Armed Forces Pension Scheme

(Incorporating the Armed Forces Compensation Scheme)

Annual Accounts 2013-14

HC 182

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(Incorporating the Armed Forces Compensation Scheme)

Annual Accounts
2013-14

(For the year ended 31 March 2014)

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Report of the Managers

History and Statutory Background

The Armed Forces Pension and Compensation Schemes

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

The Armed Forces Pension Scheme 2005 (AFPS 05)

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

The Armed Forces Compensation Scheme (AFCS)

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

The Armed Forces Pension Scheme 1975 (AFPS 75)

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

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

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

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

The Armed Forces Attributable Benefits Scheme

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

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

Reserve Forces Pension Schemes

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

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

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

Non Regular Permanent Staff Pension Scheme

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

Gurkha Pension Scheme

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

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

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

Minor Pension Schemes

In addition to the above Schemes, the AFPS also manages a number of minor pension schemes covering Locally Employed Military Personnel in places such as Malta, Gibraltar, Singapore, Hong Kong, Seychelles, Sri Lanka, India/Pakistan (Hong Kong Singapore Royal Artillery).

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

The Armed Forces Pension Scheme 2015 (AFPS 15)

A new Armed Forces Pension Scheme will be introduced in April 2015 (AFPS 15). All Service personnel who are members of an Armed Forces Pension Scheme and who will be serving beyond April 2015 will be automatically transferred to the new scheme, unless they qualify for transitional protection.

The government has offered transitional protection for those who were within 10 years of their respective Scheme's Normal Pension Age (NPA) on 1 April 2012. AFPS 75, AFPS 05 and FTRS 97 (Full Commitment) have a NPA of 55. RFPS, FTRS 97 (on Limited or Home Commitment) and NRPS have a NPA of 60.

This means members of AFPS 75, AFPS 05 or FTRS 97 (FC) who were aged 45 or over on 1 April 2012, will stay on their current pension scheme and their benefits will be unaffected. Members of the RFPS (including those on Additional Duties Commitment), FTRS 97 (on LC or HC) or NRPS who were aged 50 or over on 1 April 2012, will remain in their current pension scheme and their benefits will be unaffected.

This transitional protection was a government decision for all public service schemes, for those personnel who were nearest to their NPA and who will, therefore, have less time to adjust their financial plans in response to the changes to their pension scheme. Approximately 7,800 officers and 7,000 other ranks will benefit from transitional protection.

The Defence Secretary announced in October 2012 that final agreement with the government on the overall design of the new Armed Forces Pension Scheme has been reached.

The key features of the new Scheme remain unchanged from the Outline Scheme Design published at the end of July 2012 but will now also include additional choice in how the EDP may be taken, depending on individual needs.

The EDP will normally be paid as a monthly income and one-off lump sum. However, in light of views expressed by Service personnel during consultation, the new Scheme will also offer the choice to forego the lump sum and convert it into additional monthly income. This additional option is not currently available to members of any current Armed Forces Pension Scheme.

Further information is available at: **www.gov.uk/pensions-and-compensation-for-veterans**

The reforms due to be implemented in April 2015 may affect the behaviour of members and, due to the uncertainty surrounding the impact of these changes as there is insufficient experience data on which to base any assumption, no allowance has been made in these accounts.

Management of the Schemes

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

The Chief Executive of SPVA has been designated by the Departmental Accounting Officer to be the Scheme Administrator for both the AFPS and AFCS. The SPVA Senior Finance Officer has been designated by the Departmental Accounting Officer to be the Senior Finance Officer for both the AFPS and AFCS. In administering the AFPS and AFCS on behalf of the MOD, the SPVA aims to ensure that all pension and compensation payments due to entitled pensioners and members of the Armed Forces are made in a timely and accurate fashion.

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

SPVA Management Board

Air Vice-Marshal R Paterson	Chief Executive (Chair)
Mr J Parkin	Head Veterans Services
Commodore I Bisson (from Feb 14)	Head Military Operations and Development
Air Commodore C Bray (until Feb 14)	Head Military Operations and Development
Brigadier G Nield	Head Strategy Programmes & Resources
Mrs R Stone (from Oct 13)	Senior Finance Officer
Mr D Hadlington (until Oct 13)	Senior Finance Officer
Mrs L Clinton	Non Executive Director
Mrs H Pernelet	Non Executive Director

On 1 April 2014 SPVA ceased to exist as a separate business unit within MOD and its roles and responsibilities were transferred to Defence Business Services (DBS). Responsibility for administration of the Schemes has been delegated to the Chief Executive of DBS and the role of Senior Finance Officer to the DBS Head of Resources. Administration of the Schemes continues to be delivered in the same way with mainly the same personnel in place below Board level. These changes have no impact on the Scheme costs or on going concern.

Changes during the year

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

Armed Forces Pension Schemes

The Pensions increase rate was 2.2% (5.2% in 2012-13) with effect from 8 April 2013 (9 April 2012).

Changes in Accounting standards

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

Increase in the total liability of the AFPS

The total liability of the AFPS is £129.5bn as at 31 March 2014 (£118.0bn as at 31 March 2013). The total change in liability represents an increase of £11.5bn (2013: £12.4bn) and resulted in an actuarial loss of £8.4bn (2013: £9.2bn). £12.0bn of the actuarial loss (2013: £9.2bn) is due to changes in financial assumptions underlying the Scheme liability, represented by the decrease in the discount rate net of pension increases to 1.8% from 2.35% (2012: 2.8% to 2.35%). The discount rate change reflects the fact that the value of having cash now is greater than for the same amount in the future. £0.6bn of the actuarial loss (2013: £0bn) is due to a mortality assumption gain. The remaining £3.0bn of the actuarial loss (2013: £0.04bn) is 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 full reconciliation of the change in liability over the year is provided in Note 13.5, page 40.

Membership Statistics

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

There are three groups, defined as follows:

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

Active members

	Active members brought forward from 31 March 2013	182,997
	Adjustment (see Membership Statistics note 6)	341
	Total active members at 1 April 2013	**183,338**
Add:	New entrants in year	14,396
	Transfers in	34
Less:	Deaths in service	(83)
	Left active service with under two years service and no benefits	(3,333)
	Left active service with deferred benefits	(13,957)
	Left active service and received benefits	(8,427)
	Active members at 31 March 2014	**171,968**

Deferred and unclaimed benefits

	Deferred members brought forward from 31 March 2013	450,911
	Adjustments (see Membership Statistics note 6)	(3,320)
		447,591
	Being:	
	Deferred benefits	434,538
	Benefits due but unclaimed	13,053
	Total deferred and unclaimed benefits at 1 April 2013	**447,591**
Add:	Benefits not immediately payable	19,154
	New benefit on divorce	496
Less:	Transfers out	(1,386)
	Benefits taken up	(4,377)
	Benefits elapsed (see Membership Statistics note 5)	(1,575)
		459,903
	Being:	
	Deferred benefits	445,461
	Benefits due but unclaimed	14,442
	Total deferred and unclaimed benefits at 31 March 2014 (423,997 members)	**459,903**
	(see Membership Statistics note 4)	

Benefits in payment

	Benefits brought forward from 31 March 2013	
	- Members	338,858
	- Dependants	73,544
	Total	412,402
	Adjustments due to data received post 31 March 2013	
	- Members	(181)
	- Dependants	(227)
	Total benefits at 1 April 2013	**411,994**
Add:	Benefits that became payable in the year	
	- Members	12,892
	- Dependants	3,824
Less:	Benefits that have ceased in the year	
	- Members	(6,569)
	- Dependants	(4,029)
		418,112
	Being:	
	- Members	345,000
	- Dependants	73,112
	Total benefits in payment at 31 March 2014	**418,112**

Membership Statistics Notes

1. Individuals may be a member of more than one Scheme.

2. A member may be entitled to more than one benefit under a Scheme (see above).

3. Where a member is divorced 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 to the use of members in one table and benefits in the other tables, as explained above.

