40 form part of these accounts.

Combined Statement of Cash Flows

for the year ended 31 March

	Note	2009-10 £000	2008-09 £000
Cash flows from operating activities			
Combined net outgoings for the year	3	(5,599,323)	(5,800,810)
Adjustments for non-cash transactions:			
Decrease / (Increase) in receivables		1	(1,024)
Increase in payables		103,704	140,089
Increase in pension provision	17.5	7,176,845	7,124,348
Increase in pension provision – enhancements and transfers in	17.5	3,039	1,929
Use of provisions – pension liability	17.6	(3,468,588)	(3,408,507)
Use of provisions – refunds and transfers	17.7	(31,232)	(20,668)
Increase in provisions – compensation scheme	18	132,267	181,679
Use of provisions – compensation scheme	18	(34,183)	(33,490)
Net cash outflows from operating activities		**(1,717,470)**	**(1,816,454)**
Cash flows from financing activities			
From the Consolidated Fund (Supply): current year	19	1,801,000	1,796,979
Net Parliamentary financing		**1,801,000**	**1,796,979**
Adjustments for payments and receipts not related to supply:			
Payments to the Consolidated Fund	3	(41,692)	(4,712)
Net Financing		**1,759,308**	**1,792,267**
Net increase / (decrease) in cash and cash equivalents in the period before adjustments for receipts and payments to the Consolidated Fund		**41,838**	**(24,187)**
Payments of amounts due to the Consolidated Fund	3	(620)	(41,692)
Amounts due to the Consolidated Fund, received and not paid over - excess appropriations in aid relating to current year	3	620	41,692
Net increase / (decrease) in cash and cash equivalents in the period after adjustments for receipts and payments to the Consolidated Fund	15	**41,838**	**(24,187)**
Cash and cash equivalents at the beginning of the period	15	**51,505**	**75,692**
Cash and cash equivalents at the end of the period	15	**93,343**	**51,505**

The notes on pages 27 to 40 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 2009-10 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 GAAP, 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 Revenue Account 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 Operating Cost Statement 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 Pension Scheme (NRPS) 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 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.

1.10 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.

2. Statement of accounting policies

The accounting policies contained in the FReM follow International Generally Accepted Accounting Practice for companies (iGAAP) 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 First time adoption of International Financial Reporting Standards (IFRS)

These are the first set of accounts to be prepared under the International Financial Reporting Standards. IAS 19 *Employee Benefits* and IAS 26 *Accounting and Reporting by Retirement Benefit Plan*s are applicable to accounting for pension Schemes. The objective of IAS 26 is to provide guidance on the form and the content of the financial statements prepared by retirement benefit plans. It complements IAS 19, which deals with the determination of the cost of retirement benefits in the financial statements of employers.

In line with HM Treasury advice, Prior Period Adjustments (PPAs) arising from the adoption of IFRS were not included in Spring Supplementary Estimates for 2009-10 on the basis that the PPA numbers could have been misleading, particularly where transactions may well have pre-dated the 2001-02 cut off point for reporting PPAs, as only part of an obligation would have been included. PPAs arising from a change in accounting policy related to other than IFRS were included in the Estimates in line with conventional arrangements.

2.2 Accounting convention

These accounts have been prepared under the historical cost convention.

2.3 Pension contributions receivable

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

2.3.2 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.

2.4 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.

2.5 Other income

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

2.6 Current service cost

The current service cost is the increase in the present value of the scheme liabilities arising from current members' service in the current period and is recognised in the Revenue Account. The cost is based on a discount rate of 3.2% real (i.e. 6.04% including inflation).

2.7 Past service costs

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

2.8 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 Revenue Account. The interest cost is based on the discount rate of 3.2% real (i.e. 6.04% including inflation).

2.9 Other payments

Other payments are accounted for on an accruals basis.

2.10 Scheme liability

2.10.1 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 2009 was discounted at 3.2% (i.e. 6.04% after inflation). The discount rate changed on 31 March 2010, from 3.2% to 1.8% and the scheme liability was discounted at this rate. In financial year 2009-10, a rate of 3.2% was used to derive the Current Service Cost (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 11 to 15.

