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

Annual Accounts 2018-19

HC 2403

Armed Forces Pension Scheme

(Incorporating the Armed Forces Compensation Scheme)

Annual Accounts 2018-19

(For the year ended 31 March 2019)

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

Ordered by the House of Commons to be printed on 25 July 2019

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

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

ISBN 978-1-5286-1317-0

CCS0519274120 07/19

Printed on paper containing 75% recycled fibre content minimum

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

Contents

Page

Report of the Managers	2
Report of the Actuary	14
Statement of the Accounting Officer’s Responsibilities	18
The Governance Statement	19
Statement of Parliamentary Supply	28
Notes to the Statement of Parliamentary Supply	29
Parliamentary Accountability Disclosures	29
The Certificate and Report of the Comptroller and Auditor General to the House of Commons	30
The Financial Statements:	
Combined Statement of Comprehensive Net Expenditure	33
Combined Statement of Financial Position	34
Combined Statement of Changes in Taxpayers’ Equity	35
Combined Statement of Cash Flows	36
Notes to the Accounts	37

Report of the Managers

This report provides a summary of the arrangements to ensure the Armed Forces Pension Scheme (AFPS) affairs are managed effectively and gives a broad outline of the major benefits offered by the individual Schemes.

1. Background to the Schemes

1.1 The Armed Forces Pension Scheme 2015 (AFPS 15)

On 1 April 2015 the AFPS 15 was introduced for all new members of the Armed Forces. All serving Service personnel who were members of an AFPS were automatically transferred to the AFPS 15, unless they qualified for Transitional Protection (see paragraph 4.9). The AFPS 15 is a voluntary, non-contributory, Career Average Revalued Earnings (CARE), unfunded, defined benefit, occupational pension scheme.

The Scheme rules are set out in the Armed Forces Pension Regulations Statutory Instrument Order 2014, the Armed Forces Early Departure Payment (EDP) Scheme Regulations Statutory Instrument 2014 and the Armed Forces (Transitional Provisions) Pensions Regulations Statutory Instrument 2015.

Pensions are paid immediately if an individual serves to age 60 with at least two years' qualifying service. Those who have at least two years' service who leave before age 60 will have their pensions preserved until State Pension Age. The Scheme also includes an EDP for those who leave before age 60 providing they have at least 20 years' service and are at least 40 years of age. The EDP is paid from the date of the individual's departure from the Armed Forces until State Pension Age, at which time the EDP stops and is replaced by the preserved pension. Pensions may be payable to the spouse, civil partner, partner or to eligible children. Death-in-service lump sums are payable to nominated recipients or eligible dependants.

1.2 The Armed Forces Pension Scheme 2005 (AFPS 05)

From 6 April 2005 until 31 March 2015, the AFPS 05 was the primary scheme for all new members of the Armed Forces. The Armed Forces (Pension & Compensation) Act 2004 is the primary legislation covering the AFPS 05 and the EDP Scheme 05. The AFPS 05 is a voluntary, non-contributory, final salary, unfunded, defined benefit, occupational pension scheme.

Pensions are paid immediately if an individual serves to age 55 with at least two years' qualifying service. Those who have at least two years' service who leave before age 55 will have their pensions preserved until age 65. The Scheme also includes an EDP for those who leave before age 55 providing they have at least 18 years' service and are at least 40 years of age. The EDP is paid from the date of the individual's departure from the Armed Forces until age 65, at which time the EDP stops and is replaced by the preserved pension. Pensions may be payable to the spouse, civil partner, partner or to eligible children. Death-in-service lump sums are payable to nominated recipients or eligible dependants.

On 1 April 2015 all active AFPS 05 members were transferred to AFPS 15, unless they qualified for Transitional Protection (see paragraph 4.9). Those members who transferred to the AFPS 15 had their AFPS 05 accrued pensions protected.

1.3 The Armed Forces Compensation Scheme (AFCS)

The AFCS was introduced on 6 April 2005, replacing two separate compensation arrangements under the Armed Forces Pension Scheme 1975 and the War Pension Scheme. The Armed Forces (Pension & Compensation) Act 2004 is the primary legislation covering the AFCS. The AFCS covers injury, illness and death that are caused by service on or after 6 April 2005. The AFCS is a tariff-based compensation scheme, which has been designed to be simple to understand and to produce consistent and equitable decisions, using an evidence-based approach.

1.4 The Armed Forces Pension Scheme 1975 (AFPS 75)

The AFPS 75 was the primary Scheme for Armed Forces personnel prior to 6 April 2005. The Scheme rules are set out in “Prerogative Instruments” that derive their authority from Her Majesty The Queen and are not subject to approval, annulment or amendment by Parliament. The current prerogative instruments are the Naval and Marine (AFPS 75 and Attributable Benefits Scheme) Order 2010, the Army Pensions (AFPS 75 and Attributable Benefits Scheme) Warrant 2010 and the Air Force (AFPS 75 and Attributable Benefits Scheme) Order 2010. The AFPS 75 regulations are set out in Schedule 1 to the prerogative instruments.

The AFPS 75 is a voluntary, non-contributory, salary related, unfunded, defined benefit, occupational pension scheme. It provides immediate pension benefits to those who have completed at least 16 years’ reckonable service for Officers and 22 years’ reckonable service for Other Ranks. The full career pension can be earned relatively early, at age 55, and invaliding and death benefits are available in the event of illness, injury or death at different rates depending upon whether 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 (AFAB) Scheme where the cause is service prior to that date and the AFCS where the cause is service after that date. For those who leave without entitlement to immediate pension but who have completed at least two years’ reckonable service, a preserved pension is payable at the age of 60 for service before 6 April 2006 and age 65 for service from that date.

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

On 1 April 2015 all active AFPS 75 members were transferred to AFPS 15, unless they qualified for Transitional Protection (see paragraph 4.9). Those members who transferred to the AFPS 15 had their AFPS 75 accrued pensions protected.

1.5 The Armed Forces Attributable Benefits (AFAB) Scheme

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

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

1.6 Reserve Forces Pension Schemes

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

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

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

On 1 April 2015 all active FTRSPS 97 and RFPS 05 members were transferred to AFPS 15, unless they qualified for Transitional Protection (see paragraph 4.9). Those members who transferred to the AFPS 15 had their FTRSPS 97 and RFPS 05 accrued pensions protected.

1.7 Non Regular Permanent Staff Pension Scheme (NRPSPS)

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

On 1 April 2015 all active NRPSPS members were transferred to AFPS 15, unless they qualified for Transitional Protection (see paragraph 4.9). Those members who transferred to the AFPS 15 had their NRPSPS accrued pensions protected.

1.8 Gurkha Pension Scheme (GPS)

The GPS was established by Royal Warrant in 1949. It is a voluntary, non-contributory pension scheme that provides pensions for former members of the Brigade of Gurkhas, who have completed 15 years or more service, at rates based on those of the Indian Army.

In March 2007, the Government announced the outcome of a Review of Gurkha Terms and Conditions of Service. It was announced that serving Gurkhas, and those who left service on or after 1 July 1997, would be given the right to transfer to either the AFPS 75 or AFPS 05, from October 2007.

From 1 April 2015 all new members of the Brigade of Gurkhas have joined the AFPS 15.

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

1.10 Further Details

Further details on the above Schemes can be found at:
https://www.gov.uk/government/publications/armed-forces-and-reserve-forces-pension-schemes-guidance-booklets

2. Management of the Schemes

2.1 Organisations Responsible for Managing the Schemes

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

The Chief Executive Officer (CEO) of DBS has been designated by myself as the Departmental Accounting Officer to be the Scheme Administrator for both the AFPS and AFCS. The DBS CEO has sub-delegated the administrative management of the Schemes to DBS Head of Veterans UK. The DBS Head of Resources has been designated by the Director General Finance to be the Senior Finance Officer for both the AFPS and AFCS. In administering the AFPS and AFCS on behalf of the MOD, DBS aims to ensure that all pension and compensation payments due to entitled pensioners and members of the Armed Forces are made in a timely and accurate manner.

The DBS Executive Leadership Team meets regularly and is responsible for managing DBS within agreed financial limits. It has primary authority for day-to-day management of DBS. Details of the Executive Leadership Team appointments can be found in the Governance Statement on page 19.

The Comptroller and Auditor General is appointed by statute to audit these accounts and his certificate and report appears on page 30. The notional fee for the year is £145k (2017-18: £145k) and relates to the statutory audit of the scheme's accounts. This notional fee is reflected in the Department's Annual Report and Accounts. The National Audit Office (NAO), as the scheme's external auditors, provided no other services during the year.

2.2 Corporate Governance of the Schemes

The governance arrangements of the DBS, who are responsible for the administration of the Schemes, can be found in the Governance Statement on pages 19 to 27.

2.3 Arrangements Governing Determination of Contribution Rates and Benefits

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

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

The latest actuarial valuation undertaken for the AFPS was completed as at 31 March 2016. The results of this valuation set the employer contribution rate payable from 1 April 2019. The 2016 funding valuation was also expected to test the cost of the Scheme relative to the employer cost cap set following the 2012 valuation, however, on 30 January 2019 the Government announced a pause to the cost control mechanism which was to form part of the valuation. This was due to the Court of Appeal ruling in December 2018 relating to the transitional protection offered to some members in the 2015 pension reforms.

However, the part of the 2016 actuarial valuation which calculates the employer contribution rate required from April 2019 to meet the cost of the Scheme benefits has been completed. The MOD has recently laid Scheme Regulations confirming that the employer contribution rate will be 63.5% of pensionable pay from April 2019.

3. Key Developments In Year

3.1 Changes to Scheme Contribution Rates

The AFPS is financed through the payment of employer contributions made in respect of serving members of the Scheme. Employer contributions are set as a percentage of Pensionable Pay. The contribution rates paid throughout the period 1 April 2015 to 31 March 2019 were as set out in the actuarial valuation as at 31 March 2012. The contribution rates for Officers is 52.4% and for Other Ranks 49.6%.

The rates paid from 1 April 2019 to 31 March 2023 are to be set out in the actuarial valuation as at 31 March 2016, namely 63.5% of Pensionable Pay (a single rate applicable for both Officers and Other Ranks). Additional employer contributions are also payable in respect of the AFCS. The rates applicable during 2018-19 were 1.0% of Pensionable Pay for Officers and 2.4% of Pensionable Pay for Other Ranks. These rates are unchanged from those payable during 2017-18.

3.2 Changes in Benefits

There have been no changes to benefits during 2018-19.

3.3 Membership Statistics (Movement in Year)

Due to the complexity of the AFPS, the membership data below has moved away from an 'individual' being synonymous with a 'member'. In order to show the movements within each category, the membership table shows 'Benefits' instead of 'Members'.

Individual members may be a member of more than one Scheme. A member may be entitled to more than one benefit under a Scheme.

Where a member is divorced, and the ex-spouse is entitled to a proportion of the benefit, the deferred figures show both benefits when notified to AFPS post March 2006. Benefits in payment show both benefits. Where a member has not claimed benefits within seven years of pension age, the member is out of time to claim. This is an assumption for membership reporting and actuarial valuation purposes only.

The databases used to manage Active and Deferred Members are dynamic systems that allow records to be updated retrospectively. Therefore, the opening balances in the membership table will not match to the previous year's closing balances. Active and Deferred benefits are held on a separate system to Benefits in Payment. Therefore, the movements between these categories will not reconcile due to timing differences.