5. Where a member has not claimed benefits by the age of 72, the member is out of time to claim. This is an assumption for membership reporting purposes only.

6. The active and deferred members brought forward from 31 March 2013 have been restated to account for better information obtained from the membership database. The database used to manage active and deferred members is a dynamic system that allows records to be updated retrospectively. It is therefore accepted that the opening balance will not reconcile to the previous years closing balance, hence the adjustment line present in the membership table. The net adjustment of 3,320 deferred members includes an adjustment of 3,839 in relation to unclaimed deferred benefits. A mortality screening of the unclaimed deferred population, using the National Fraud Initiative dataset, identified 3,839 deceased matches which have now been recorded on the AFPS membership database.

7. The Government Actuary's Department (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.

8. The Minor Pension Schemes' membership data, equating to 392 active members, 31 deferred benefits and 2,498 benefits in payment are excluded from these figures. The Minor Scheme figures are as at 31 March 2014.

National Fraud Initiative (NFI)

On a biennial basis, the AFPS takes part in the 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.

			Prior Years		2013-14		
NFI Exercise	Total Cases	Total Identified £000	Recovered £000	Written-off £000	Recovered £000	Written-off £000	Outstanding at 31/03/2014 £000
NFI 2002	252	1,071	763	275	1	0	32
NFI 2004	257	426	355	66	0	0	5
NFI 2006	297	789	695	82	6	0	6
NFI 2008	175	959	863	30	8	0	58
NFI 2010	126	695	600	6	11	0	78
NFI 2012	102	584	-	-	447	0	137

Disclosure of information to auditors

So far as I am aware, there is no relevant audit information of which the Scheme's auditor is unaware. I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Scheme's auditor is aware of that information.

AFPS Additional Voluntary Contributions

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

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

These AVCs and their associated liabilities are recognised in these Scheme accounts.

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, and as such these transactions are not recognised in these Accounts.

Stakeholder Pensions

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

Managers, Advisers and Employers

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Jon Thompson
Accounting Officer for the Armed Forces Pension Scheme
and Armed Forces Compensation Scheme **9 July 2014**

Report of the Actuary for the Armed Forces Pension Scheme for Accounts for the Year Ended 31 March 2014

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 2013-14 Annual Accounts of the Armed Forces Pension Scheme ('the scheme', or '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); benefits payable from the Early Departure Payments (EDP) arrangement; and benefits payable from the other minor overseas schemes that are included in the AFPS accounts.

3. The statement is based on an assessment of the liabilities as at 31 March 2012, with an approximate updating to 31 March 2014 to reflect known changes.

Membership data

4. Tables A to C summarise the principal membership data as at 31 March 2012 used to prepare this statement.

Table A – Active members

31 March 2012		31 March 2014
Number (thousands)	Total Pensionable Pay † (£ million pa)	Total Pensionable Pay (£ million pa)
191	6,080	5,715

† Including increases applying in April of year

Table B – Deferred members

31 March 2012		31 March 2014
Number (thousands)	Total deferred pension † (£ million pa)	Number (thousands)
399	963	424

† Including increases applying in April of year

Table C – Pensions in payment

31 March 2012		31 March 2014
Number (thousands)	Total pension † (£ million pa)	Total pension (£ million pa)
380	3,348	3,461

† Including increases applying in April of year

Methodology

5. The present value of the liabilities has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the principal assumptions applying to the 2013-14 Annual Accounts. The contribution rate for accruing costs in the year ended 31 March 2014 was determined using the PUCM and the principal assumptions applying to the 2012-13 Annual Accounts.

6. This statement takes into account the benefits normally provided under the scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include 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).

7. The liabilities disclosed in this statement include the benefits accrued by personnel who are in the Gurkha Pension Scheme (GPS), together with an approximate allowance in respect of past service costs for current GPS members resulting from the Gurkha Offer to Transfer.

8. The liabilities disclosed in this statement include the benefits accrued by personnel who are in the minor overseas schemes covered by the AFPS accounts.

Principal financial assumptions

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

Table D – Principal financial assumptions

Assumption	31 March 2014	31 March 2013
Rate of return (discount rate)	4.35%	4.10%
Rate of earnings increases	4.50%	3.95%
Rate of future pension increases	2.50%	1.70%
Rate of return in excess of:		
Pension increases (CPI)	1.80%	2.35%
Earnings increases	-0.15%	0.15%
Expected return on assets:	n/a	n/a

10. The pension increase assumption as at 31 March 2014 is based on the Consumer Price Index (CPI) expectation of inflation.

Demographic assumptions

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

12. The 'S1NXA' standard tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) are used but with adjustments derived from scheme experience. A multiplier is applied to the mortality rates of 90% for Officers and 110% for Other Ranks. Ill-health pensioners are assumed to experience the same rates of mortality as normal health pensioners five years older than themselves. Mortality improvements are in accordance with those incorporated in the 2012-based principal population projections for the United Kingdom.

13. Reforms to the AFPS due to be implemented in April 2015, together with the introduction of the MOD's New Employment Model, may affect the behaviour of members, for example the pattern of withdrawal or retirement from active service. Given the uncertainty surrounding these changes and their potential impact on member behaviour, the MOD has decided to make no allowance for them for the purposes of the 2013-14 Accounts.

14. The contribution rate used to determine the accruing cost in 2013-14 was based on the demographic and financial assumptions applicable at the start of the year: that is, those adopted for the 2012-13 Annual Accounts.

Liabilities

15. Table E summarises the assessed value as at 31 March 2014 of benefits accrued under the scheme prior to 31 March 2014 based on the data, methodology and assumptions described in paragraphs 4 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 2014	31 March 2013	31 March 2012	31 March 2011	31 March 2010
Total market value of assets	nil	nil	nil	nil	nil
Value of liabilities	(129.5)	(118.0)	(105.6)	(100.6)	(121.9)
Surplus/(Deficit)	(129.5)	(118.0)	(105.6)	(100.6)	(121.9)
of which recoverable by employers	n/a	n/a	n/a	n/a	n/a

Pension cost

16. The cost of benefits accruing in the year ended 31 March 2014 (the Current Service Cost) is based on a standard contribution rate of 51.8% of Officer pensionable salaries, and 39.8% of Other Ranks pensionable salaries. The AFPS is non-contributory for members.

17. Table F shows the Current Service Cost, which is met fully by the employer. The corresponding figures for 2012-13 are also included in the table.

Table F – Contribution rate

Percentage of pensionable pay	1 April 2013 to 31 March 2014	1 April 2012 to 31 March 2013
Officers	51.8%	45.2%
Other Ranks	39.8%	34.5%

18. For the avoidance of doubt the employers' share of the standard contribution rate determined for the purposes of the Annual Accounts is not the same as the actual rate of contributions payable by employers, currently 41.8% for Officers and 28.4% for Other Ranks, which was determined based on the methodology and the financial and demographic assumptions adopted for the financing of the scheme. (Note this excludes the cost of the Armed Forces Compensation Scheme.) The most significant difference between the actuarial assessments for Annual Accounts and for scheme funding purposes is the discount rate net of pension increases, which was 2.35% pa for the 2013-14 Current Service Cost compared with 3.5% a year for the existing scheme funding rate. (Note that the discount rate for scheme funding purposes has been reviewed and reduced to 3% a year, but this does not affect the current rate of contributions in payment.) 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 Annual Accounts is set each year by HM Treasury to reflect the requirements of IAS19.