2.10.2 Full actuarial valuations by a professionally qualified actuary are 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.

2.11 Pensions benefits payable

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

2.12 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.

2.13 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.

2.14 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.

2.15 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 Recognised Gains and Losses for the year.

2.16 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	2009-10 Outturn compared with Estimate	2008-09 Outturn
		£000	£000	£000	£000
Net Resource outturn		5,599,943	5,700,317	100,374	5,842,502
Non-supply income (CFERs)	6	(620)	-	620	(41,692)
Combined Net Outgoings		**5,599,323**	**5,700,317**	**100,994**	**5,800,810**

4. Reconciliation of resources to cash requirement

	Note	Estimate	Outturn	Net Total outturn compared with Estimate: savings/ (excess)
		£000	£000	£000
Net Resource Outturn	3	5,700,317	5,599,943	100,374
Accruals adjustments:				
Non cash items		(7,412,525)	(7,312,151)	(100,374)
Changes in working capital other than cash		32,744	(103,705)	136,449
Use of provision:				
Pension		3,599,134	3,499,820	99,314
Compensation Scheme		76,411	34,183	42,228
Net cash requirement		**1,996,081**	**1,718,090**	**277,991**

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 2009-10		Outturn 2009-10	
	Income	Receipts	Income	Receipts
	£000	£000	£000	£000
Operating income and receipts – excess A-in-A	-	-	620	620
Total income payable to the Consolidated Fund	**-**	**-**	**620**	**620**

6. Reconciliation of income recorded within the Revenue Account 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.

	2009-10	2008-09
	£000	£000
Operating income	(1,712,828)	(1,507,146)
Income authorised to be appropriated-in-aid	1,712,208	1,465,454
Operating income payable to the Consolidated Fund	**(620)**	**(41,692)**

Revenue account

7. Pensions contributions receivable

During the year ended 31 March 2010 Employers' contributions are receivable from MOD in respect of active members of the AFPS and amount to an average of 27.58% of pensionable pay. This rate is forecast to increase to 29.46% in 2010/11 and to 34% in the following three years.

	2009-10	2008-09
	£000	£000
Employers	1,709,772	1,505,217
Employees:		
Purchase of additional years	580	708
	1,710,352	**1,505,925**

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.

	2009-10	2008-09
	£000	£000
Individual transfers in from other schemes	2,459	1,221
	2,459	**1,221**

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.

	2009-10	2008-09
	£000	£000
Miscellaneous income (including refund of gratuities)	17	-
	17	**-**

10. Pension 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.

	2009-10	2008-09
	£000	£000
Current service cost (see Note 17.5)	1,735,385	1,992,678
	1,735,385	**1,992,678**

11. Enhancements (see also Report of the Managers and Note 17.5)

	2009-10	2008-09
	£000	£000
Employees purchase of added years	580	708
	580	**708**

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 Revenue Account as expenditure as part of the movements in the provision during the year.

	2009-10	2008-09
	£000	£000
Individual transfers in from other schemes	2,459	1,221
	2,459	**1,221**

13. Interest on scheme liabilities (see also Note 17.5)

The interest charge in the year has been determined by taking 6.04% of the opening balance plus 6.04% of the average of the movements in the year, which are deemed to accrue evenly during the year. The movements in the year exclude the interest charge and the actuarial gains/losses.

	2009-10	2008-09
	£000	£000
Interest charge for the year	5,441,460	5,131,670
	5,441,460	**5,131,670**

Statement of Financial Position

14. Receivables - contributions due in respect of pensions

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.

	2009-10	2008-09	2007-08
	£000	£000	£000
Amounts falling due within one year:			
Overpaid pensions	3,188	3,181	2,192
Less Provision for bad debts *	-	-	(115)
	3,188	**3,181**	**2,077**
Amounts falling due after more than one year:			
Overpaid pensions	621	629	594
	3,809	**3,810**	**2,671**

* General bad debt provisions are not permitted under IFRS. The 2007-08 bad debt provision was released under the first time adoption of IFRS (see note 20).