The actuarial valuation includes a number of members with estimated benefits. This is due to one or more of the elements required to determine the benefit being missing from the database. This will be reviewed as part of the AFPS Membership Data Improvement Project.

The Minor Pension Schemes' membership data as at 31 March 2019, equating to 135 active members, 74 deferred members and 1,707 benefits in payment, is excluded from the membership table.

There are three groups, defined as follows:

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

Active members' benefits

	Active members brought forward from 31 March 2018	339,396
	Adjustment (see Membership Statistics note 1 and 2)	(20,229)
	Total active members' benefits at 1 April 2018	**319,167**
Add:	New entrants in year	16,537
	Transfers in	10
Less:	Death in service benefits	(144)
	Left active service with under two years' service and no benefits	(2,558)
	Left active service with deferred benefits	(23,087)
	Left active service and received benefits	(4,452)
	Total active members' benefits at 31 March 2019	**305,473**
	Active Full Time members at 31 March 2019	160,171
	Active Voluntary Reservist members at 31 March 2019	35,517

Deferred and unclaimed benefits

	Deferred and unclaimed benefits brought forward from 31 March 2018	475,019
	Adjustments (see Membership Statistics note 1 and 2)	30,679
	Total deferred and unclaimed benefits at 1 April 2018	**505,698**
Add:	Benefits not immediately payable	23,426
	New benefit on divorce	426
Less:	Benefits transferred out	(219)
	Benefits taken up	(7,238)
	Benefits elapsed	(1,151)
	Death in deferment benefits	(444)
	Rejoiners	(401)
		520,097
	Being:	
	Deferred benefits	498,553
	Benefits due but unclaimed	21,544
	Total deferred and unclaimed benefits at 31 March 2019	**520,097**
	Deferred and unclaimed members at 31 March 2019	428,213
	Deferred and unclaimed Voluntary Reservist members at 31 March 2019	10,309

Benefits in payment

	Benefits brought forward from 31 March 2018	
	- Members	358,249
	- Dependants	73,418
	Total	**431,667**
	Adjustments (see Membership Statistics note 1)	
	- Members	(128)
	- Dependants	(164)
	Total benefits at 1 April 2018	**431,375**
Add:	Benefits that became payable in the year	
	- Members	11,375
	- Dependants	4,198
Less:	Benefits that have ceased in the year	
	- Members	(7,108)
	- Dependants	(3,252)
	Total benefits in payment at 31 March 2019	**436,588**

Membership Statistics Notes

1. The brought forward balances from 31 March 2018 have been restated to account for better information obtained from the membership databases. The databases used to manage member data records are dynamic systems that allow records to be updated retrospectively. It is, therefore, accepted that the opening balances will not reconcile to the previous year’s closing balances, hence the adjustment lines present in the membership table.

2. Improvements have been made to the reporting parameters of the summary membership report and the underlying membership database, as a result of recommendations made by the National Audit Office to address discrepancies in the movement between membership status disclosed in the 2016-17 and 2017-18 accounts. Following the introduction of the AFPS 15, Active members (except those transitionally protected) were migrated from the legacy pension administration system to a new pension administration system. Investigations completed during the past two years have determined that the new membership database, linked to the new pension administration system, was found to be holding duplicate Active and Deferred records and missing Deferred records. These discrepancies have now been addressed resulting in adjustments to the Active and Deferred opening balances.

3.5 Financial Position as at 31 March 2019

As at 31 March 2019 the pension liability of the AFPS was valued at £195.3 billion (£195.5 billion as at 31 March 2018). The total change in liability represents a net decrease of £0.2 billion, which includes an actuarial gain of £6.7 billion and a past service cost of £1.9 billion. The £6.7 billion consists of:

- £8.9 billion gain due to changes in actuarial assumptions; and
- £2.2 billion loss due to experience items arising on pension liabilities.

A one off adjustment for past service cost of £1.9 billion has been recognised in 2018-19 in relation to the legal case in respect of the transitional protection. It is understood that there will be a direct ‘read-across’ to the AFPS from the judgement as the original changes impacted most schemes.

As at 31 March 2019 the compensation liability of the AFCS was valued at £2.257 billion (£2.185 billion as at 31 March 2018). The total change in liability represents a net decrease of £0.072 billion, which includes an actuarial gain of £0.069 billion. The £0.069 billion consists of:

- £0.090 billion gain due to changes in actuarial assumptions; and
- £0.021 billion loss due to experience items arising on compensation liabilities.

An experience gain/loss reflects the extent to which events over the reporting period have not coincided with the actuarial assumptions made for the assessment.

A full reconciliation of the change in the pension liability and the compensation liability over the year is provided in note 13.5 and note 16 to the accounts respectively.

3.6 Results for the Year

The 2018-19 net resource outturn was £8.477 billion which was within the voted estimate of £9.303 billion. Details can be found in the Statement of Parliamentary Supply on page 28.

In cash terms, the Scheme recorded a Net Cash Requirement (NCR) of £1.726 billion against the voted estimate of £1.848 billion, resulting in surplus cash of £0.122 billion which will be returned to the HM Treasury Consolidated Fund during 2019-20.

3.7 Events after the Reporting Period

There have been no events between the Statement of Financial Position date and the date the accounts were authorised for issue requiring an adjustment to the accounts. See note 20 to the accounts, page 48.

In June 2019 the Supreme Court refused the Government permission to appeal the Court of Appeal’s December 2018 judgment in the McCloud and Sargeant.

4. Issues Arising and Key Activities During 2018-19

4.1 Tell Us Once

The Tell Us Once (TUO) service allows citizens on a voluntary basis to inform central and local government of bereavement in a single engagement. This can either be at the point of registering a death with a Registrar, by telephone or via the internet. It is hosted by the Department for Work and Pensions but is a cross-government resource.

The benefit of being part of the TUO is the provision of a better service to the bereaved at a difficult time and a reduction in the number of days between the death of a pensioner and the Scheme being informed. The aim is to stop or reduce the number and value of overpayments and associated activities and costs of recovery. During 2018-19 the service provided the AFPS with 5,827 death notifications.

4.2 National Fraud Initiative

Commencing in 1998 and on a biennial basis the AFPS takes part in the National Fraud Initiative (NFI), co-ordinated by the Cabinet Office. This initiative allows the Scheme to submit approved data to the Cabinet Office who match it against other data sources to ensure the payments are still being made to the individual originally entitled to the pension. This exercise was in addition to the Scheme's normal procedure of regularly confirming entitlement with individual pensioners.

The table below provides an update of the position for the exercises conducted since 2002 and lists the outstanding amounts which are still being actively pursued.

NFI Exercise	Total Cases	Total Identified £000	Recovered £000	Written-off £000	Outstanding at 31/03/2019 £000
NFI 2002	252	1,071	771	282	18
NFI 2004	257	426	358	66	2
NFI 2006	297	789	706	82	1
NFI 2008	175	959	906	30	23
NFI 2010	126	695	672	6	17
NFI 2012	160	768	754	0	14
NFI 2014	215	826	825	0	1
NFI 2016	155	534	499	0	35

4.3 Membership Data Quality

In response to recommendations made by the NAO and the identification of some significant weaknesses by the Defence Internal Audit, an AFPS Membership Data Improvement Project was established in 2015-16 to focus on the quality, accuracy and reliability of underlying membership data. The programme of improvement work will span a number of years with a target completion of the end of 2019-20. During 2018-19 the project reviewed several thousand member records, with some requiring corrective action, focussing on those with a medium to lower priority after addressing the majority of the higher priority records during 2017-18. The project has now reviewed some 119,000 records, 83% of the total number of records to be investigated. To date there have been no material issues identified that would undermine the actuarial valuation of the scheme. The Army, Royal Navy and RAF are also engaged with the project and are assisting in the analysis of the scheme active membership data. The Pensions Board and the Pensions Regulator also regularly review project progress.

4.4 Quality Assurance

The Scheme Authority 'Quality Assurance' team continues to build on the volume and type of process reviewing, with a rolling programme of assurance now embedded within business as usual. During 2018-19 the team completed over 2,200 targeted checks across a range of pension case types including: Medical Discharges; Early Payment of Preserved Pensions and Family Pensions. In addition, the team completed over 153 checks as part of the rolling assurance programme focusing on: Attributable Benefits; Service Pensions; Deferred Benefits; Member Termination and Dependants Benefits. The value of the additional assurance checking continues to provide a platform that allows the Scheme Authority to challenge the Commercial partners where issues are identified, inform process improvements and improve the customer experience. Focus has also been placed on reducing ill health reassessment administrative errors during 2018-19, to further ensure a consistent level of service to the customer.

4.5 Gone Away and Unclaimed Pensions

An exercise commenced during 2017-18 and continued in 2018-19 to contact existing pensioners for whom a 'gone away' notification has been received following a postal communication attempt. The aim is to validate the last known address held on the pension administration system, or that obtained by undertaking a detailed tracing exercise, to ensure continuing entitlement to pension. Following attempts by Veterans UK to make contact with pensioners using reliable address matches, 1,116 cases were withheld, of which 811 have since been put back into payment, a 73% reinstatement rate.

A similar exercise commenced during 2017-18 and continued in 2018-19 to contact a number of deferred scheme members that have reached scheme pension age but have not yet claimed their pension entitlement. Using information obtained by undertaking a detailed tracing exercise, 2,319 members have been written to and advised to contact Veterans UK to claim any pension that may be due. As at 31 March 2019 443 pensions have been put into payment as a result of the exercise.

4.6 Changes to Contracting-Out Rules and Single Tier New State Pension

The introduction of a new Single Tier State Pension from 6 April 2016 saw the end of contracting-out for Defined Benefit occupational pension schemes. The liability for tracking and maintaining contracted-out rights, known as Guaranteed Minimum Pension (GMP), was passed to individual pension schemes with notification to withdraw support services from HM Revenue & Customs (HMRC) National Insurance Contributions Office (NICO) from December 2018. This meant the AFPS needed to begin reconciliation of contracted-out data with HMRC's records prior to December 2018 to ensure the Scheme has full awareness of its liability at the point when the Scheme Reconciliation Service is withdrawn by HMRC.

The Government published a response to the consultation on indexation and equalisation of GMP in public service pension schemes in January 2018[1]. The outcome of this consultation is that the current "interim solution" will be extended until 6 April 2021. The past service cost for the interim solution was included in the 2017-18 accounts and as a result, no further past service cost is required with respect to this in the 2018-19 accounts.

The Government is continuing to investigate the possibility of an alternative long-term methodology, known as "conversion", which in due course may result in further costs to the scheme.

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

Reconciliation has identified a number of historical financial inaccuracies in relation to Contribution Equivalent Premiums and National Insurance categories. These are currently being investigated to determine corrective action, to ensure the member receives correct entitlement from HMRC and MOD.

Early in 2019-20, HMRC intend to confirm members contracted-out benefits, relevant service dates and schemes under which these benefits are held available as part of their state pension online service. The teams carrying out the above activity have been governed by a senior Project Board.

4.7 Life Certificate Exercise

A life certificate exercise commenced in 2018-19 to canvass all AFPS and AFCS members residing overseas to confirm their continuing entitlement to pension and compensation benefits under the respective scheme rules. As with previously conducted exercises, failure to respond will result in the payment of pension being withheld. As at 31 March 2019 all certificates were issued, with 22,806 returned, a response rate of 85%.