19. The estimated pensionable payroll for the financial year 2013-14 was £5.7 billion (derived from the contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2013-14 (at 51.8% of Officer pensionable salaries and 39.8% of Other Ranks pensionable salaries) is assessed to be £2.5 billion. There is no past service cost and so this is the total pension cost for 2013-14.

Sensitivity analysis

20. The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2014 of changes to the significant actuarial assumptions.

21. Changes to IAS19 published on 16 June 2011 introduced enhanced disclosure requirements for defined benefits pension schemes, including the AFPS. In particular, we understand these include a requirement to disclose a sensitivity analysis for each 'significant' actuarial assumption.

22. The principal financial assumptions are the future increases in pensionable salary due to general inflation (earnings increases), pension increases (both in payment and deferment), and the rate of interest (or discount rate) used to calculate the value of the benefits and contributions. A key demographic assumption is pensioner mortality.

23. As a result of the scheme reform and the MOD's New Employment Model, there is significant uncertainty associated with timings of member exits (withdrawals and retirements) in future. Relatively few members of the AFPS remain in service until their normal pension age. However, a significant proportion retire with immediate benefits in the form of an Immediate Pension (IP) or Early Departure Payments (EDP), often from around age 40. The numbers of members reaching their IP or EDP qualification points could potentially have an impact on the scheme liabilities and so we have included an indication of the approximate effect (on the total past service liability) of a 5% increase in the number of new entrants reaching IP/EDP point compared to the main liability calculations.

24. Table G shows the indicative effects on the total liability as at 31 March 2014 of changes to these assumptions (rounded to the nearest ½%).

Table G: Sensitivity to significant assumptions

Change in assumption		**Approximate effect on total liability**	
Financial assumptions			
(i) discount rate*	+½% a year	- 11%	- £13.9 billion
(ii) earnings increases*	+½% a year	+ 1%	+ £1.2 billion
(iii) pension increases*	+½% a year	+ 9½%	+ £12.4 billion
Demographic assumptions			
(iv) additional one year increase to life expectancy at retirement*		+ 2%	+ £2.4 billion
(vi) a 5% increase in the proportion of new entrants who reach IP/EDP point		+ 0%	+ £0.3 billion

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

Stephen Humphrey
Government Actuary's Department
16 June 2014

Statement of Accounting Officer's Responsibilities

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

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

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

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

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

The Governance Statement

Scope of responsibilities

1. As the Accounting Officer for the Armed Forces Pension Scheme (AFPS) and the Armed Forces Compensation Scheme (AFCS), collectively “the Schemes”, I have responsibility for maintaining a sound system of governance that supports the achievement of the Schemes’ policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money. Where necessary I, or officials on my behalf, engage with Treasury officials on funding and policy issues pertaining to these Schemes.

2. In discharging this responsibility, I am responsible for putting in place proper arrangements for the governance of the Schemes’ affairs which facilitate the effective discharge of their statutory functions and which include arrangements for the management of risk.

3. The Schemes have adopted the Corporate Governance Code for Central Government as far as is practicable in the context of a pension scheme. The Management Board have operated in accordance with the recognised precepts of good corporate governance: leadership, effectiveness, accountability and sustainability.

The purpose of the governance framework

4. The governance framework comprises the systems and processes, and culture and values, by which the Schemes are administered and controlled. It also includes the activities by which they account to Parliament.

5. The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and therefore can only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Schemes’ policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

6. The governance framework has been in place for the Schemes for the year ended 31 March 2014.

The Schemes’ Governance Framework

<u>Arrangements in place until 31 March 2014</u>

7. I delegated responsibility for day to day administration of the Schemes to the Chief Executive of the Service Personnel & Veterans Agency (SPVA) and I delegated the role of Senior Finance Officer for the Schemes to SPVA Senior Finance Officer.

8. Administration of the Schemes was (and continues to be) delivered through a combination of Ministry of Defence (MOD) civilian personnel and contractors, CSC Computer Sciences Ltd (CSC), via a commercial partnering agreement which came into effect on 11 November 2012. The arrangement for joint working with CSC is governed by commercial agreements and was managed by SPVA’s Management Board (MB). The Service Delivery Management Team within SPVA actively monitor the performance of CSC against over 700 Measures of Performance (MOPs). Any failure to meet MOPs, and actions to ensure future compliance, were discussed at the monthly Service Delivery Working Group attended by representatives from both SPVA and CSC, and reported to the MB.

9. The MB was chaired by the Chief Executive and comprised the Executive Heads of Department, the Senior Finance Officer and SPVA’s Non-Executive Directors (NEDs). The Board determined strategy, set objectives and reviewed performance, and provided direction for the

management of risks and issues. It met monthly (except August) and convened 11 times between April 2013 and March 2014. No specific review of Board performance was undertaken in 2013-14.

MB Members Composition (MOD & NEDs)[1]	Meetings Attended
Chief Executive: Air Vice-Marshal Ross Paterson (Chair)	9 of 11
Non-Executive Directors:	
Helen Pernelet	8 of 11
Lorraine Clinton	9 of 11
Executives:	
Brigadier Geoff Nield Head of Strategy Programmes & Resources	11 of 11
Jon Parkin Head of Veterans Services	11 of 11
Air Cdre Christopher Bray Head of Military Operations & Development until January 2014	8 of 8
Cdre Ian Bisson RN Head of Military Operations & Development from February 2014	3 of 3
David Hadlington Acting Senior Finance Officer until September 2013	5 of 5
Rosemary Stone Senior Finance Officer and Assurance Lead from October 2013	6 of 6

10. The Audit & Scrutiny Committee (ASC) was a sub-committee of the MB. It comprised 2 NED's, of whom one was the Chair. The Committee supported CE SPVA in discharging his responsibilities for Risk control and Governance. The Committee met 5 times a year, with additional focus group meetings being held whenever the Chair considered it appropriate. It convened 6 times between April 2013 and March 2014.

ASC Members Composition	Meetings Attended
Non-Executive Directors: Helen Pernelet (Chair)	6 of 6
Lorraine Clinton	5 of 6

Arrangements in place since 1 April 2014

11. On 1 April 2014 SPVA ceased to exist as a separate business unit within MOD and its roles and responsibilities were transferred to Defence Business Services (DBS). Responsibility for administration of the Schemes has been delegated to the Chief Executive of DBS and the role of Senior Finance Officer to the DBS Head of Resources. Administration of the Schemes continues to be delivered in the same way as prior to 1 April 2014 with mainly the same personnel in place below Board level.

Transitional arrangements

12. The previous governance arrangements have remained in place in parallel with the new arrangements, but only in respect of issues affecting these accounts, between 1 April 2014 and the date of signing these accounts. Revised governance arrangements will be in place for the sign off of the 2014-15 Annual Accounts, reflecting the new status of the organisation.

Risk Assessment

13. Risk assessment processes were in place within SPVA throughout the year. Risks were identified and recorded on the business unit risk registers and were reviewed on a monthly basis by the Operations Board. The most critical were escalated to the MB where the impacts were assessed and appropriate mitigating action taken. Any risks not capable of being managed at Board level were escalated to the Chief of Defence Personnel and/or DG Finance, and ultimately to me for action.

[1] CSC's Account and Delivery Directors also attended the Management Board.

The Risk and Control Framework

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

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

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

17. The Schemes' financial management arrangements conform to the requirements of HM Treasury as laid out in "Managing Public Money". The SPVA Senior Finance Officer was Senior Finance Officer for the Schemes until 31 March 2014 and the DBS Head of Resources has been Senior Finance Officer since 1 April 2014. Both were/are a key member of the Management Team. The Schemes' financial management reports provide the level of detail for effective oversight and are reviewed by the Management Team on a monthly basis. The Management Board's confidence in the financial management information and reporting was supported by a substantial audit opinion by Defence Internal Audit.