14.2 Intra-Government balances

	Amounts falling due within one year			Amounts falling due after more than one year		
	2009-10	2008-09	2007-08	2009-10	2008-09	2007-08
	£000	£000	£000	£000	£000	£000
Balances with other central government bodies: Ministry of Defence	-	-	-	-	-	-
Balances with bodies external to government	3,188	3,181	2,077	621	629	594
At 31 March	**3,188**	**3,181**	**2,077**	**621**	**629**	**594**

15. Cash and cash equivalents

	2009-10	2008-09	2007-08
	£000	£000	£000
Balance at 1 April	51,505	75,692	24,458
Net change in cash balances	41,838	(24,187)	51,234
Balance at 31 March	**93,343**	**51,505**	**75,692**
The following balances at 31 March were held at:			
Office of HM Paymaster General	93,343	51,505	75,692
Balance at 31 March	**93,343**	**51,505**	**75,692**

16. Payables – in respect of pensions

16.1 Analysis by type

	2009-10	2008-09	2007-08
	£000	£000	£000
Amounts falling due within one year:			
Pensions	356,843	256,830	118,810
Compensation	2,201	1,213	67
HM Revenue & Customs	48,029	45,400	44,522
Third party organisations	680	606	561
	407,753	304,049	163,960
Amounts issued from the Consolidated Fund for supply not spent at year end	92,723	9,813	70,980
Consolidated Fund extra receipts due to be paid to the Consolidated Fund	620	41,692	4,712
	501,096	**355,554**	**239,652**

16.2 Intra-Government balances

	Amounts falling due within one year		
	2009-10	2008-09	2007-08
	£000	£000	£000
Balances with other central government bodies:			
HM Revenue & Customs	48,029	45,400	44,522
Consolidated Fund	93,343	51,505	75,692
Balances with bodies external to government	359,724	258,649	119,438
At 31 March	**501,096**	**355,554**	**239,652**

17. Provision for pension liabilities

17.1 Provision for pension liabilities

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 an the last full assessment of the scheme liabilites as at 31 March 2005. The Report of the Actuary's on pages 11 to 15 sets out the scope, methodology and results of the work the actuary has carried out.

17.2 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 2010	At 31 March 2009	At 31 March 2008	At 31 March 2007	At 31 March 2006
Rate of increase on salaries	4.3%	4.3%	4.3%	4.3%	4.0%
Inflation assumption	2.75%	2.75%	2.75%	2.75%	2.5%
Discount rate	1.8%	3.2%	2.5%	1.8%	2.8%
Mortality rate at age 60					
- Current Pensioners					
• Officers Men	29.1	28.6	28.5	25.6	24.8
• Officers Women	32.3	31.8	31.7	28.6	27.8
• Other Ranks Men	27.0	26.5	26.4	23.6	22.9
• Other Ranks Women	30.2	29.7	29.6	26.6	25.9
- Future Pensioners (from active status) *					
• Officers Men	31.0	30.2	30.1	27.5	27.1
• Officers Women	34.5	33.3	33.2	30.5	30.1
• Other Ranks Men	29.0	28.3	28.2	25.6	25.2
• Other Ranks Women	32.4	31.4	31.3	28.5	28.1

* Life expectancies disclosed for future pensioners are those experienced by an active member reaching age 60 in the future, whom is currently age 40 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 Retail Price Index (RPI) 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 2010 £Bn	At 31 March 2009 £Bn	At 31 March 2008 £Bn	At 31 March 2007 £Bn	At 31 March 2006 £Bn
Pensions in Payment	66.0	55.2	56.5	54.6	45.1
Deferred Pensions	17.1	10.8	11.8	13.0	8.4
Active Members (Past Service)	37.6	25.0	28.9	32.9	22.9
Total	**120.7**	**91.0**	**97.2**	**100.5**	**76.4**

17.3 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.

17.4 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 17.8 and 17.9. 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.