4.8 Exit from the European Union

On 23 June 2016, the European Union (EU) referendum took place and the people of the United Kingdom (UK) voted to leave the EU. Until exit negotiations are concluded, the UK remains a full member of the EU and all the rights and obligations of EU membership remain in force. During this period the Government triggered Article 50 of the Lisbon Treaty on 29 March 2017 and has subsequently agreed an extension of the negotiation period, with other EU members, to 30 October 2019; though exit day could be sooner if agreement is reached earlier. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding once the UK has left the EU. This is therefore a non-adjusting event for which no estimate of its effect on the reporting entity can be made. Sensitivity analysis around the key financial assumptions underpinning

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

the actuarial valuation of the scheme liabilities that may potentially be affected by this decision can be found at note 13.1.

4.9 Transitional Protection Legal Case - McCloud and Sargeant

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

In December 2018, the Court of Appeal held that transitional protection provisions contained in reformed judicial and firefighter pension schemes, introduced as part of public service pension reforms in 2015, gave rise to direct age discrimination and were therefore unlawful. The Supreme Court issued a decision in June 2019 rejecting the Government's application for permission to appeal. The case will now be referred to an Employment Tribunal for a decision regarding the remedy which will need to be offered to those members of the two schemes who were subject of the age discrimination.

In line with other public service pension schemes the AFPS has considered the potential impact on the outcome on the scheme and, as a result, felt it prudent to increase the past service costs. For the AFPS this has been estimated at £1.9 billion and has been recognised in 2018-19. Further details on the valuation of the liability, the key assumptions and uncertainties can be found in notes 2.1 and 13.4 to the accounts.

4.10 Freedom to Marry Legal Case - Langford

A partner of a Military Officer who died in 2011 is seeking to claim under the AFCS. The partner was deemed ineligible for AFCS death benefits, as she was not in an exclusive relationship with the Officer, having not divorced her previous spouse at the time of the Officer's death. AFCS Article 30(c) states that one of the criteria for determining a "surviving adult dependent" is that the couple "were not prevented from marrying or forming a civil partnership". As a result, The Secretary of State (SoS) for Defence refused the claim. On the 17 July 2019 the Court of Appeal found in favour of the partner, holding that the rule is discriminatory, and that the foundation for the discrimination is not reasonable in this case. Accordingly, the discrimination is unlawful and cannot be justified or proportionate in the partners case. The Department is currently considering the merits of an appeal to the Supreme Court, and the read over of the judgment. Further details can be found at note 18 to the accounts.

5. Key Activities Arising for 2019-20

5.1 Membership Data Quality

The AFPS Membership Data Improvement Project, details for which are covered in paragraph 4.3, will move into phase two during 2019-20. The aim of phase two of the project is to address the additional questionable data identified following analysis of the most recent full set of membership data. The project will also examine a cohort of pensioner records where there appears to be no match between the pension award system and the external payroll system, to ensure complete data is provided to the Government Actuary's Department for the actuarial valuation of the scheme.

6. Information for Members

6.1 Pension Increase Rate

The Pensions increase rate was 3.0% (1.0% in 2017-18) with effect from 09 April 2018 (10 April 2017).

6.2 AFPS Additional Voluntary Contributions (AVCs)

Added Pension: Under AFPS 15 Active members (including Reserves) are able to pay personal contributions in order to purchase Added Pension. This is a choice between increasing just their own benefits, or both theirs and their dependants' benefits, and can be purchased by paying a lump sum or fixed monthly payments.

Added Years: Added Years AVCs purchased prior to April 2015 will remain unchanged in accordance with the AFPS 75 and AFPS 05 rules. Service personnel will pay their AVCs and the additional years' service will be added to the individual's Scheme benefits when they leave Service.

These AVCs and their associated liabilities are recognised in these Accounts.

6.3 Freestanding Additional Voluntary Contributions (FSAVC)

Active members may contribute to a FSAVC (or other private pension arrangement). The contribution is passed to the relevant institution and is a private arrangement between the member and the institution, and as such these transactions are not recognised in these Accounts.

6.4 Stakeholder Pensions

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

6.5 Managers, Advisers and Employers

Managers

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

Director General of Finance:
Catherine Little
Ministry of Defence
Whitehall
London SW1A 2HB

AFPS & AFCS Scheme Administrator:
Kathy Barnes
Chief Executive Officer
Defence Business Services
Abbey Wood North
Bristol BS34 8JH

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

Advisers

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

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

Legal Advisers:
Government Legal Department
1 Kemble Street
London
WC2B 4TS

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

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

AFPS Pensions Board Chair:
Robert Branagh
Ministry of Defence
Whitehall
London SW1A 2HB

Minister
Minister for Defence People and Veterans

Employer
Ministry of Defence

Further information

Any enquiries should be addressed to:

Post:

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

Email: DBS-PensionsHelpDesk@dbspv.mod.uk
Phone: 0800 085 3600

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

Email: Veterans-UK@mod.gov.uk
Phone: 0808 1914 218

7. Disclosure of Information to Auditors

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

I take personal responsibility for the Report of the Managers and Financial Statements and the judgements required for determining that they are fair, balanced and understandable. I can confirm that the Report of the Managers and Financial Statements as a whole are fair, balanced and understandable.

Sir Stephen Lovegrove KCB
Accounting Officer for the AFPS and AFCS **18 July 2019**

Report of the Actuary for the Armed Forces Pension Scheme for Accounts for the Year Ended 31 March 2019

Introduction

1. This statement has been prepared by the Government Actuary's Department (GAD) at the request of the Ministry of Defence (MOD). It provides a summary of GAD's assessment of the scheme liability in respect of the Armed Forces Pension Scheme (AFPS) as at 31 March 2019, and the movement in the scheme liability over the year 2018-19, prepared in accordance with the requirements of Chapter 9 of the 2018-19 version of the Financial Reporting Manual.

2. The AFPS is a defined benefit scheme providing pension and lump sum benefits on retirement, death and resignation. The scheme is wholly unfunded. I am not aware of any informal practices operated within the scheme which lead to a constructive obligation.

3. The assessment has been carried out by calculating the liability as at 31 March 2016 based on the data provided as at 31 March 2016 and rolling forward that liability to 31 March 2019.

Membership data

4. Tables A to C summarise the principal membership data as at 31 March 2016 used to prepare this statement.

Table A – Active members

	Number (000s)	Total pensionable pay (pa) £ m
Males	175.3	4,966.1
Females	20.4	561.8
Total	195.7	5,527.8

Due to rounding the above totals may not equal the sum of the parts.

Table B – Deferred members

	Number (000s)	Total deferred pension* (pa) £ m
Males	368.5	908.7
Females	48.4	145.7
Total	416.9	1,054.4

* Pension amounts include the pension increase granted in April 2016.
Due to rounding the above totals may not equal the sum of the parts.

Table C – Pensions in payment

	Number (000s)	Annual pension* (pa) £ m
Males	327.2	3,396.3
Females	73.0	434.6
Total	400.2	3,830.8

* Pension amounts include the pension increase granted in April 2016.
Due to rounding the above totals may not equal the sum of the parts.

Methodology

5. The present value of the liabilities as at 31 March 2019 has been determined using the Projected Unit Credit Method (PUCM), with allowance for expected future pay increases in respect of active members, and the demographic and financial assumptions applying as at 31 March 2019. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2019 was determined using the PUCM and the demographic and financial assumptions applicable at the start of the year, that is, those adopted as at 31 March 2018 in the 2018-19 accounts.

6. This statement takes into account the benefits normally provided under the scheme, including age retirement benefits, ill-health retirement benefits and benefits applicable following the death of the member. It does not include the cost of injury benefits (in excess of ill-health benefits). It does not include premature retirement and redundancy benefits in respect of current active members, although the assessment of liabilities includes pensions already in payment in respect of such cases.

Financial assumptions

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

Table D – Principal financial assumptions

Assumption	31 March 2019 pa	31 March 2018 pa
Nominal discount rate	2.90%	2.55%
Rate of pension increases	2.60%	2.45%
Rate of general pay increases	4.10%	3.95%
Rate of short-term general pay increase	n/a	n/a
Real discount rate in excess of:		
• Pension increases	0.29%	0.10%
• Long–term pay increases	(1.15%)	(1.35%)
Expected return on assets	n/a	n/a

8. The assessment of the liabilities allows for the known pension increases up to and including April 2019.

Demographic assumptions

9. Table E summarises the mortality assumptions adopted to prepare this statement, which were derived from the specific experience of the scheme membership. The table refers to the standard mortality tables prepared by the Continuous Mortality Investigation (part of the Actuarial Profession) known as the ‘S2 tables’ with the percentage adjustments to those tables derived from scheme experience.

Table E – Post-retirement mortality assumptions

Baseline mortality	Standard table	Adjustment
Retirements in normal health	S2PXA	110%
Current ill-health pensioners	S2PXA	110%
Future ill-health pensioners	S2PXA	110%
Dependants	S2PXA	110%

10. These assumptions are the same as those recommended for the 31 March 2016 funding valuation of the scheme and the accounts as at 31 March 2018.

11. Mortality improvements are assumed to be in line with the latest 2016-based principal population projections for the United Kingdom published by the Office for National Statistics on 26 October 2017.

Liabilities

12. Table F summarises the assessed value as at 31 March 2019 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described in paragraphs 4 to 11. Please note the liabilities as at 31 March 2019 include an allowance for the additional liability arising from the McCloud/Sargeant judgment. The corresponding figures for the previous year are shown for comparison.

Table F – Statement of Financial Position

£ billion

	31 March 2019	**31 March 2018**
Total market value of assets	nil	nil
Value of liabilities	195.3	195.5
Deficit	(195.3)	(195.5)
of which recoverable by employers	n/a	n/a

Accruing costs

13. The cost of benefits accrued in the year ended 31 March 2019 (the current service cost) is assessed as 76.5% of pensionable pay.

14. For the avoidance of doubt, the actual rate of contributions payable by the employer is not the same as the current service cost assessed for the accounts. The actual employer contribution rate was determined as part of a funding valuation using different assumptions. Table G shows the average employer contributions during the year 2018-19 across officers and other ranks (with no allowance for the Armed Forces Compensation Scheme) as a percentage of pensionable pay, and compares the total contributions with the current service cost assessed for the 2018-19 accounts. Employees are not required to contribute to AFPS.

Table G – Contribution rate

	2018-19 % of pay	**2017-18 % of pay**
Employer contributions (excluding expenses)	50.4%	50.4%
Employee contributions	0.0%	0.0%
Total contributions	**50.4%**	**50.4%**
Current service cost	**76.5%**	**75.6%**

15. The key difference between the assumptions used for funding valuations and accounts is the discount rate, although price inflation and salary increases are also determined differently. The discount rate for accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.

16. The pensionable payroll for the financial year 2018-19 was £5.6 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2018-19 (at 76.5% of pay) is assessed to be £4.3 billion.

17. Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. GAD has been instructed by MOD to include an allowance in the end of year liabilities shown in this report for the additional liability potentially arising from the McCloud/Sargeant judgment. This cost has been assessed as £1.9 billion and reflects as the cost of providing members with benefits in whichever scheme (relevant pre or post 2015 scheme) is of higher value over the 4 years to 31 March 2019. This approach reflects a remedy based on allocating members to a scheme at the balance sheet date, based on the accounting assumptions in force during 2018-19. Different approaches, based on other assumptions, or different forms of remedy (such as allocation based on cost assessed at individual's exit from service) may produce significantly different costs. The ultimate cost of this judgement would depend on the form of remedy, differences between earning and price increases, and individuals' future career paths.