Information Assurance

18. Data is managed in accordance with the principles of HM Government's Information Assurance Maturity Model (IAMM). The Chief Executive was Senior Information Risk Owner (SIRO) for SPVA. Information Assurance (IA) training is provided and was mandatory up to Level 2 for all SPVA staff. Level 3 was required for those with specific Information Asset Owner/Custodian (IAO/C) responsibilities.

19. Following achievement of IAMM Level 3 in March 2012, work has been undertaken this year to review current performance and to identify any current or recently developed gaps against revised IAMM (Levels 1-3) requirements detailed in Good Practice Guide 40 V2.0 (issued Oct 12). This assessment indicated a number of resolution targets in SPVA's L1-3 portfolio. Activity is now being managed through an IAMM "Go to Green" plan, and progressed under existing SPVA IA Governance structures. This gap analysis was comprehensive, but the "Go to Green" plan is focussed, primarily, on those aspects of IAMM that are underpinned by the UK Government's Security Policy Framework (SPF). This approach is based on the fact that SPVA was anticipating a move to the Single Information Maturity Model (SIMM) in 2014 , and the fact that those aspects of IAMM that are underpinned by mandatory SPF requirements will translate over to the new model, whereas other aspects of the IAMM model may not; SPVA no longer anticipates a move to IAMM Level 4.

20. SPVA has also conducted a comprehensive review of the IA Reporting Manager structure this year, in order to ensure that IAOs were best supported. This support has been further enhanced by the introduction of an IAO Steering Group into the SPVA IA governance structure; the effect was a strengthening of the link between IAOs and the information risks that were managed within SPVA, and improved the level of detail on IA performance that was fed up to the SIRO.

21. There have been no data losses reported during the year.

Business Continuity

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

23. The Disaster Recovery (DR) Plan for CAPS was issued on 11 May 2012 (v1.0). It is subject to periodic review, in parallel with the ongoing CAPS transformation, and is currently at version 1.1. The anticipated completion date for this project is October 2014 when version 2 of the DR plan will be released.

24. The Business Process Outsourcing Service Delivery Business Continuity Plan (BCP) was base-lined at version 7.0 in January 2014. This plan covers the JPAC Enquiry Centre (EC) and back-office pension activity.

25. Tests undertaken against the CAPS DR Plan include:

- JPAC EC (Gosport & Glasgow) switchover tested during power down activity, simulating loss of site.
- Payroll Ops (Glasgow) ran CAPS payroll from an alternative location in Kentigern House.
- Pay HR and Pensions Pay and Process team (Glasgow) tested business area functionality from an alternative site (Gosport).
- JPAC pension team tested business functionality at an alternative site (Document Handling Centre Glasgow).
- Job Control Finance (Gosport) - BACS / World Wide Payments on alternative DR equipment (SPVA Gosport).
- Job Control Finance (Gosport) - BACS / Commerzbank payments on alternative DR equipment (SPVA Innsworth).
- Job Control Finance (Gosport) – Citi worldlink payments on alternative DR equipment (SPVA Innsworth).

26. There has been one significant Business Continuity incident affecting the delivery of AFPS/AFCS recorded during 2013-14. Loss of the LAN connectivity at Glasgow prevented the EC from functioning for 48 hours. Enquiries were successfully diverted to the Gosport EC.

Review of Effectiveness

27. As Accounting Officer, I have responsibility for reviewing the effectiveness of the governance framework. My review is informed by the work of the MOD internal auditors Defence Internal Audit (DIA), the executive managers within the SPVA who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

28. Financial pressures within the Department have resulted in further staff reductions and restructuring within SPVA. In addition preparations for the merger of SPVA with Defence Business Services, as well as delivery of a significant change programme, have all been conducted in parallel with business as usual activity with no tangible reduction in service delivery standards.

29. The JPA system Technology Refresh was a success which delivered ahead of the contracted schedule and within the final approved budget. Real Time Information was another high profile project delivered to plan and budget, ensuring the data feed from HMRC to DWP, in support of Universal Credit, was fully achieved and Service personnel and their families were not disadvantaged. Work towards the safe implementation of Armed Forces Pension Scheme 15 also continues on schedule and to plan. These have all had very significant attention throughout the year in the MB and supporting governance structures, such as the Operations, Strategic Programmes and Change Management Boards, among others, which oversee performance across the SPVA.

30. Considerable enhancement to pension governance effectiveness has now been achieved with the introduction of increased levels of supervision in line with DIA audit recommendations. There has also been significant improvement in service delivery to military personnel affected by the changes to Annual Allowance (AA) and Life-time Allowance (LTA). SPVA have worked extremely closely with HMRC and the single Services to provide accurate and timely pension forecasts to personnel affected by recent legislative changes. In particular, a special pensions tax team has now been established in Glasgow to deal specifically with these issues.

31. In addition further work in response to amendments to pension regulations on the Life Certificate Exercise (LCE) has resulted in SPVA now actively investigating 14,000 unclaimed pensions as well as 7,500 that are marked as 'Gone Away'.

32. During this period the Board has continued to ensure that 7 key principles have been used to underpin the way Risks and Issues were managed within SPVA:

- Emphasis on the benefits of Risks and Issues Management throughout SPVA – as an individual and within SPVA Risks and Issues Governance Tiers.
- Defining Risk appetite within SPVA.
- Ensuring the Risks and Issues scoring criteria is consistent across the SPVA Governance Tiers.
- The Roles and Responsibilities and escalation routes are clearly defined within a formalised structure. The Minutes of the MB record Actions/Decisions/Escalations and are used as a vehicle to provide feedback to the Risk Owner/manager and to update the Risk Register.
- A tiered approach to Risks and Issues management ensures they are analysed, assessed and owned by the business at the appropriate level, with each Governance Tier taking responsibility for mitigation actions within their scope of responsibility.
- A tiered Risks and Issues structure ensures control over the number of Risks and Issues being escalated through the Governance Tiers.
- Shared (MOD/Commercial Partner) Risks and Issues are identified and managed through the Risk Register. MOD Risks and Issues transferring between or linking business areas are identified, monitored and managed.

33. The SPVA ASC was a sub-committee of the MB comprising 2 NEDs who were appointed by the Chief Executive following external advertisement. The ASC supported CE SPVA in discharging his responsibilities for Risk control and Governance by reviewing the comprehensiveness, reliability and integrity of SPVA's Risk and Assurance framework; agreeing priority risk areas for DIA annual programme; reviewing the outcome of work by DIA and NAO and following progress to completion of actions. The ASC reviewed the AFPS Accounts throughout the year and prior to publication.

Internal Audit

34. The Head of Defence Internal Audit (DIA) or one of his senior managers attended meetings of the ASC and provided expert advice on audit issues.

35. The Armed Forces Pension Scheme assurance programme was developed by DIA with the support of PricewaterhouseCoopers and commenced in 2013/14. The programme is intended to form the basis of a rolling year on year programme of assurance, undertaken by DIA. The programme has been reviewed and progress reports regularly taken by the SPVA Audit and Scrutiny Committee throughout 2013/14. The rolling assurance programme is planned to continue through the merger of SPVA with DBS during 2014/15.

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

37. During 2013/14 it was found that the governance framework supporting the AFPS was operating as intended and no significant weaknesses were identified.

38. DIA reported that SPVA had continued to maintain in place adequate and effective processes over risk management, internal control and governance. They confirmed Management had demonstrated an on-going commitment to internal control.

39. While the overall picture is positive, DIA identified opportunities to strengthen the control environment. These included the risk assessment and targeting of checks as part of the contractual oversight process; continued reliance on manual interventions and work-a-rounds together with individuals' experience; a need to capture/ document the values of SPVA as an organisation and a reliance on contractor self reporting.