17.5 Analysis of movements in the scheme liability

	2009-10	**2008-09**	**2007-08**
	£000	£000	£000
Scheme liability at 1 April	**(91,000,000)**	**(97,200,000)**	**(100,549,000)**
Current service cost (Note 10)	(1,735,385)	(1,992,678)	(2,226,500)
Interest on pension scheme liability (Note 13)	(5,441,460)	(5,131,670)	(4,602,908)
	(7,176,845)	(7,124,348)	(6,829,408)
Enhancements (Note 11)	(580)	(708)	(547)
Pension transfers in (Note 12)	(2,459)	(1,221)	(934)
	(7,179,884)	(7,126,277)	(6,830,889)
Benefits payable (Note 17.6)	3,468,588	3,408,507	3,159,042
Pension payments to and on account of leavers (Note 17.7)	31,232	20,668	18,749
	3,499,820	3,429,175	3,177,791
Actuarial (loss) / gain (Note 17.8)	(26,019,936)	9,897,102	7,002,098
Scheme liability as 31 March	**(120,700,000)**	**(91,000,000)**	**(97,200,000)**

17.6 Analysis of benefits paid

	2009-10	2008-09
	£000	£000
Pensions to retired employees and dependants (net of recoveries of overpayments)	3,087,427	2,981,324
Commutations and lump sum benefits on retirement	381,161	427,183
Per cash flow statement	**3,468,588**	**3,408,507**

17.7 Analysis of payments to and on account of leavers

	2009-10	2008-09
	£000	£000
Individual transfers to other schemes	29,383	20,668
Refunds to members leaving service *	1,849	-
Per cash flow statement	**31,232**	**20,668**

* Refunds to members leaving service were reported separately in 2009/10 but formed part of the individual transfers to other schemes in 2008/09

17.8 Analysis of actuarial gain / (loss)

	2009-10	2008-09
	£000	£000
Experience gain / (loss) arising on scheme liabilities	3,580,064	(2,702,898)
Changes in assumptions underlying the present value of scheme liabilities	(29,600,000)	12,600,000
Per Statement of Recognised Gains and Losses	**(26,019,936)**	**9,897,102**

17.9 History of experience (gains) / losses

	2009-10	2008-09	2007-08	2006-07	2005-06
Experience (gains)/ losses on scheme liabilities: Amount (£000)	(3,580,064)	2,702,898	697,902	4,214,312	(1,086,490)
Percentage of the present value of the scheme liabilities	(2.97%)	2.97%	0.72%	4.19%	(1.4%)
(Gains)/losses arising due to changes in actuarial assumptions: Amount (£000)	29,600,000	(12,600,000)	(7,700,000)	17,235,000	-
Percentage of the present value of the scheme liabilities	24.52%	(13.85%)	(7.92%)	17.14%	-
Total amount recognised in Statement of Total Recognised Gains and Losses: Amount (£000)	26,019,936	(9,897,102)	(7,002,098)	21,449,312	(1,086,490)
Percentage of the present value of the scheme liabilities	21.56%	(10.88%)	(7.20%)	21.33%	(1.4%)
Discount rate adjustment: Amount (£000)					8,200,000
Total cumulative actuarial (gain)/loss: Amount (£000)	44,721,613	18,701,677	28,598,779	35,600,877	14,151,565

18. Provision for liabilities and charges – Armed Forces Compensation Scheme

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 to make a claim under the AFCS.

In the July 2008 Command Paper "The Nation's Commitment: Cross-Government Support to our Armed Forces, their Families and Veterans", the AFCS award levels were increased. The tax-free lump sum payment for the most serious injuries was doubled, raising the maximum lump sum payment to £570,000. All award levels, according to severity of injury, received an uplift of between 10% and 100% in their upfront lump sum payment. Together with the index-linked, tax-free, annual GIP, this means awards for the most seriously injured can be over £1.5M in total over the claimant's lifetime. It was announced at the same time that all those who had received awards between the start of the scheme in 2005 and the implementation of the tariff increase would also benefit from the changes through an Additional Lump Sum payment. These payments were made to the most seriously injured first; and completion of all additional payments was undertaken by the end of April 2009.
As explained in the Report of the Managers, a further review has taken place. This is likely to result in an increase to the AFCS' liabilities but at the time of this report, insufficient information is available to quantify the likely change.