18. I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2018-19.

Sensitivity analysis

19. The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2019 of changes to the most significant actuarial assumptions.

20. The most significant financial assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality.

21. Table H shows the indicative effects on the total liability as at 31 March 2019 of changes to these assumptions (rounded to the nearest 0.5%).

Table H - Sensitivity to significant assumptions

Change in assumption		Approximate effect on total liability	
Financial assumptions			
(i) discount rate*:	+0.5% a year	- 11.5%	- £22.5 billion
(ii) (long-term) earnings increase*:	+0.5% a year	+ 1.0%	+ £2.0 billion
(iii) pension increases*:	+0.5% a year	+ 10.0%	+ £19.5 billion
Demographic assumptions			
(iv) additional 1 year increase in life expectancy at retirement		+ 3.0%	+ £ 5.9 billion

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

In addition, the past service cost in respect of the McCloud / Sargeant judgement is expected to be highly sensitive to the gap between CPI inflation and the assumed rate of salary growth. Under the approach and remedy adopted, if the long term salary growth assumptions were 0.5% pa lower, then the impact on the past service cost is expected to be a change of around -10% on the provision, around -£0.2 bn. A 0.5% pa increase to the salary growth assumption would increase the estimated provision by 10%, around £0.2 bn. Alternative forms of remedy may have different levels of sensitivity to these assumptions.

Alan Dorn FIA
Chief Actuary
Government Actuary's Department
17 May 2019

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, the Ministry of Defence, with the consent of HM Treasury, has directed the Armed Forces Pension Scheme to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the combined schemes at the year end and of the net resource outturn and cashflows for the financial year.

In preparing the Accounts the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the Accounts
- Prepare the Accounts on a going concern basis, and;
- Confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

HM Treasury has appointed the Permanent Secretary of the Department as Accounting Officer for the Armed Forces Pension Scheme. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the assets of the pension scheme, are set out in Managing Public Money published by HM Treasury.

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 HM 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 Defence Business Services (DBS) Executive Leadership Team (ELT) have operated in accordance with the recognised precepts of good corporate governance: leadership, effectiveness, accountability and sustainability.

The Purpose of the Governance Framework

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. The governance framework has been in place for the Schemes for the year ended 31 March 2019 and up to the date of the approval of the annual accounts.

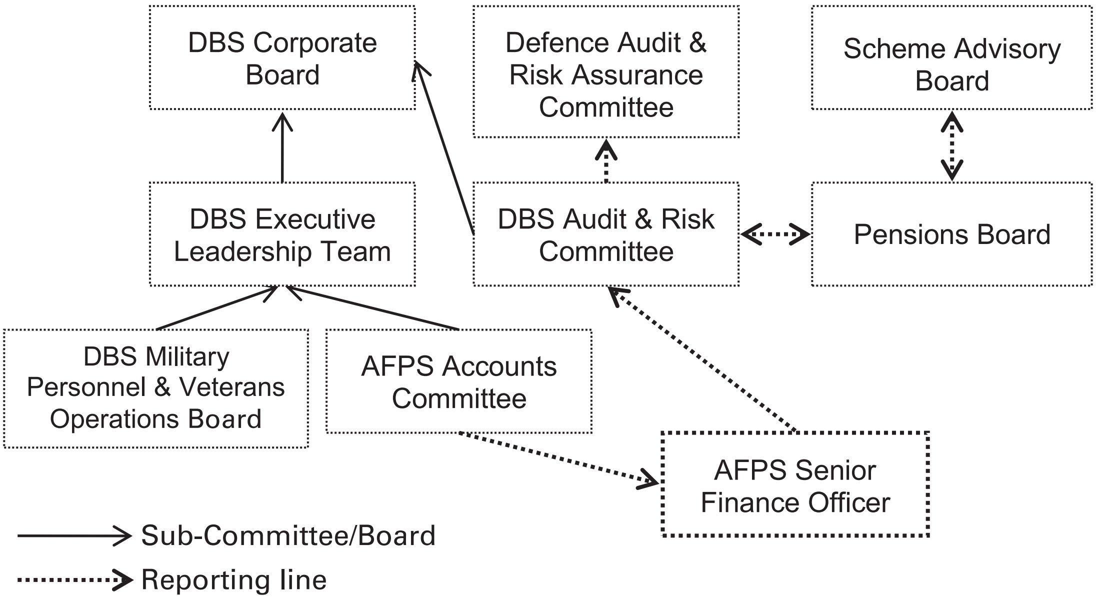
5. The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and therefore can only provide reasonable, and not absolute, assurance of effectiveness. 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.

The Schemes' Governance Framework

6. I delegated budget holder and delivery authority responsibility of the Schemes to the Chief Executive Officer (CEO) of the DBS, who sub-delegated the administrative management of the Schemes to DBS Head of Veterans UK. Director General Finance delegated the role of Senior Finance Officer (SFO) for the Schemes to DBS Head of Resources.

7. Administration of the Schemes is delivered through a combination of Ministry of Defence (MOD) civilian personnel and contractors, CSC Computer Sciences Ltd (CSC), via a commercial partnering agreement which came into effect on 11 November 2012. The arrangement for joint working with CSC is governed by commercial agreements and is managed by DBS Military Personnel & Veterans Operations Board (MP&V OB). On 3 April 2017, Computer Sciences Corporation (the parent company of CSC Computer Sciences Ltd) merged with the Enterprise Services business of Hewlett Packard Enterprise (HPE) to create DXC Technology. Effective on that date DXC Technology became the parent company of CSC Computer Sciences Ltd. The MOD remains contracted to CSC Computer Sciences Ltd and, therefore, from a contractual perspective the change had no impact to DBS and the Schemes.

Boards and Committees



8. The **DBS Corporate Board** comprises of a Non-Executive Chair, two other Non-Executive Directors (NEDs), the DBS CEO, two DBS Executive Heads and a MOD NED (the Head of MOD Enabling Organisations Sponsorship). The Board oversees the conduct of business in DBS, supports and supervises the DBS executive management, leads on compliance with all applicable Government/Defence policies and governs and oversees the transformation programmes and service delivery issues.

Table 1 – Composition of the DBS Corporate Board	**Meetings Attended**
Non-Executive Chair: Peter Shortt	5 of 5
DBS Executive Members:	
Kathy Barnes, Chief Executive Officer	3 of 5
Tamsin Woodeson, Chief Operating Officer (until 22 Jul 18), Acting Chief Executive Officer (from 23 Jul 18 until 31 Dec 18), Deputy Chief Executive Officer & Chief Customer Officer (from 01 Jan 19)	4 of 5
Andrew Stafford, Acting Chief Operating Officer (from 23 Jul 18 until 31 Dec 18), Chief Operating Officer (from 01 Jan 19)	3 of 3
Georgina Benzies, Head of Resources	5 of 5
MOD Non-Executive Directors:	
Liesl Neale, (until 06 Aug 18) Head of MOD Corporate Services Transformation	2 of 2
Tara Usher, (from 01 Mar 19) Head of MOD Enabling Organisations Sponsorship	1 of 1
Non-Executive Directors:	
Paul Smith	5 of 5
Vivienne Bracken	4 of 5

9. The Board is required to consider its own effectiveness on an annual basis. The Board did not conduct a standalone annual self-assessment in 2018/19, due to the ongoing review of MOD Enabling Organisations which would have rendered an assessment ineffective given the potential for wider organisational and governance changes. However, the Chair of the Board did meet with UK Government Investments for guidance on improving the effectiveness of the Board, as well as meeting separately with Board NEDs to agree greater NED input. The Enabling Organisations study has now reported and recommended a new relationship between DBS and MOD Centre, which will result in a transformation of the DBS Operating Model, including a significant realignment of the governance

structures between DBS and the Sponsor. DBS, together with the recently appointed Enabling Organisations Sponsor, is working to develop and implement the new arrangements and it is planned for the Board, in its revised format and role, to carry out an assessment before the end of 2019/20.

10. The **DBS Executive Leadership Team (ELT)** is chaired by the CEO and comprises the Executive Heads of Department and the Schemes' SFO. The ELT is responsible for managing DBS within Corporate Board agreed financial limits, and is the primary authority for day-to-day management of DBS. The ELT meets once a month and convened twelve times between April 2018 and March 2019. No specific review of Committee performance was undertaken in 2018-19.

Table 2 – Composition of the DBS Executive Leadership Team	**Meetings Attended**
Chief Executive Officer: Kathy Barnes, (Chair)	8 of 12
Executives:	
Tamsin Woodeson, Chief Operating Officer (until 31 May 18), Acting Chief Executive Officer (from 01 Jun 18, until 31 Oct 18), Deputy Chief Executive Officer (from 01 Nov 18, until 31 Dec 18), Deputy Chief Executive Officer & Chief Customer Officer (from 01 Jan 19)	8 of 12
Andrew Stafford, Head of Civilian Personnel (until 31 May 18), Acting Chief Operating Officer (from 01 Jun 18, until 31 Dec 18), Chief Operating Officer (from 01 Jan 19)	12 of 12
Pete Bennington, Chief Information Officer (until 29 Mar 19)	8 of 12
Gary Wood, Acting Chief Information Officer (from 30 Mar 19)	1 of 1
Ben Kinley, Head of People Change & Development (until 03 Jun 18)	1 of 2
Jon Parkin, Head of Veterans UK (until 03 Jun 18), Chief People Officer (from 04 Jun 18)	11 of 12
Jenny Sandham, Transformation Director (until 06 Apr 18)	0 of 0
Liesl Neale, Acting Transformation Director (from 07 Apr 18, until 05 Aug 18)	3 of 4
Sue Higgins, Head of Business Change (from 06 Aug 18)	8 of 8
Georgina Benzies, Head of Resources & Schemes' SFO	9 of 12
Andy Dowds, Head of Finance & Procurement Services (until 03 Jun 18), Head of Veterans UK (from 04 Jun 18)	11 of 12
Joanne Davies, Acting Head Finance & Procurement Services (from 04 Jun 18, until 06 Jan 19)	6 of 7
Rose Mooney, Head of Finance & Procurement Services (from 07 Jan 19)	2 of 2
Brigadier Paul Burns, Head of Military Personnel	8 of 12
Graeme Macaulay, Acting Head of Civilian Personnel (from 01 Jun 18, until 03 Apr 19), Head of Civilian Personnel (from 04 Apr 19)	7 of 9
Neil Watkinson, UK Security Vetting Managing Director	12 of 12

11. The **DBS Military Personnel & Veterans Operations Board (MP&V OB)**, a sub-committee of the ELT, manages the commercial agreements with CSC. The Service Delivery Management Team within DBS actively monitors the performance of CSC against over 700 Measures of Performance (MOPs). Any failure to meet MOPs, and actions to ensure future compliance, are discussed at the monthly Service Delivery Working Group attended by representatives from both DBS and CSC, and reported to the MP&V OB. The Board is also responsible for reviewing unit level risks on a monthly basis, with the most critical escalated to the ELT where the impacts are assessed, and appropriate mitigating action taken.