Fraud

40. SPVA had a fraud focal point offering advice and guidance on fraud related matters, additionally all staff have direct access to the Defence Irregularity Cell to escalate any suspicions of irregularity. SPVA continued to utilise the National Fraud Initiative (NFI) to identify potential AFPS fraudulent claims and a small internal team is resourced to investigate any potential fraudulent AFCS claims. The Report of the Managers on pages 2 to 9 contains details of the results of the NFI exercises since 2002.

41. Since 2012/13 SPVA has canvassed 76,000 pensioners to confirm their continuing entitlement to pension under the Scheme rules. The exercise was completed during 2013/14 and resulted in the suspension of 782 pensions due to unreported deaths or other unreported changes in circumstances affecting pensioner's entitlement. Recovery of overpayments is being pursued on a case by case basis as each case is investigated. To date the annual saving of this suspension activity is valued at £3M per year.

Significant Governance Issues

42. During 2013-14 it was discovered that there had been some differences in the interpretation of the Scheme rules allowing aggregation of service between the AFPS 05 and AFPS 75 Schemes; these occurred between April 2005 and January 2012. As a result some personnel received incorrect Early Departure Payments (EDP) and forecasts based on incorrect aggregation of periods of service. Correct interpretation of the rules was applied from January 2012 until 17 December 2013, when the rules were changed to allow aggregation. The treatment of cases that arose between April 2005 and 17 December 2013 has been the subject of discussion with Central Legal Services and HM Treasury. A Ministerial Submission outlining a proposed solution has been made to Min(DPWV). Once the approach has been determined, it will be reflected in the AFPS accounting records as appropriate.

Summary

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

Future Improvements

44. Under contractual arrangements CSC will provide an upgraded version of CAPS during 2014. As part of this upgrade the hardware on which the system runs will be replaced and relocated to a new MOD-approved Data Centre. DR procedures will also be updated. This upgrade will provide additional functionality which will improve the security and efficiency of Scheme administration.

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

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

46. My officials are working with HM Treasury and the Pensions Regulator to consider how best these recommendations might be met in respect of the Armed Forces Pension Schemes. I intend that the Armed Forces Pension Schemes Pension Board will be created in 2014, in order to meet the Independent Public Sector Pensions Commission deadline of April 2015. The Public Service Pensions Act 2013 received Royal Assent on 25 April 2013.

Jon Thompson
Accounting Officer for the Armed Forces Pension Scheme **9 July 2014**
and Armed Forces Compensation Scheme

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 2014 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Combined Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. I have also audited the Statement of Parliamentary Supply and related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

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

Scope of the audit of the financial statements

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

I am required to obtain evidence sufficient to give reasonable assurance that the Statement of Parliamentary Supply properly presents the outturn against Parliamentary control totals and that those totals have not been exceeded. The voted Parliamentary control totals are Annually Managed Expenditure (Resource), Non-Budget (Resource) and Net Cash Requirement. I am also required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects:

- the Statement of Parliamentary Supply properly presents the outturn against voted Parliamentary control totals for the year ended 31 March 2014 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2014 and of its net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report
I have no observations to make on these financial statements.

Sir Amyas C E Morse 15 July 2014
Comptroller and Auditor General

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2013-14

£000								2013-14	2012-13
				Estimate			**Outturn**		**Outturn**
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with Estimate: saving/ (excess)	Total
Annually Managed Expenditure	SOPS2	5,679,350		5,679,350	5,454,602		5,454,602	224,748	5,493,446
- Resource									
Total Budget		5,679,350		5,679,350	5,454,602		5,454,602	224,748	5,493,446
Non-Budget									
-Resource									-
Total		**5,679,350**		**5,679,350**	**5,454,602**		**5,454,602**	**224,748**	**5,493,446**

Net Cash Requirement 2013-14

£000	Note	**2013-14** Estimate	Outturn	**2013-14** Outturn compared with Estimate savings/ (excess)	**2012-13** Outturn
	SOPS4	**2,422,162**	**2,375,970**	**46,192**	**2,253,929**

Administration Costs 2013-14

2013-14 Estimate	**2013-14** Outturn	**2012-13** Outturn
-	-	-

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

Notes to the Statement of Parliamentary Supply

SOPS1. Statement of accounting policies

The Statement of Parliamentary Supply and supporting notes have been prepared in accordance with the 2013-14 Government Financial Reporting Manual (FReM) issued by HM-Treasury. The Statement of Parliamentary Supply accounting policies contained in the FReM are consistent with the requirements set out in the 2013-14 Consolidated Budgeting Guidance and Supply Estimates Guidance Manual.

SOPS1.1 Accounting convention

The Statement of Parliamentary Supply and related notes are presented consistently with HM-Treasury budget control and Supply Estimates. The aggregates across government are measured using National Accounts, prepared in accordance with the internationally agreed framework 'European System of Accounts' (ESA95). ESA95 is in turn consistent with the System of National Accounts (SNA93), which is prepared under the auspices of the United Nations.

The budgeting system and the consequential presentation of Supply Estimates and the Statement of Parliamentary Supply and related notes, have different objectives to IFRS-based accounts. The system supports the achievement of macro-economic stability by ensuring that public expenditure is controlled, with relevant Parliamentary authority, in support of the Government's fiscal framework. The system provides incentives to departments to manage spending well so as to provide high quality public services that offer value for money to the taxpayer.

The Government’s objectives for fiscal policy are set out in the Charter for Budget Responsibility. These are to:

- ensure sustainable public finances that support confidence in the economy, promote intergenerational fairness, and ensure the effectiveness of wider government policy; and

- support and improve the effectiveness of monetary policy in stabilising economic fluctuations.

SOPS1.2 Comparison with IFRS-based accounts

Many transactions are treated in the same way in National Accounts and IFRS-based accounts, but there are a number of differences as detailed below. A reconciliation of the Scheme’s outturn as recorded in the SoPS compared to the IFRS-based SoCNE is provided in SoPS note 4.

SOPS1.3 Provisions - Administration and Programme expenditure

Provisions recognised in IFRS-based accounts are not recognised as expenditure for national accounts purposes until the actual payment of cash (or accrual liability) is recognised. To meet the requirements of both resource accounting and national accounts, additional data entries are made in the Statement of Parliamentary Supply across Annually Managed Expenditure (AME) and Departmental Expenditure Limit (DEL) control totals, which do not affect the Statement of Comprehensive Net Expenditure. As the Administration control total is a sub-category of DEL, Administration and Programme expenditure reported in the Statement of Parliamentary Supply will differ from that reported in the IFRS-based accounts.

SOPS2. Analysis of net resource outturn by section

£000	2013-14									2012-13
	Outturn							Estimate		Outturn
	Administration			Programme						
	Gross	Income	Net	Gross	Income	Net	Total	Net Total	Net total compared to Estimate	Total
Spending in Departmental Expenditure Limit										
Voted:	-	-	-	-	-	-	-	-	-	-
Non Voted:	-	-	-	-	-	-	-	-	-	-
Annually Managed Expenditure										
Voted:										
A: Retired pay, pensions and other payments to ex-service personnel	-	-	-	7,400,970	1,946,368	5,454,602	5,454,602	5,679,350	224,748	5,493,446
Non Voted:	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	7,400,970	1,946,368	5,454,602	5,454,602	5,679,350	224,748	5,493,446

SOPS3. Reconciliation of Net Resource Outturn to Net Expenditure

		2013-14 Outturn	2012-13 Outturn
		£000	£000
Total resource outturn in Statement of Parliamentary Supply	Budget	5,454,602	5,493,446
	Non-Budget	-	-
Net Resource Outturn		**5,454,602**	**5,493,446**
Add:	Non-Supply Expenditure	-	-
	Prior Period Adjustments	-	-
		-	**-**
Less:	Income Payable to the Consolidated Fund	-	-
	Prior Period Adjustments	-	-
		-	**-**
Net Expenditure in Combined Statement of Comprehensive Net Expenditure		**5,454,602**	**5,493,446**