	2009-10	2008-09	2007-08
AFCS Provision	£000	£000	£000
Balance at 1 April	**(352,387)**	**(204,198)**	**(118,964)**
Use of provision in year	34,183	33,490	13,067
Interest on Scheme Liabilities	(19,622)	(13,603)	(5,617)
Revaluation at year end	(112,645)	(168,076)	(92,684)
Balance at 31 March	**(450,471)**	**(352,387)**	**(204,198)**
Breakdown of Balance at 31 March			
Incidents incurred but not yet claimed – Lump Sums and Guaranteed Income Payments	(197,171)	(216,787)	
Guaranteed Income Payments – "In Payment"	(128,800)	(64,300)	
Guaranteed Income Payments – "Underlying Entitlement"	(124,500)	(71,300)	
	(450,471)	**(352,387)**	
Breakdown of Balance at 31 March			
Incidents incurred but not yet claimed			(113,825)
Guaranteed Income Payments			(90,373)
			(204,198)

19. General Fund

The General Fund represents the total assets less liabilities of the pension scheme, to the extent that the total is not represented by other reserves and financing items.

	2009-10	2008-09	2007-08
	£000	£000	£000
Balance at 1 April	(91,652,626)	(97,565,372)*	(100,821,838)
Net Parliamentary Funding:			
Draw down	1,801,000	1,796,979	1,780,049
Deemed	9,813	70,980	24,458
Year end adjustment:			
Supply creditor – current year	(92,723)	(9,813)	(70,980)
Net Transfer from operating activities:			
Net outgoings	(5,599,323)	(5,800,810)	(5,474,562)
CFERs repayable to Consolidated Fund	(620)	(41,692)	(4,712)
Discount rate adjustment	(29,600,000)	12,600,000	13,100,000
Actuarial gain / (loss)	3,580,064	(2,702,898)*	(6,097,902)
Balance at 31 March	**(121,554,415)**	**(91,652,626)**	**(97,565,487)**

* Adjusted following the adoption of IFRS for the first time. Additional detail is provided at note 20 to the accounts.

20. First time adoption of IFRS

Taxpayer's Equity as reported under UK GAAP 2008-09 and IFRS 2008-09

	UK GAAP	Adjustments	IFRS
	£000	£000	£000
Balance at 1 April 2008	(97,565,487)	115*	(97,565,372)
Net Parliamentary Funding:			
Draw down	1,796,979	-	1,796,979
Deemed	70,980	-	70,980
Year end adjustment:			
Supply creditor – current year	(9,813)	-	(9,813)
Net Transfer from operating activities:			
Net outgoings	(5,800,810)	-	(5,800,810)
CFERs repayable to Consolidated Fund	(41,692)	-	(41,692)
Discount rate adjustment	12,600,000	-	12,600,000
Actuarial gain / (loss)	(2,703,052)	154*	(2,702,898)
Balance at 31 March 2009	**(91,652,895)**	**269***	**(91,652,626)**

* Adjustments were required following the removal of the general bad debt provision which is not permitted under IFRS.

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. The majority of financial instruments relate to contracts for non-financial items in line with the scheme's expected purchase and usage requirements and the scheme is therefore exposed to little credit, liquidity or market risk.

22. Losses

During the year, losses arose in 9,212 cases (2008-09; 2,897 cases). The total loss was £11,672,033.42 (2008-09; £201,541). The losses all relate to the write-off of pension overpayments. 4,826 of the overpayments written-off (£11,091,666.64) relate to the GMP exercise.

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 (FSAVCs) from MOD in respect of active members of the AFPS. These contributions totalled £1.71Bn (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.

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 Schemes or Armed Forces Compensation Schemes.

25. Non- Adjusting Events after the Reporting Period

25.1 It was announced in the Budget on 22 June 2010 that the Government intends to adopt the Consumer Price Index (CPI) for the indexation of public service pensions from April 2011. This will have an impact upon the future operation of the AFPS and AFCS.

25.2 These Accounts have been authorised for issue by the Accounting Officer on the same date as the C&AGs audit certificate.

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