12. The **AFPS Accounts Committee**, a sub-committee of the ELT, undertakes a detailed review of financial performance of the Schemes on a monthly basis. Membership of the AFPS Accounts Committee includes three ELT members: Head of DBS Resources (as Schemes' SFO), Head of Veterans UK (as Scheme Administrator) and Head of DBS Finance & Procurement Services (as an independent). Escalations and a monthly summary report from the AFPS Accounts Committee are submitted to the ELT for review, decision and endorsement.

13. The **DBS Audit & Risk Committee (ARC),** a sub-committee of the DBS Corporate Board, comprises of two Non-Executives and one MOD Non-Executive, and is attended by members of the ELT. The chair of the Pensions Board also has a standing invitation and attends most committees. The ARC supports the CEO in discharging her responsibilities for Risk Control and Governance by reviewing the comprehensiveness, reliability and integrity of DBS's Risk and Assurance framework, agreeing priority risk areas for Defence Internal Audit (DIA) annual programme, reviewing the outcome of work by DIA and National Audit Office (NAO) and following progress on completion of actions. The ARC reviewed the 2018-19 AFPS Accounts prior to approval by the Defence Audit Committee. The Committee met 5 times between April 2018 and March 2019.

Table 3 – Composition of the DBS Audit & Risk Committee	**Meetings Attended**
Non-Executive Members:	
Paul Smith (Chair)	5 of 5
Neville Mackay (until 30 Apr 18)	0 of 0
Ian Wilson (from 1 May 18)	4 of 5
MOD Non-Executive Members:	
Liesl Neale, (from 20 Mar 18, until 06 Aug 18) Head of Defence Infrastructure Governing Authority	1 of 2
Keith Dearness, (from 07 Aug 18, until 30 Nov 18) Deputy Head of MOD Corporate Services Transformation Team	1 of 2
Tara Usher, (from 01 Mar 19) Head of MOD Enabling Organisations Sponsorship	1 of 1

14. The **Defence Audit & Risk Assurance Committee (DARAC)** is responsible for making a recommendation to the Accounting Officer for approval of the AFPS Accounts prior to publication. The DARAC gains assurance on the reliability of the financial and reporting disclosures from the DBS ARC review. The DARAC comprises of a Non-Executive Chair and three other NEDs. The DARAC is also attended by the Permanent Secretary for Defence or the MOD Director General Finance, the Head of DIA and a representative from the NAO.

15. The **Scheme Advisory Board** and the **Pensions Board**. The Government introduced a framework for the governance and administration of public service pension schemes under the Public Service Pensions Act 2013, which also provides an extended regulatory oversight by The Pension Regulator. The Scheme Advisory Board is responsible for advising the Scheme Manager in relation to the desirability of changes to the Scheme. The Pensions Board is responsible for assisting the Scheme Manager with compliance of the Scheme rules and legislation relating to the governance and administration of the Scheme, including any requirements imposed by the Pension Regulator. The Pensions Board produces an Annual Report of its activities which is publicly available.

Financial Management

16. The Schemes' financial management arrangements conform to the requirements of HM Treasury as laid out in "Managing Public Money". The DBS Head of Resources is the SFO for the Schemes and is a key member of the DBS Corporate Board and the ELT. The Schemes' financial management reports provide the level of detail for effective oversight and are reviewed by the AFPS Accounts Committee on a monthly basis. CSC provides an operations dashboard of pension volumes/values which is reviewed by the MP&V OB on a monthly basis. Performance against Key Performance Indicators is reviewed by the DBS Corporate Board. Management's confidence in the financial/management information and reporting is supported through the work of these Committees/Boards and is reviewed by DIA as part of a rolling three-year audit programme of the Schemes.

17. The Pensions Finance Team, with input from the Government Actuary's Department and challenge from HM Treasury and the Office of Budget Responsibility, refined future forecasts to take into account new and emerging trends, central assumptions and anticipated changes in behaviour as a result of perceived and actual changes to the Schemes. The Pensions Finance Team falls under the responsibility of DBS Head of Resources but worked closely with DBS Veterans UK throughout the

financial year to ensure emerging issues were factored into in-year forecasts. Pensions Finance and Veterans UK also liaised with other major UK Public Pension Schemes throughout the year to identify best practice on a number of ongoing initiatives.

Risk Assessment

18. Risk assessment processes within DBS are in place throughout the year. Risks are identified and recorded on the business unit risk registers and are reviewed on a monthly basis by the MP&V OB. The most critical are escalated to the ELT where the impacts are assessed, and appropriate mitigating action taken. The ARC has oversight of all risks raised within DBS. Any risks not capable of being managed at Committee level would be escalated to the Chief of Defence People (CDP) and/or Director General Finance, and ultimately to me for action. No risks were escalated by DBS in 2018-19.

The Risk and Control Framework

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

20. 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.

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

22. The DBS Risk Management Strategy Framework v7.1 is compliant with MOD's Directive JSP892. During this period the ELT has continued to ensure that the seven key principles have been used to underpin the way that risks are managed within DBS:

- Nested Risks and Associated Action Plans;
  A nested approach to risk management in accordance with the DBS Risk Governance structure, ensuring risks are owned from the business (Assistant Head) level through to DBS Senior Management level, with each level taking responsibility for mitigation actions within their scope of responsibility.

- Clear Links to Governance Approach;
  Risks are managed throughout the DBS Governance structure ensuring that responsibilities and escalation routes are clearly identified within a formalised structure. This also includes Shared (MOD/Commercial Partner) risk. Risks are standing agenda items at a variety of DBS Governance forums, including the DBS Corporate Board and ELT, as well as within the Functional Governance areas of Operations, Transformation, People and Technology. The Minutes of the Boards record Actions, Decisions and Escalations and are used as a vehicle to provide feedback to the Risk Owner/Manager and to update the Risk Register.

- Independent Quality Assurance;
  A dedicated Risk Management Team providing oversight and implementation of the Risk Management Strategy throughout DBS. Providing assurance and guidance to individual risk owners, and ensuring a risk management culture is embedded throughout DBS.

- Managing Risk Volumes;
  The implementation of a nested risk structure ensuring that for each governance group handling risks, the number of risks remains manageable.

- Risk Appetite & Thresholds;
  Definition of a risk appetite statement that is also expressed as a series of boundaries in time, cost and performance, with tolerance levels allowable for risk at differing levels of the organisation.

- Risk Aggregation;
  Pillars being responsible for escalating risks which exceed their tolerances, and the DBS Risk Manager responsible for aggregating common risks from two or more pillars which collectively exceed the tolerance.

- Management of Strategic Risks;
  Strategic risks are identified at any time at any level of the business, and then managed at the ELT.

Fraud

23. All staff within MOD have direct access to the Fraud Incident and Irregularity Reporting Unit (FIIRU), which is the single place to report fraud, bribery, corruption, theft and irregularity within the MOD. Suspicions or concerns can be reported anonymously or confidentially to the FIIRU. Potential AFPS fraudulent claims are reported to the MOD FIIRU for investigation by the MOD Police (MDP) or Royal Military Police. DBS continues to utilise the National Fraud Initiative (NFI) to identify potential AFPS fraudulent claims and a small internal team is resourced to investigate any potential fraudulent AFCS claims. The Report of the Managers on pages 2 to 13 contains details of the results of the NFI exercises since 2002.

24. A Life Certificate exercise commenced in 2018-19 to canvass all AFPS and AFCS members residing overseas to confirm their continuing entitlement to pension and compensation benefits under the respective scheme rules. As with previously conducted exercises, failure to respond will result in the payment of pension being withheld. As at 31 March 2019 all certificates were issued, with 22,806 returned, a response rate of 85%.

25. An exercise commenced during 2017-18 and continued in 2018-19 to contact existing pensioners for whom a ‘gone away’ notification has been received following a postal communication attempt. The aim is to validate the last known address held on the pension administration system, or that obtained by undertaking a detailed tracing exercise, to ensure continuing entitlement to pension. Following attempts by Veterans UK to make contact with pensioners using reliable address matches 1,116 cases were withheld, of which 811 have since been put back into payment, a 73% reinstatement rate.

26. The Government’s major reform of pensions from 6 April 2015 allowed members of money purchase pension schemes to access their pension pot flexibly and draw their pension savings as a lump sum rather than having to use them to buy an annuity. As part of these reforms, transfers of pension funds from unfunded public service defined benefit schemes (such as the AFPS) to schemes that permitted members to draw their pension pot flexibly were banned. The change in rules was announced in the Chancellor of the Exchequer’s Autumn Statement on 3 December 2014 and prevents further transfers to non-Defined Benefit schemes. For those individuals who made a pension transfer request prior to this change, Veterans UK pensions administrators conducted due diligence checks on the receiving Scheme provider and issued an information warning about pension liberation scams and what to look for, with the application to transfer declaration forms. Despite these checks, some private pension providers were investigated for fraudulent activity by the MOD Police. The MOD Police have concluded their investigations and their findings have been submitted to the Crown Prosecution Service (CPS). A criminal trial is due to commence in September 2019.

Information Assurance

27. Data is managed in accordance with the principles of HM Government’s Information Assurance Maturity Model (IAMM) and Departmental Policies. The CEO is the Senior Information Risk Owner (SIRO) for DBS, with Information Asset Owners (IAOs) and DBS Risk Management (RM) Team supporting the SIRO. Information Assurance (IA) training remains a mandatory requirement. The IA team have produced additional training aids for Cyber Awareness, Security Briefing, updated DBS induction process and specific IAO training and guidance.

28. The IA team continue to focus on the IA governance structure, IA risk management and upward reporting through the IAOs, DBS RM Team, SIRO, MOD Head Office & Corporate Services (HOCS) and to the MOD Chief Information Officer (CIO). Building on the identification of the information assets

within DBS, where required Memorandum of Understandings (MOUs) or contracts are now in place with third parties and Delivery Partners responsible for handling DBS information assets and work is underway to implement a programme of assurance activity to ensure on-going protection of the information and compliance with General Data Protection Regulation (GDPR). The completion of Data Protection Impact Assessments (DPIA) across DBS is now integrated to ensure data protection and privacy by design is built into all our processing activities. IAO Steering Group meetings continue on a quarterly basis to review IA risks and allow upward reporting to the DBS SIRO and HOCS. DBS was well prepared for the Data Protection Act 2018 and the changes required by GDPR and pre-implementation activities included identifying what information is held, where and who has access. All existing DPIA's continue to be reviewed and Information Asset Registers amended to capture the additional GDPR requirements, such as the purposes for processing, categories of personal data and retention periods. Data Flow Control Registers (DFCR) are being populated during the IAR review.

29. Work continues to identify areas for improvement across DBS and how Information Assurance and Security and Data Protection is integrated across the Organisation. The team continues to document evidence on the IA metrics dashboard against the measures under IAMM, Government Security Policy Framework (SPF), Cyber Security and GDPR. There is a scheduled plan to continue to review all IA policies and procedures during 2019-20. DBS has a DP compliance officer in post who is undertaking DP compliance reviews and a schedule of assurance checks.

30. There were forty-two incidents reported internally to MOD Information Rights Compliance Team during the year in relation to AFCS but none for AFPS. Although these were assessed to be of a serious nature, none were reported to the Information Commissioners Office.

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

Business Continuity

32. AFPS/AFCS output from DBS Norcross and Glasgow and the continued development and implementation of the Compensation and Pensions System (CAPS) pensions and allowances solutions at DBS Gosport, are governed by Business Continuity (BC) measures outlined in the DBS Business Continuity Management Strategy 2018-19. BC Business Impact Analysis (BIA) for the pensions teams in Glasgow were finalised in February 2019 and BIA for pensions operations at DBS Norcross are due for update in April/May 2019 in compliance with both sites BC Lifecycle annual reviews. Site DBS operations at Glasgow, which includes the pensions teams, last underwent BC exercise on 9 April 2019, those at Norcross on 5 July 2018 and Gosport on 7 December 2017.