SOPS4. Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	Estimate	Outturn	Net Total outturn compared with Estimate: savings/ (excess)
		£000	£000	£000
Net Resource Outturn	SOPS2	5,679,350	5,454,602	224,748
Accruals adjustments:				
Non cash items		(7,633,622)	(7,400,970)	(232,652)
Changes in working capital other than cash		(10,904)	77,327	(88,231)
Use of provision:				
Pension		4,290,327	4,154,367	135,960
Compensation Scheme		97,011	90,644	6,367
Net cash requirement		**2,422,162**	**2,375,970**	**46,192**

Combined Statement of Comprehensive Net Expenditure

for the year to 31 March 2014

	Note	2013-14 £000	2012-13 £000
Principal Arrangements – Armed Forces Pension Scheme			
Income			
Contributions receivable	3	(1,945,433)	(2,023,671)
Transfers In	4	(935)	(1,921)
Other pension income	5	-	(409)
Expenditure			
Service cost	6	2,454,782	2,196,989
Enhancements	7	703	667
Transfers In	8	935	1,921
Pension financing cost	9	4,803,003	5,077,295
Net Expenditure		**5,313,055**	**5,250,871**
Armed Forces Compensation Scheme			
Movement in provision for AFCS	16	98,359	200,093
Compensation financing cost	16	43,188	42,482
Net Expenditure		**141,547**	**242,575**
Combined Net Expenditure	SOPS3	**5,454,602**	**5,493,446**
Other Comprehensive Net Expenditure			
Pension re-measurements:			
Actuarial loss – Armed Forces Pension Scheme	13.8	8,394,944	9,242,737
Actuarial loss – Armed Forces Compensation Scheme	16	118,659	75,900
Total Comprehensive Net Expenditure for the year ended 31 March 2014		**13,968,205**	**14,812,083**

The Notes on pages 30 to 43 form part of these accounts.

Combined Statement of Financial Position

as at 31 March 2014

		2013-14	2012-13
Principal arrangements – Armed Forces Pension Scheme	Note	£000	£000
Current assets:			
Receivables	10	164,542	171,322
Cash and cash equivalents	11	46,192	49,582
Total current assets		210,734	220,904
Current liabilities:			
Payables (within 12 months)	12	(516,201)	(603,369)
Total current liabilities		(516,201)	(603,369)
Net current liabilities, excluding pension liability		**(305,467)**	**(382,465)**
Pension liability	13.5	(129,500,000)	(118,000,000)
Net liabilities, including pension liabilities		**(129,805,467)**	**(118,382,465)**
Armed Forces Compensation Scheme			
Receivables	14	256	95
Payables (within 12 months)	15	(2,526)	(2,694)
Provisions for liabilities and charges	16	(1,250,752)	(1,081,190)
Net liabilities		**(1,253,022)**	**(1,083,789)**
Combined Schemes – Total net liabilities		**(131,058,489)**	**(119,466,254)**
Taxpayers' equity:			
General fund		(131,058,489)	(119,466,254)
		(131,058,489)	**(119,466,254)**

Jon Thompson
Accounting Officer for the Armed Forces Pension Scheme
and Armed Forces Compensation Scheme 9 July 2014

The Notes on pages 30 to 43 form part of these accounts.

Combined Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2014

	Note	2013-14	2012-13
		£000	£000
Balance at 31 March		**(119,466,254)**	**(106,908,100)**
Net Parliamentary Funding – draw down		2,372,580	2,211,167
Net Parliamentary Funding – deemed		49,582	92,344
Consolidated Fund Standing Services		-	-
Supply payable adjustment	11	(46,192)	(49,582)
Excess Vote – Prior Year		-	-
Excess Vote - Appropriations-in-Aid		-	-
CFERs payable to the Consolidated Fund		-	-
Contingencies Fund Advance		50,000	200,000
Repayment to the Contingencies Fund		(50,000)	(200,000)
Combined Net Expenditure for the Year	SOPS3	(5,454,602)	(5,493,446)
Actuarial (loss) – Armed Forces Pension Scheme	13.5	(8,394,944)	(9,242,737)
Actuarial (loss) – Armed Forces Compensation Scheme	16	(118,659)	(75,900)
Net change in Taxpayers' Equity		**(11,592,235)**	**(12,558,154)**
Balance at 31 March		**(131,058,489)**	**(119,466,254)**

The Notes on pages 30 to 43 form part of these accounts.

Combined Statement of Cash Flows

for the year ended 31 March 2014

	Note	2013-14 £000	2012-13 £000
Cash flows from operating activities			
Combined net expenditure for the year	SOPS3	(5,454,602)	(5,493,446)
Adjustments for non-cash transactions:			
Decrease / (Increase) in receivables – principal arrangements	10	6,780	(166,079)
Increase in receivables - AFCS	14	(161)	(28)
(Decrease) / Increase in payables – principal arrangements	12	(83,778)	73,787
(Decrease) / Increase in payables - AFCS	15	(168)	304
Increase in pension provision	13.5	7,257,785	7,274,284
Increase in pension provision – enhancements and transfers in	13.5	1,638	2,588
Use of provisions – pension liability	13.6	(4,089,291)	(4,070,749)
Use of provisions – refunds and transfers	13.7	(65,076)	(48,860)
Increase in provisions – compensation Scheme	16	141,547	242,575
Use of provisions – compensation Scheme	16	(90,644)	(68,305)
Net cash outflow from operating activities		**(2,375,970)**	**(2,253,929)**
Cash flows from financing activities			
From the Consolidated Fund (Supply): current year		2,372,580	2,211,167
From the Contingencies Fund		50,000	200,000
Repayment to the Contingencies Fund		(50,000)	(200,000)
Net Parliamentary Financing		**2,372,580**	**2,211,167**
Adjustments for payments and receipts not related to Supply:			
Payments to the Consolidated Fund		-	-
Net Financing		**2,372,580**	**2,211,167**
Net Decrease in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**(3,390)**	**(42,762)**
Payments of amounts due to the Consolidated Fund		-	-
Amounts due to the Consolidated Fund, received and not paid over - excess appropriations in aid relating to current year		**-**	**-**
Net Decrease in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	11	**(3,390)**	**(42,762)**
Cash and cash equivalents at the beginning of the period	11	**49,582**	**92,344**
Cash and cash equivalents at the end of the period	11	**46,192**	**49,582**

The Notes on pages 30 to 43 form part of these accounts.

Notes to the Scheme Statements

1. Basis of Preparation of the Scheme Statements

1.1 The financial statements of the combined Scheme have been prepared in accordance with the relevant provisions of the 2013-14 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. IAS 19 Employee Benefits and IAS 26 Accounting and Reporting by Retirement Benefit Plans are of particular relevance to these statements.

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

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

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

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

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

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

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

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

1.10 The Report of the Actuary, shown on pages 10 to 14, 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 unit credit method.

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

1.12 In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that "the period between formal actuarial valuations shall be four years, with approximate assessments in intervening years". Approximate actuarial assessments in intervening years between formal valuations using updated membership data (referred to as 'roll forward data') are accepted as providing suitably robust figures for financial reporting purposes.

2. Statement of accounting policies

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

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

2.1 Accounting convention

These accounts have been prepared under the historical cost convention.

2.1.1 Pension contributions receivable

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

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

2.1.2 Transfers in

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

2.1.3 Other income

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

2.1.4 Current service cost

The current service cost is the increase in the present value of the Scheme liabilities arising from current members' service in the current period and is recognised in the Statement of Comprehensive Net Expenditure. The cost is based on a discount rate of 2.35% real (i.e. 4.1% including inflation).

2.1.5 Past service costs

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

2.1.6 Pension Financing Cost

The financing cost is the increase during the period in the present value of the Scheme liabilities because the benefits are one period closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure. The financing cost is based on the discount rate of 2.35% real (i.e. 4. 1% including inflation).

2.1.7 Other expenditure

Other payments are accounted for on an accruals basis.

2.1.8 Scheme liability

2.1.8.1 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 credit method and as at 31 March 2013 was discounted at 2.35% real (i.e. 4.1% including inflation).The discount rate changed on 31 March 2014 to 1.8% real (i.e. 4.35% including inflation) and the Scheme liability was discounted at this rate. Further details of the financial assumptions used are set out at Note 13 to these accounts and in the Report of the Actuary on pages 10 to 14.

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

2.1.9 Pension benefits payable

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

2.1.10 Pension payments to those retiring at their normal retirement age

A retiring member has no choice over the allocation of benefits awarded 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.

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

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

2.1.12 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.

2.1.13 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.

2.1.14 Armed Forces Compensation Scheme

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

2.1.15 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to cash and are subject to insignificant risk of changes in value and have an original maturity of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents are stated net of bank overdrafts. Where relevant, bank overdrafts are included within payables on the Combined Statement of Financial Position, and separately disclosed within note 11.

Statement of Comprehensive Net Expenditure – Armed Forces Pension Scheme

3. Pension contributions receivable

	2013-14	2012-13
	£000	£000
Employers	1,944,730	2,023,004
Employees:		
Purchase of additional years	703	667
	1,945,433	**2,023,671**

£1,918M contributions are expected to be payable to the Scheme in 2014-15.

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

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

	2013-14	2012-13
	£000	£000
Individual transfers in from other Schemes	935	1,921
	935	**1,921**

5. Other pension income

	2013-14	2012-13
	£000	£000
Miscellaneous income (including refund of gratuities)	-	409
	-	**409**

6. Service Cost

	2013-14	2012-13
	£000	£000
Current service cost (see Note 13.5)	2,454,782	2,196,989
	2,454,782	**2,196,989**

7. Enhancements (see also Report of the Managers and Note 13.5)

	2013-14	2012-13
	£000	£000
Employees purchase of added years	703	667
	703	**667**

8. Transfers in – additional liability

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

	2013-14	2012-13
	£000	£000
Individual transfers in from other Schemes	935	1,921
	935	**1,921**

9. Pension financing cost (see also Note 13.5)

	2013-14	2012-13
	£000	£000
Net interest on defined benefit liability	4,803,003	5,077,295
	4,803,003	**5,077,295**

Statement of Financial Position – Armed Forces Pension Scheme

10. Receivables

10.1 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.

	2013-14	2012-13
	£000	£000
Amounts falling due within one year:		
Overpaid pensions	5,019	4,825
Bereavement Scholarship Scheme	203	-
Ministry of Defence – SCAPE & AVC receipts and Transfers In	157,571	165,302
	162,793	**170,127**
Amounts falling due after more than one year:		
Overpaid pensions	1,749	1,195
	164,542	**171,322**

10.2 Analysis by organisation

	Amounts falling due within one year		Amounts falling due after more than one year	
	2013-14	2012-13	2013-14	2012-13
	£000	£000	£000	£000
Balances with other central government bodies:				
Ministry of Defence	157,571	165,302	-	-
Devolved Administrations	203	-	-	-
Balances with bodies external to government	5,019	4,825	1,749	1,195
Total receivables	**162,793**	**170,127**	**1,749**	**1,195**

11. Cash and cash equivalents

	2013-14	2012-13
	£000	£000
Balance at 1 April	49,582	92,344
Net change in cash balances	(3,390)	(42,762)
Balance at 31 March	**46,192**	**49,582**
The following balances at 31 March were held at:		
Government Banking Services	46,192	49,582
Balance at 31 March	**46,192**	**49,582**

12. Payables

12.1 Analysis by type

	2013-14	2012-13
	£000	£000
Amounts falling due within one year:		
Pensions	368,718	449,280
HM Revenue & Customs	52,846	56,772
Third party organisations	810	793
Ministry of Defence	47,532	46,819
Bereavement Scholarship Scheme	103	123
	470,009	553,787
Amounts issued from the Consolidated Fund for supply not spent at year end	46,192	49,582
	516,201	**603,369**

12.2 Analysis by organisation

	Amounts falling due within one year	
	2013-14	2012-13
	£000	£000
Balances with other central government bodies:		
HM Revenue & Customs	52,846	56,772
Consolidated Fund	46,192	49,582
Ministry of Defence	47,532	46,819
Department for Business, Innovation & Skills	103	123
Balances with bodies external to government	369,528	450,073
Total payables	**516,201**	**603,369**

13. Pension Liability

13.1 Assumptions underpinning the pension liability

The Armed Forces Pension Scheme is an unfunded defined benefit Scheme. The Government Actuaries Department carried out an assessment of the Scheme liabilities as at 31 March 2014.The Report of the Actuary on pages 10 to 14 sets out the scope, methodology and results of the work the Actuary has carried out.

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

- Scheme membership, including age and gender profiles, active membership, deferred pensioners and pensioners;

- benefit structure, including details of any discretionary benefits and any proposals to amend the Scheme;

- income and expenditure, including details of expected bulk transfers into or out of the Scheme; and,

- following consultation with the Actuary, the key assumptions that should be used to value the Scheme liabilities, ensuring that the assumptions are mutually compatible and reflect a best estimate of future experience.

The major assumptions used by the Actuary were:

	At 31 March 2014	At 31 March 2013	At 31 March 2012	At 31 March 2011	At 31 March 2010
Rate of increase in salaries*	4.5%	3.95%	4.25%	4.9%	4.3%
Inflation assumption	2.5%	1.7%	2.0%	2.65%	2.75%
Discount rate net of pension increases	1.8%	2.35%	2.8%	2.9%	1.8%
Mortality rate at age 60					
- Current Pensioners					
• Officers Men	29.3	29.2	29.0	29.2	29.1
• Officers Women	31.8	32.6	32.4	32.5	32.3
• Other Ranks Men	27.4	27.1	27.0	27.1	27.0
• Other Ranks Women	29.9	30.5	30.4	30.4	30.2
- Future Pensioners (from active status) **					
• Officers Men	31.6	31.7	31.5	31.1	31.0
• Officers Women	34.1	35.2	35.0	34.6	34.5
• Other Ranks Men	29.7	29.5	29.4	29.0	29.0
• Other Ranks Women	32.2	33.0	32.9	32.5	32.4

* The expected 2013-2015 Armed Forces pay awards (2013 1.45%, 2014 1.0%, 2015 1.0%) have been factored into the earnings assumptions as a short term adjustment to the long term rate given above.
** Life expectancies for active members have been calculated assuming members are aged 40 as at the accounting date.

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

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

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

Analysis of the pension liability

	At 31 March 2014 £Bn	At 31 March 2013 £Bn	At 31 March 2012 £Bn	At 31 March 2011 £Bn	At 31 March 2010 £Bn
Pensions in Payment	74.0	69.2	62.6	58.3	66.0
Deferred Pensions	22.1	17.2	14.4	13.8	18.3
Active Members (Past Service)	33.4	31.6	28.6	28.5	37.6
Total	**129.5**	**118.0**	**105.6**	**100.6**	**121.9**

13.2 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.

13.3 The value of the liability included on the Statement of Financial Position may be significantly affected by even small changes in assumptions. For example, if at a subsequent valuation, it is considered appropriate to increase or decrease the assumed rate of inflation, or increases in salaries, the value of the pension liability will increase or decrease. The managers of the Scheme accept that, as a consequence, the valuation provided by the Actuary is inherently uncertain. The increase or decrease in future liability charged or credited for the year resulting from changes in assumptions is disclosed in notes 13.8 and 13.9. 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. A sensitivity analysis for each significant actuarial assumption as of the end of the reporting period is included below.