33. The Disaster Recovery (DR) Plan for CAPS moved to Version 6.0 on 20 November 2018 in compliance with its BC Lifecycle annual review. It is subject to annual review and test in parallel with on-going CAPS transformation. CAPS was tested for DR on 14 December 2018 and further DR tests were initiated on 29 April in accordance with 'Project Evergreen' which replaces obsolete technology.

34. The DXC Technology Business Process Outsourcing (BPO) Service Delivery BCP is extant at Version 11.0 (issued 24 July 2018). This plan covers the Joint Personnel Administration Centre (JPA), Enquiry Centre (EC) and back-office pension activity. The DXC Pensions Complex Team undertook a full business functionality BC exercise on 22 February 2018 proving operations can be continued at an alternative site.

35. There were no significant BC incidents affecting pensions' delivery during 2018-19.

Review of Effectiveness

36. As Accounting Officer, I have responsibility for reviewing the effectiveness of the governance framework. My review is informed by the work of the MOD internal auditors DIA, the executive managers within the DBS who have responsibility for the development and maintenance of the internal control framework, the ARC who are responsible for risk control and governance, the DARAC who are responsible for reviewing and endorsing the year end accounts and comments made by the external auditors in their management letter and other reports.

37. The Membership Data Improvement project has now investigated and cleared over 119,000 pieces of questionable data. Veterans UK have also undertaken a piece of work to investigate missing pensioner data where a total of 31,000 pension records have been identified and 17,000 pension records now matched. Veterans UK also completed an exercise for 'gone away' pensioners, where notification received because of returned postal communications. With 1,805 pieces of correspondence, Veterans UK have traced 73% of these individuals, whilst the remainder have monies stopped and held in trust, pending contact being made. In addition, further work continues under the 'unclaimed pension' exercise, where Pensioners have not claimed benefits due. This has resulted in 409 unclaimed pensions going into payment, thus reducing the liability being carried in the scheme accounts.

38. The 'Tell Us Once (TUO)' Death Nomination referral process has reduced the time it takes for notifications to be made and the likelihood of members being overpaid benefits. During the first six months of 2018-19 the new process has reduced the notification timescale from 20 days to 9-10 days and reduced overpayments by over 47%.

39. The Veterans UK Quality Assurance Team is now embedded within business as usual, with its primary function being to provide an additional level of assurance on the accuracy, timeliness and quality of the AFPS Administration service. During 2018-19 the team completed over 2,200 checks across a range of categories, enabling Veterans UK to challenge the contractor more robustly where issues have arisen and work collaboratively to improve the overall member's experience.

Internal Audit

40. The AFPS DIA programme provides a rolling year on year programme of assurance, based on a three-year plan. The programme has been reviewed by the Pensions Board Chair and the DBS ARC, with progress reports regularly taken by the DBS ARC throughout 2018-19. The Head of DIA, or one of his senior managers, attends meetings of the ARC and provides expert advice on audit issues.

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

42. DIA reported that adequate and effective internal controls were in place for the pension administration processes and governance arrangements examined. These included pension policy procedures, pension payment administration oversight of the contractor.

43. However, through their review of the 'AFCS Payment Warrant Process', 'AFPS Deferred Pension Entitlement' and 'AFPS Apply Pension Transfers', the DIA identified three significant weaknesses in control relating to delegated financial authority and the incorrect application of pension policy. Whilst the control weaknesses identified were classed as 'high priority' they were isolated to the process audited and did not reflect any fundamental changes or weakening to the overall control framework. Nor were they considered to have a material impact on the AFPS Accounts.

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

Significant Governance Issues

45. I am pleased to report that there have been no significant governance issues arising during 2018-19. Overall, I have drawn assurance from the controls in place to govern the Schemes and I am content that there has been no reduction in their effectiveness.

Future Improvements

46. In 2019 Veterans UK will be launching communications campaigns to support the delivery of two new initiatives for Veterans and their families. As announced by the Prime Minister in December 2017 and as a key deliverable and enabler of the Veterans Strategy, a new Veterans Identification (ID) Card will be launched in December 2019. The new ID card has two functions: to provide a memento of

service and maintain a tangible link to the Armed Forces, and to ensure that public and charitable sector services and support can be provided where needed by Veterans as efficiently as possible.

47. In addition, the MOD is also launching the 'Defence Transition Service', a new Service for all personnel and their families leaving the Service and this will be administered by Veterans UK. Its aim is to provide support for those making the transition into civilian life and to assist with practical help and advice for both them and their families, in collaboration with third sector organisations.

48. The new single stage Independent Dispute Resolution Procedure (IDRP) process will be reviewed following its successful launch in April 2018. Staff and Member questionnaires will be developed to inform improved training modules and processes. In addition, a lesson learnt workshop will be held with other Government Departments seeking to learn from our experience.

49. Further opportunities will be taken to improve communication with serving members of the AFPS and to raise awareness of the Scheme benefits. This will be achieved in part through re-designing the Benefit Information Statement and Annual Allowance Statement to be less complex, easy to understand documents. The overall communications strategy will continue to be supported by targeted communications using social media channels including Twitter and Facebook.

Summary

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

Sir Stephen Lovegrove KCB
Accounting Officer for the AFPS and AFCS **18 July 2019**

Statement of Parliamentary Supply

Summary of Resource Outturn 2018-19

This section has been subject to audit

£000								2018-19	2017-18
				Estimate			Outturn		Outturn
	Note	Voted	Non-Voted	Total	Voted	Non-Voted	Total	Voted outturn compared with Estimate: saving	Total
Annually Managed Expenditure - Resource	SOPS1	9,303,361		9,303,361	8,476,985		8,476,985	826,376	6,984,404
Total Budget		9,303,361		9,303,361	8,476,985		8,476,985	826,376	6,984,404
Non-Budget -Resource									
Total		**9,303,361**		**9,303,361**	**8,476,985**		**8,476,985**	**826,376**	**6,984,404**

Net Cash Requirement 2018-19

£000	Note	2018-19 Estimate	2018-19 Outturn	2018-19 Outturn compared with Estimate: saving	2017-18 Outturn
	SOPS2	**1,847,555**	**1,725,643**	**121,912**	**1,573,090**

Administration Costs 2018-19

2018-19 Outturn	2018-19 Estimate	2017-18 Outturn
-	-	-

As explained in the Report of the Managers on page 4, the costs of administering the Schemes are borne by the MOD and are reflected in the Department's Annual Report and Accounts.

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

The Notes on page 29 form part of this Statement.

Notes to the Statement of Parliamentary Supply

SOPS1. Analysis of net resource outturn by section

£000	2018-19									2017-18
	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: Armed Forces Pension & Compensation Schemes	-	-	-	11,432,542	2,955,557	8,476,985	8,476,985	9,303,361	826,376	6,984,404
Non Voted:	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	11,432,542	2,955,557	8,476,985	8,476,985	9,303,361	826,376	6,984,404

SOPS2. 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	SOPS1	9,303,361	8,476,985	826,376
Accruals adjustments:				
Non cash items		(12,205,277)	(11,432,542)	(772,735)
Changes in working capital other than cash		(59,942)	(132,242)	72,300
Use of provision:				
Pension		4,712,646	4,723,630	(10,984)
Compensation Scheme		96,767	89,812	6,955
Net cash requirement		**1,847,555**	**1,725,643**	**121,912**

Parliamentary Accountability Disclosures

This section has been subject to audit.

Losses and Special Payments

	2018-19	2017-18
Total number of losses	2,328	3,621
Total value of losses (£'000)	281	2,833

In the 2017-18 published Armed Forces Pension Scheme Accounts, the total value of losses was stated to be £3,663,000. This included a write-off of £3,448,207.76 for a cohort of circa 1000 members, in relation to a misalignment between the period of service used in the pension calculation and actual entitlement. During 2018-19, enhancements to pension benefits for the same population of members were backdated to January 2016, which reduced the write-off by £830,000. The above prior year value of losses has been amended to reflect this reduction.

There were no individual losses greater than £300,000 or special payments during 2018-19.

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

Opinion on financial statements

I certify that I have audited the financial statements of the Armed Forces Pension Scheme (incorporating the Armed Forces Compensation Scheme), for the year ended 31 March 2019 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Combined Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the Statement of Parliamentary Supply and the related notes, and the information in the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Scheme's affairs as at 31 March 2019 and of its net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on 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 2019 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Armed forces Pension Scheme in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Armed Forces Pension Scheme's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Armed Forces Pension Scheme's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the Annual Report, other than the parts of the Parliamentary Accountability Disclosures described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- in the light of the knowledge and understanding of the Armed Forces Pension Scheme and its environment obtained in the course of the audit, I have not identified any material misstatements in the Annual Report; and
- the information given in the Report of the Managers and the Report of the Actuary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Gareth Davies **22 July 2019**
Comptroller and Auditor General

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

Combined Statement of Comprehensive Net Expenditure

for the year to 31 March 2019

	Note	2018-19 £000	2017-18 £000
Principal Arrangements – Armed Forces Pension Scheme			
Income			
Contributions receivable	3	(2,955,045)	(2,940,556)
Transfers In	4	(512)	(493)
Other Income	5	-	(22)
Expenditure			
Current Service cost	6	4,316,583	4,238,468
Past Service cost	6	1,900,000	130,000
Enhancements	7	1,711	1,346
Transfers In	8	512	493
Pension financing cost	9	4,982,378	5,368,703
Net Expenditure		**8,245,627**	**6,797,939**
Armed Forces Compensation Scheme			
Current Service cost - AFCS	16	174,247	131,078
Compensation financing cost	16	57,111	55,387
Net Expenditure		**231,958**	**186,465**
Combined Net Expenditure	SOPS1	**8,476,985**	**6,984,404**
Other Comprehensive Net Expenditure			
Pension re-measurements:			
Actuarial (gain) – Armed Forces Pension Scheme	13.8	(6,677,554)	(1,579,032)
Actuarial (gain) / loss – Armed Forces Compensation Scheme	16	(69,385)	104,113
Total Comprehensive Net Expenditure for the year ended 31 March 2019		**1,730,046**	**5,509,485**

The Notes on pages 37 to 49 form part of these accounts.

Combined Statement of Financial Position

as at 31 March 2019

		2019	2018
Principal arrangements – Armed Forces Pension Scheme	Note	£000	£000
Current assets:			
Receivables	10	253,061	267,198
Cash and cash equivalents	11	56,108	70,751
Total current assets		309,169	337,949
Current liabilities:			
Payables	12	(742,452)	(639,578)
Total current liabilities		(742,452)	(639,578)
Net current liabilities, excluding pension liability		**(433,283)**	**(301,629)**
Pension liability	13.5	(195,300,000)	(195,500,000)
Net liabilities, including pension liabilities		**(195,733,283)**	**(195,801,629)**
Armed Forces Compensation Scheme			
Receivables	14	1,074	1,017
Payables (within 12 months)	15	(3,459)	(2,814)
Provisions for liabilities and charges	16	(2,257,000)	(2,184,839)
Net liabilities		**(2,259,385)**	**(2,186,636)**
Combined Schemes – Total net liabilities		**(197,992,668)**	**(197,988,265)**
Taxpayers' equity:			
General fund		(197,992,668)	(197,988,265)
		(197,992,668)	**(197,988,265)**

Sir Stephen Lovegrove KCB
Accounting Officer for the AFPS and AFCS **18 July 2019**

The Notes on pages 37 to 49 form part of these accounts.

Combined Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2019

	Note	2018-19 £000	2017-18 £000
Balance at 1 April		**(197,988,265)**	**(194,051,870)**
Net Parliamentary Funding – drawn down		1,711,000	1,631,400
Net Parliamentary Funding – deemed		70,751	12,441
Supply payable adjustment	12	(56,108)	(70,751)
Excess Vote – Prior Year		-	-
CFERs payable to the Consolidated Fund		-	-
Contingencies Fund Advance		-	120,000
Repayment to the Contingencies Fund		-	(120,000)
Combined Net Expenditure for the Year	SOPS1	(8,476,985)	(6,984,404)
Actuarial gain – Armed Forces Pension Scheme	13.8	6,677,554	1,579,032
Actuarial gain / (loss) – Armed Forces Compensation Scheme	16	69,385	(104,113)
Net change in Taxpayers' Equity		**(4,403)**	**(3,936,395)**
Balance at 31 March		**(197,992,668)**	**(197,988,265)**

The Notes on pages 37 to 49 form part of these accounts.

Combined Statement of Cash Flows

for the year ended 31 March 2019

	Note	2018-19 £000	2017-18 £000
Cash flows from operating activities			
Combined net expenditure for the year	SOPS1	(8,476,985)	(6,984,404)
Adjustments for non-cash transactions:			
Decrease in receivables – principal arrangements	10	14,137	3,855
Increase in receivables - AFCS	14	(57)	(114)
Increase in payables – principal arrangements	12	117,517	29,394
Increase in payables – AFCS	15	645	437
Increase in pension provision	13.5	11,198,961	9,737,171
Increase in pension provision – enhancements and transfers in	13.5	2,223	1,839
Use of provisions – pension liability	13.6	(4,718,453)	(4,456,106)
Use of provisions – refunds and transfers	13.7	(5,177)	(3,872)
Increase in provisions – compensation Scheme	16	231,358	186,465
Use of provisions – compensation Scheme	16	(89,812)	(87,755)
Net cash outflow from operating activities		**(1,725,643)**	**(1,573,090)**
Cash flows from financing activities			
From the Consolidated Fund (Supply): current year		1,711,000	1,631,400
From the Contingencies Fund		-	120,000
Repayment to the Contingencies Fund		-	(120,000)
Net Financing		**1,711,000**	**1,631,400**
Net Increase / (Decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		**(14,643)**	**58,310**
Receipts due to the Consolidated Fund which are outside the scope of the Scheme's activities		-	-
Payments of amounts due to the Consolidated Fund		-	-
Net (Decrease) / Increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund	11	**(14,643)**	**58,310**
Cash and cash equivalents at the beginning of the period	11	**70,751**	**12,441**
Cash and cash equivalents at the end of the period	11	**56,108**	**70,751**

The Notes on pages 37 to 49 form part of these accounts.

Notes to the Accounts

1. Basis of Preparation of the Scheme Financial Statements

The financial statements of the combined Scheme have been prepared in accordance with the relevant provisions of the 2018-19 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector. IAS 19 Employee Benefits and IAS 26 Accounting and Reporting by Retirement Benefit Plans are of particular relevance to these statements.

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

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

Contributions to the Scheme by employers are set at rates determined by the Scheme's Actuary and approved by HM Treasury. The contributions partially fund payments made by the Scheme, the balance of funding being approved by Parliament through the annual Supply Estimates process.

The administrative expenses associated with the operation of the Scheme are borne by MOD and are reported in the Department's Statement of Comprehensive Net Expenditure (SoCNE).

The financial statements of the Scheme show the financial position of the AFPS at the year end and the income and expenditure during the year. The Statement of Financial Position shows the unfunded net liabilities of the Scheme; the Statement of Comprehensive Net Expenditure shows, amongst other things, factors contributing to the change in the net liability analysed between the pension cost, enhancements and transfers in, and the Interest on the Scheme liability. Further information about the actuarial position of the Scheme is dealt with in the Report of the Actuary, and the Scheme financial statements should be read in conjunction with that Report.

The Armed Forces Compensation Scheme (AFCS) provides payments to Scheme members in compensation for deaths and injuries, occurring on or after 6 April 2005 and which are considered to be attributable to service in the Armed Forces.

The AFCS is accounted for in the same way as the AFPS. Contributions are received by employers at rates set by the Scheme's Actuary, with the remaining balance of funding being approved by Parliament through the annual Supply Estimates process. Administration costs for the AFCS are also borne by MoD and are reported in the Department's Statement of Comprehensive Net Expenditure (SoCNE).

2. Statement of accounting policies

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

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

2.1 Critical Accounting Judgements and key sources of estimation uncertainty

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

McCloud/Sargeant:
The calculation of adjustment to past service costs, £1.9 billion, arising from the outcome of the Court of Appeal judgment is based on a number of key assumptions including:

- the form of remedy adopted
- how the remedy will be implemented
- which members will be affected by the remedy
- the earnings assumptions and
- the withdrawal assumption.

Further information can be seen in note 13.4.

2.2 Changes in Accounting Standards

Accounting standards issued in year:

- IFRS 9 Financial Instruments – the effect of applying the new IFRS on the financial statements of the AFPS is not expected to be material.
- IFRS 15 Revenue from Contract with Customers – there are no material balances within the AFPS financial statements affected by the changes to IFRS 15.

Accounting standards issued in year but not yet adopted by the Government Financial Reporting Manual (FReM) at the reporting date:

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

2.3 Contributions receivable

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

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

2.4 Transfers in

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

2.5 Other income

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

2.6 Current service cost

The current service cost is the increase in the present value of the Scheme liabilities arising from current members' service in the current period and is recognised in the Statement of Comprehensive Net Expenditure. The cost is based on a discount rate of 2.55% pa (i.e. 0.10% in excess of CPI inflation), this was 2.8% pa (0.24% in excess of CPI inflation) in 2017-18.

2.7 Past service costs

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

A one off adjustment for past service cost of £1.9 billion has been recognised in 2018-19 in relation to a legal case in respect of transitional protection.

2.8 Pension financing cost

The financing cost is the increase during the period in the present value of the Scheme liabilities because the benefits are one period closer to settlement and is recognised in the Statement of Comprehensive Net Expenditure. The financing cost is based on the discount rate of 2.55% real (i.e. 0.10% including inflation), this was 2.8% (0.24% including inflation) in 2017-18.

2.9 Other expenditure

Other payments are accounted for on an accruals basis.

2.10 Scheme liability

Provision is made for liabilities to pay pensions and other benefits in the future. The Scheme liability is measured on an actuarial basis using the projected unit credit method and as at 31 March 2018 was discounted at 2.55% pa (i.e. 0.10% in excess of CPI inflation). The discount rate as at 31 March 2019 was 2.90% pa (i.e. 0.29% in excess of CPI inflation) and the Scheme liability was discounted at this rate. Further details of the financial assumptions used are set out at note 13 to these accounts and in the Report of the Actuary on pages 14 to 17.

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

2.11 Pension benefits payable

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

2.12 Unclaimed pension benefits

Unclaimed pension benefits are accounted for as a decrease in the Scheme liability on an accruals basis for up to seven years past pension entitlement age.

2.13 Pension payments to those retiring at their normal retirement age

The allocation of benefits between lump sum and pension is set out in the Scheme regulations. The transaction is accounted for as a decrease in the Scheme liability on an accruals basis.

2.14 Pension payments to and on account of leavers before 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 as long as the receiving scheme is not a funded defined contribution scheme. Transfers out of the Scheme are accounted for on a cash basis as a reduction in Scheme liability.

2.15 Lump sums payable on death in service

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

2.16 Actuarial gains and losses

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

2.17 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.

2.18 Cash and cash equivalents

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

3. Contributions receivable

	2018-19	2017-18
	£000	£000
Employer	2,953,334	2,939,210
Employees:		
Purchase of added pension and years	1,711	1,346
	2,955,045	**2,940,556**

£3.644Bn contributions are expected to be payable to the Scheme in 2019-20.
During the year ended 31 March 2019, employer contributions represented an average of 52.4% of pensionable pay (2017-18: 52.4%).

4. Transfers-in (see also Note 8)

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

	2018-19	2017-18
	£000	£000
Individual transfers in from other Schemes	512	493
	512	**493**

5. Other Income

	2018-19	2017-18
	£000	£000
Other Income	-	22
	-	**22**

6. Service Cost

	2018-19	2017-18
	£000	£000
Current service cost (see Note 13.5)	4,316,583	4,238,468
Past service cost (see Note 13.5)	1,900,000	130,000
	6,216,583	**4,368,468**

Change in provision of £1.9 billion - see note 13.4.

7. Enhancements (see also Note 13.5)

	2018-19	2017-18
	£000	£000
Purchase of added pension and years	1,711	1,346
	1,711	**1,346**

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.

	2018-19	2017-18
	£000	£000
Individual transfers in from other schemes	512	493
	512	**493**

9. Pension financing cost (see also Note 13.5)

	2018-19	2017-18
	£000	£000
Net interest on defined benefit liability	4,982,378	5,368,703
	4,982,378	**5,368,703**

Statement of Financial Position – Armed Forces Pension Scheme

10. Receivables

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.

	2019	2018
	£000	£000
Amounts falling due within one year:		
Overpaid pensions	5,861	5,798
Bereavement Scholarship Scheme	303	283
Ministry of Defence – SCAPE & AVC receipts and Transfers In	244,486	241,541
Prepayments	-	17,424
	250,650	**265,046**
Amounts falling due after more than one year:		
Overpaid pensions	2,411	2,152
	253,061	**267,198**

11. Cash and cash equivalents

	2019	2018
	£000	£000
Balance at 1 April	70,751	12,441
Net change in cash balances	(14,643)	58,310
Balance at 31 March	**56,108**	**70,751**
The following balances at 31 March were held at:		
Government Banking Services	56,108	70,751
Balance at 31 March	**56,108**	**70,751**

12. Payables

	2019	2018
	£000	£000
Amounts falling due within one year:		
Pensions	584,246	464,051
HM Revenue & Customs	61,807	64,591
Third party organisations	925	872
Ministry of Defence	39,366	39,313
	686,344	568,827
Amounts issued from the Consolidated Fund for supply but not spent at year end	56,108	70,751
	742,452	**639,578**

13. Pension Liabilities

13.1 Assumptions underpinning the pension liability

The Armed Forces Pension Scheme is an unfunded defined benefit scheme. The Government Actuary's Department carried out an assessment of the Scheme liabilities as at 31 March 2019. The Report of the Actuary on pages 14 to 17 sets out the scope, methodology and results of the work the Actuary has carried out.