13.4 Sensitivity Analysis of Actuarial Assumptions

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

The principal financial assumptions are the future increases in pensionable salary due to general inflation (earnings increases), pension increases (both in payment and deferment), and the rate of interest (or discount rate) used to calculate the value of the benefits and contributions. Key demographic assumptions are pensioner mortality and the number of members reaching Immediate Pension (IP) or Early Departure Payments (EDP) point.

As a result of the Scheme reform and the MOD's New Employment Model, there is significant uncertainty associated with timings of member exits (withdrawals and retirements) in future. Relatively few members of the AFPS remain in service until their normal pension age. However, a significant proportion retire with immediate benefits in the form of an IP or EDP, often from around age 40. The numbers of members reaching their IP or EDP qualification points could potentially have a significant impact on the Scheme liabilities and so we have included an indication of the approximate effect (on the total past service liability) of a 5% increase in the number of new entrants reaching IP/EDP point compared to the main liability calculations.

The table below shows indicative effects on the total liability as at 31 March 2014 of changes to these assumptions.

Change in assumption		Approximate effect on total liability	
Financial assumptions			
(i) discount rate*	+½% a year	- 11%	- £13.9 billion
(ii) earnings increases*	+½% a year	+ 1%	+ £1.2 billion
(iii) pension increases*	+½% a year	+ 9½%	+ £12.4 billion
Demographic assumptions			
(iv) additional one year increase to life expectancy at retirement*		+ 2%	+ £2.4 billion
(vi) a 5% increase in the proportion of new entrants who reach IP/EDP point		+ 0%	+ £0.3 billion

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

13.5 Analysis of movements in the Scheme liability

	2013-14	2012-13
	£000	£000
Scheme liability as at 1 April	**(118,000,000)**	**(105,600,000)**
Current service cost (Note 6)	(2,454,782)	(2,196,989)
Pension financing cost (Note 9)	(4,803,003)	(5,077,295)
Enhancements (Note 7)	(703)	(667)
Pension transfers in (Note 8)	(935)	(1,921)
	(7,259,423)	(7,276,872)
Benefits payable (Note 13.6)	4,089,291	4,070,749
Pension payments to and on account of leavers (Note 13.7)	65,076	48,860
	4,154,367	4,119,609
Actuarial (loss) / gain (Note 13.8)	(8,394,944)	(9,242,737)
Scheme liability at 31 March	**(129,500,000)**	**(118,000,000)**

13.6 Analysis of benefits paid

	2013-14	2012-13
	£000	£000
Pensions to retired employees and dependants (net of recoveries or overpayments)	3,513,007	3,474,565
Commutations and lump sum benefits on retirement	576,284	596,184
Per Combined Statement of Cash Flows	**4,089,291**	**4,070,749**

13.7 Analysis of payments to and on account of leavers

	2013-14	2012-13
	£000	£000
Individual transfers to other Schemes	65,076	48,860
Per Combined Statement of Cash Flows	**65,076**	**48,860**

13.8 Analysis of actuarial (loss) / gain

	2013-14	2012-13
	£000	£000
Experience gains / (losses) arising on Scheme liabilities	3,005,056	(42,737)
Changes in assumptions underlying the present value of Scheme liabilities	(11,400,000)	(9,200,000)
Per Statement of Combined Changes in Taxpayers Equity	**(8,394,944)**	**(9,242,737)**

13.9 History of experience (gains) / losses

	2013-14	2012-13	2011-12	2010-11	2009-10
Experience (gain)/losses on Scheme liabilities: (£000)	(3,005,056)	42,737	746,322	(1,505,444)	(1,728,368)
Percentage of the present value of the Scheme liabilities	(2.32%)	0.04%	0.71%	(1.50%)	(1.42%)
Losses/(gains) arising due to changes in actuarial assumptions: (£000)	11,400,000	9,200,000	300,000	(9,000,000)	28,100,000
Percentage of the present value of the Scheme liabilities	8.80%	7.80%	0.28%	(8.95%)	23.05%
Total amount recognised in Combined Statement of Comprehensive Net Expenditure: (£000)	8,394,944	9,242,737	1,046,322	(10,505,444)	26,371,632
Percentage of the present value of the Scheme liabilities	6.48%	7.83%	0.99%	(10.44%)	21.63%
Total cumulative actuarial loss/(gain): (£000)	52,929,916	44,534,972	35,292,235	34,245,913	44,751,357

Statement of Financial Position – Armed Forces Compensation Scheme

14. Receivables

	2013-14	2012-13
	£000	£000
Amounts falling due within one year:		
Overpaid compensation	256	95
	256	**95**

15. Payables

	2013-14	2012-13
	£000	£000
Amounts falling due within one year:		
Compensation	2,526	2,694
	2,526	**2,694**

16. Provision for liabilities and charges

Armed Forces Compensation Scheme

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

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

Assumptions underpinning the provision for AFCS liability

As for previous years, the actuarial assumptions used in assessing liabilities for GIPs are consistent with those used for resource accounting in respect of the AFPS.

Assumptions fall into two categories, financial and demographic. The main financial assumptions adopted as prescribed by HM Treasury are set out below.

% per annum	31 March 2014	31 March 2013
Gross discount rate	4.35%	4.10%
CPI inflation	2.50%	1.70%
GIP increases	2.50%	1.70%
Discount rate net of CPI	1.80%	2.35%
Discount rate net of GIP increases	1.80%	2.35%

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 2014. The levels of future mortality improvement have been assumed in accordance with the improvements incorporated in the published 2010-based principal population projections for the United Kingdom (prepared by Office of National Statistics).

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

Where members have been awarded a GIP but have not yet been discharged the liability has been estimated on the assumption that they are discharged on the accounting date.
For incidents incurred but not yet claimed the GIP and Lump Sum liability is estimated using the assumption that the amount to be awarded will be consistent with historical awards and rejections based on a comparable level of injury being sustained.

	2013-14	2012-13
AFCS Provision	£000	£000
Balance at 1 April	**(1,081,190)**	**(831,020)**
Use of provision in year	90,644	68,305
Interest on Scheme Liabilities	(43,188)	(42,482)
Revaluation at year end	(98,359)	(200,093)
Actuarial loss	(118,659)	(75,900)
Balance at 31 March	**(1,250,752)**	**(1,081,190)**
Breakdown of Balance at 31 March:		
Incidents incurred but not yet claimed – Lump Sums and Guaranteed Income Payments	(196,852)	(230,290)
Guaranteed Income Payments – "In Payment"	(738,600)	(505,600)
Guaranteed Income Payments – "Underlying Entitlement"	(315,300)	(345,300)
	(1,250,752)	**(1,081,190)**

17. Financial Instruments

As the cash requirements of the Scheme are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector Scheme of a similar size. There are no material financial instruments in relation to the Scheme.

18. Losses and Special Payments

During the year, losses arose in 3,217 cases (2012-13; 3,876 cases). The total loss was £643,485.33 (2012-13; £615,226.58). The losses all relate to the write-off of pension overpayments. In addition, for 2012-13, with the consent of HM Treasury, a total overpayment of £166,866.06 was written-off in relation to 136 Pension Credit Members.

The value of irregular payments made in 2013-14 in relation to 'aggregation of service' amount to £74,081.20 (2012-13; £104,400.14). Further information on this issue can be found in the Governance Statement page 21 paragraph 42.

19. 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 £1.94Bn (see Note 3). None of the managers of the Schemes, key managerial staff or other related parties has undertaken any material transactions with the Schemes during the year.

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

20. IFRSs in issue but not yet effective

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

Date of authorisation for issue

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

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