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

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

The key assumptions used by the Actuary were:

	At 31 March 2019	At 31 March 2018	At 31 March 2017	At 31 March 2016	At 31 March 2015
Long term rate of increase in salaries	4.10%	3.95%	4.55%	4.2%	4.2%
Inflation assumption	2.6%	2.45%	2.55%	2.2%	2.2%
Discount rate net of pension increases	0.29%	0.1%	0.24%	1.37%	1.3%
Mortality rate at age 60	Years	Years	Years	Years	Years
- Current Pensioners					
• Officers Men	26.8	26.7	29.5	29.4	29.6
• Officers Women	28.4	28.3	31.6	31.5	32.1
• Other Ranks Men	26.8	26.7	26.9	26.8	26.9
• Other Ranks Women	28.4	28.3	29.0	28.9	29.4
- Future Pensioners (from active status) *					
• Officers Men	28.9	28.8	31.7	31.0	31.9
• Officers Women	30.4	30.3	33.8	33.1	34.4
• Other Ranks Men	28.9	28.8	31.7	28.4	29.1
• Other Ranks Women	30.4	30.3	33.8	30.4	31.6
Mortality rate at age 65					
- Current Pensioners					
• Officers Men	22.0	21.9	24.5	24.4	N/A
• Officers Women	23.6	23.5	26.6	26.5	N/A
• Other Ranks Men	22.0	21.9	22.1	22.0	N/A
• Other Ranks Women	23.6	23.5	24.1	24.0	N/A
- Future Pensioners (from active status) *					
• Officers Men	24.0	23.9	26.6	26.5	N/A
• Officers Women	25.4	25.4	28.7	28.6	N/A
• Other Ranks Men	24.0	23.9	24.1	24.0	N/A
• Other Ranks Women	25.4	25.4	26.1	26.0	N/A

* Life expectancies for active members have been calculated from a normal retirement age of 60 and 65 based on members aged 40 and 45 respectively as at 31 March 2019, who will reach age 60 and 65 respectively in 20 years' time. Age 65 was introduced from March 2016.

These key assumptions are inherently uncertain, since it is impossible to predict with any accuracy future changes in the rate of salary increases, inflation, longevity or the return on corporate bonds. The Actuary uses professional expertise in arriving at a view of the most appropriate rates to use in the annual valuation of the Scheme liabilities. However, the Scheme managers acknowledge that the valuation reported in these 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 price inflation leads to a significant increase in the reported liability.

The assumptions reflect the outcomes in the case of the McCloud/Sargeant ruling. These assumptions are further expanded in note 13.4.

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

13.2 Analysis of the pension liability

	At 31 March 2019 £Bn	At 31 March 2018 £Bn	At 31 March 2017 £Bn	At 31 March 2016 £Bn	At 31 March 2015 £Bn
Pensions in Payment	103.1	102.7	103.7	73.8	92.3
Deferred Pensions	31.3	33.8	32.3	23.8	25.0
Active Members (Past Service)	60.9	59.0	55.8	47.6	37.1
Total	**195.3**	**195.5**	**191.8**	**145.2**	**154.4**

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

The value of the liability on the 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.

13.3 Sensitivity Analysis

A sensitivity analysis for each significant actuarial assumption as at the end of the reporting period is detailed below. The most significant assumptions are the discount rate, general earnings increases and pension increases (currently based on CPI). A key demographic assumption is pensioner mortality.

The table below shows the indicative effects on the total liability as at 31 March 2019 of changes to these assumptions (rounded to the nearest ½%).

Change in assumption		**Approximate effect on total liability**	
Financial assumptions			
(i) discount rate*	+½% a year	- 11.5%	- £22.5 billion
(ii) long term earnings increases*	+½% a year	+ 1.0%	+ £2.0 billion
(iii) pension increases*	+½% a year	+ 10.0%	+ £19.5 billion
Demographic assumptions			
(iv) additional 1 year increase in life expectancy at retirement		+ 3.0%	+ £5.9 billion

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

13.4 Sensitivity Analysis – McCloud and Sargeant legal case

These accounts show a past service cost of £1.9 billion in respect of the McCloud / Sargeant judgment, as outlined in note 2.1. This is just under 1% of the total scheme liability as at 31 March 2019.

The calculation of adjustment to past service costs, £1.9 billion, arising from the outcome of the Court of Appeal judgment is based on a number of key assumptions including:

- the form of remedy adopted
- how the remedy will be implemented
- which members will be affected by the remedy
- the earnings assumptions and
- the withdrawal assumption.

The other financial and demographic assumptions adopted to calculate the past service cost are the same as those used to calculate the overall scheme liability. Adopting different assumptions, or making other adjustments to reflect behavioural changes stemming from the judgment, would be expected to change the disclosed past service cost. Similarly, allowing for variations in individual members' future service or salary progression is expected to produce higher costs. The past service cost is particularly sensitive to the difference between assumed long term general pay growth and the CPI. If the long term salary growth assumptions were 0.5% pa lower, then the past service cost disclosed here would be expected to reduce by 10% (around -£0.2 billion) and conversely a 0.5% p.a. increase would increase the estimated cost by 10% (around £0.2 billion).

13.5 Analysis of movements in the Scheme liability

	2018-19	2017-18
	£000	£000
Scheme liability as at 1 April	**(195,500,000)**	**(191,800,000)**
Current service cost (Note 6)	(4,316,583)	(4,238,468)
Past service cost (Note 6)	(1,900,000)	(130,000)
Pension financing cost (Note 9)	(4,982,378)	(5,368,703)
Enhancements (Note 7)	(1,711)	(1,346)
Pension transfers in (Note 8)	(512)	(493)
	(206,701,184)	(9,739,010)
Benefits payable (Note 13.6)	4,718,453	4,456,106
Pension payments to and on account of leavers (Note 13.7)	5,177	3,872
	4,723,630	4,459,978
Actuarial gain (Note 13.8)	6,677,554	1,579,032
Scheme liability at 31 March	**(195,300,000)**	**(195,500,000)**

13.6 Analysis of benefits paid

	2018-19	2017-18
	£000	£000
Pensions to retired employees and dependants (net of recoveries or overpayments)	4,269,350	4,060,398
Commutations and lump sum benefits on retirement	449,103	395,708
Total benefits paid	**4,718,453**	**4,456,106**

13.7 Analysis of payments to and on account of leavers

	2018-19	2017-18
	£000	£000
Individual transfers to other Schemes	5,177	3,872
Total payments to and on account of leavers	**5,177**	**3,872**

13.8 Analysis of actuarial gain

	2018-19	2017-18
	£000	£000
Experience loss arising on Scheme liabilities	(2,222,446)	(620,968)
Changes in assumptions underlying the present value of Scheme liabilities	8,900,000	2,200,000
Total actuarial gain	**6,677,554**	**1,579,032**

13.9 History of experience (gains) / losses

	2018-19	2017-18	2016-17	2015-16	2014-15
Experience losses / (gains) on Scheme liabilities: (£000)	2,222,446	620,698	532,900	(3,591,808)	4,195,339
Percentage of the present value of the Scheme liabilities	1.14%	0.32%	0.28%	(2.47%)	2.72%
(Gains) / Losses arising due to changes in actuarial assumptions: (£000)	(8,900,000)	(2,200,000)	42,300,000	(10,000,000)	16,800,000
Percentage of the present value of the Scheme liabilities	(4.56%)	(1.13%)	22.05%	(6.89%)	10.88%
Total amount recognised in Combined Statement of Comprehensive Net Expenditure: (£000)	(6,677,554)	(1,579,032)	42,832,900	(13,591,808)	20,995,339
Percentage of the present value of the Scheme liabilities	(3.42%)	(0.81%)	22.33%	(9.36%)	13.60%
Total cumulative actuarial loss / (gain): (£000)	94,909,761	101,587,315	103,166,347	60,333,447	73,925,255

Statement of Financial Position – Armed Forces Compensation Scheme

14. Receivables

	2019	2018
	£000	£000
Amounts falling due within one year:		
Overpaid compensation	1,074	1,017
	1,074	**1,017**

15. Payables

	2019	2018
	£000	£000
Amounts falling due within one year:		
Compensation	3,459	2,814
	3,459	**2,814**

16. Provision for liabilities and charges

Armed Forces Compensation Scheme

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

The Scheme is required to provide for the injuries to military personnel that have occurred whilst in service. The provision reflects claims that have been made based on injuries that have occurred, including those injuries occurred but not yet claimed. Military personnel have up to 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 2019	31 March 2018
Gross discount rate	2.90%	2.55%
CPI inflation	2.60%	2.45%
GIP increases	2.60%	2.45%
Discount rate net of CPI	0.29%	0.10%
Discount rate net of GIP increases	0.29%	0.10%

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 2019. 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.

	2018-19	2017-18
AFCS Provision	£000	£000
Balance at 1 April	**(2,184,839)**	**(1,982,016)**
Use of provision in year	89,812	87,755
Interest on Scheme Liabilities	(57,111)	(55,387)
Current Service cost - AFCS	(174,247)	(131,078)
Actuarial gain / (loss)	69,385	(104,113)
Balance at 31 March	**(2,257,000)**	**(2,184,839)**
Breakdown of Balance at 31 March:		
Incidents incurred but not yet claimed – Lump Sums and Guaranteed Income Payments	(157,000)	(142,239)
Guaranteed Income Payments – “In Payment”	(1,885,000)	(1,815,100)
Guaranteed Income Payments – “Underlying Entitlement”	(215,000)	(227,500)
	(2,257,000)	**(2,184,839)**

17. Financial Instruments

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

18. Contingent Liabilities disclosed under IAS 37

A partner of a Military Officer who died in 2011 is seeking to claim under the AFCS. The partner was deemed ineligible for AFCS death benefits, as she was not in an exclusive relationship with the Officer, having not divorced her previous spouse at the time of the Officer’s death. AFCS Article 30(c) states that one of the criteria for determining a “surviving adult dependent” is that the couple “were not prevented from marrying or forming a civil partnership”. As a result, The Secretary of State (SoS) for Defence refused the claim. On the 17 July 2019 the Court of Appeal found in favour of the partner, holding that the rule is discriminatory, and that the foundation for the discrimination is not reasonable in this case. Accordingly, the discrimination is unlawful and cannot be justified or proportionate in the partners case. The Department is currently considering the merits of an appeal to the Supreme Court, and the read over of the judgment. The SoS provided details of a broad estimate, produced by GAD, of £110 million for the capitalised cost of removing the rule across the AFCS and the AFPS.

19. Related-party transactions

The Schemes fall within the ambit of the MOD which is regarded as a related party, and the Schemes have had various material transactions with the Department during the year.

During 2018-19, the Schemes received employer contributions (SCAPE) and employees’ contributions from MOD in respect of active members of the AFPS. These contributions totalled £2.953Bn, £2.939Bn in 2017-18 (see note 3).

AFPS also made repayment to MOD in regards to benefits that had been paid by MOD on behalf of the AFPS. For transactions relating to 2018-19 these totalled £420.6M, £420.1M in 2017-18.

None of the managers of the Schemes, key managerial staff or other related parties has undertaken any material transactions with the Schemes during the year. Certain key managerial staff and members of the DBS Executive Leadership Team are members of the Scheme. The benefits they are entitled to are not different to other members of the Scheme.

20. Events after the Reporting Period

There have been no events between the Statement of Financial Position date and the date the accounts were authorised for issue requiring an adjustment to the accounts.

In June 2019 the Supreme Court refused the Government permission to appeal the Court of Appeal's December 2018 judgment in the McCloud and Sargeant.

In July 2019 the Court of Appeal found in favour of the claimant in the Langford case. Further details are provided in Note 18.

21. Date of authorisation for issue

The financial statements have been authorised for issue by the Accounting Officer on the same date as the C&AG's certificate.

CCS0519274120
978-1-5286-1317-0