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of Defence

Armed Forces Pension Scheme Annual Report and Accounts 2020-21



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Armed Forces Pension Scheme

(Incorporating the Armed Forces Compensation Scheme)

Annual Report and Accounts 2020-21

For the year ended 31 March 2021

Accounts presented to the House of Commons pursuant to Section 6(4) of the Government Resources and Accounts Act 2000

Annual Report presented to the House of Commons by Command of Her Majesty

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Accountability Report

Accountability Report

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.

Background to the Schemes

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 page 13). 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.

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. Those members who transferred to the AFPS 15 had their AFPS 05 accrued pensions protected.

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.

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 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. Those members who transferred to the AFPS 15 had their AFPS 75 accrued pensions protected.

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.

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. Those members who transferred to the AFPS 15 had their FTRSPS 97 and RFPS 05 accrued pensions protected.

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. Those members who transferred to the AFPS 15 had their NRPSPS accrued pensions protected.

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.

Smaller Pension Schemes

In addition to the above Schemes, the AFPS also manages several smaller Pension Schemes covering locally employed military personnel in places such as Malta, Gibraltar, Singapore, Hong Kong, Seychelles, Sri Lanka, and India/Pakistan. With the exception of Gibraltar, these schemes are now closed to new members.

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>

Corporate Governance

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 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 Management Board, previously known as the Executive Leadership Team, meets regularly and supports the DBS CEO in managing DBS within agreed financial limits, with primary authority for day-to-day management of DBS. Details of the DBS Management Board appointments can be found in the Governance Statement starting on page 25.

Audit

The Comptroller and Auditor General is appointed by statute to audit these accounts and his certificate and report appears on page 40. The fee for the year is £160,000 (2019-20: £170,500) 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.

Corporate Governance of the Schemes

The governance arrangements of DBS, who are responsible for the administration of the Schemes, can be found in the Governance Statement starting on page 25.

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. Further details, including adjustments made in relation to latest known remedy proposals, can be found on page 13. On 4 February 2021, the government announced that the cost cap mechanism calculations will be completed allowing for the transitional protection remedy costs. The results are expected to be available late summer 2021.

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 employer contribution rate is 65.5% of pensionable pay from April 2019 (this is inclusive of 2% in relation to the Armed Forces Compensation Scheme).

The next actuarial valuation is due as at 31 March 2020 and is now in progress. Changes to employer contribution rates as a result of the 2020 valuation are expected to take effect from April 2024.

Key Developments In Year

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 rates paid from 1 April 2019 to 31 March 2023 are 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; an increase from the previous year rates of 52.4% and 49.6% respectively). Additional employer contributions are also payable in respect of the AFCS. The rates applicable from 1 April 2020 are 2.0% of Pensionable Pay (a single rate applicable for both Officers and Other Ranks).

Changes in Benefits

There have been no changes to benefits during 2020-21.

COVID-19

COVID-19 had no material impact on the Scheme's financial reporting for 2020-21. See page 14 for more details on the continuity of pension administration during COVID-19 and the Report of the Actuary starting on page 18 for details on the assessed impact on actuarial assumptions.

Membership Statistics

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 2021, equating to 92 active members, 101 deferred members and 1,578 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 2020	298,760
	Adjustments (see Membership Statistics note 1)	(1,604)
	Total active members' benefits at 1 April 2020	297,156
Add:	New entrants in the year	16,317
	Transfers in	7
	Total joiners	16,324
Less:	Death in service benefits	(136)
	Left active service with under two years' service and no benefits	(2,119)
	Left active service with deferred benefits	(12,132)
	Left active service and received benefits	(3,412)
	Total leavers/death in service	(17,799)
	Total active members' benefits at 31 March 2021	295,681
	Active Full Time members at 31 March 2021	166,158
	Active Voluntary Reservist members at 31 March 2021	35,431

Deferred and unclaimed benefits

	Deferred and unclaimed benefits brought forward from 31 March 2020	519,763
	Adjustments (see Membership Statistics note 1)	(3,344)
	Total deferred and unclaimed benefits at 1 April 2020	516,419
Being:	Deferred benefits	499,033
	Benefits due but unclaimed	17,386
	Total deferred and unclaimed benefits at 1 April 2020	516,419
Add:	Benefits not immediately payable	12,829
	New benefit on divorce	138
	Total new deferred and unclaimed benefits	12,967
Less:	Benefits transferred out	(204)
	Benefits taken up	(9,542)
	Benefits elapsed	(919)
	Death in deferment benefits	(468)
	Re-joiners	(964)
	Total removed from deferred population	(12,097)
Being:	Deferred benefits	498,178
	Benefits due but unclaimed	19,111
	Total deferred and unclaimed benefits at 31 March 2021	517,289
	Deferred and unclaimed members at 31 March 2021	413,555
	Deferred and unclaimed Voluntary Reservist members at 31 March 2021	14,406

Benefits in payment

Benefits brought forward from 31 March 2020		
	- Members	367,756
	- Dependants	75,198
	Total	442,954
Adjustments (see Membership Statistics note 1)		
	- Members	(120)
	- Dependants	(3)
	Total benefits at 1 April 2020	(123)
Being:	Members	367,636
	Dependants	75,195
		442,831
Add:	Benefits that became payable in the year	
	- Members	12,600
	- Dependants	4,244
	Total benefits into payment	16,844
Less:	Benefits that have ceased in the year	
	- Members	(8,177)
	- Dependants	(3,645)
	Total benefits ceased in the year	(11,822)
Total benefits in payment at 31 March 2021		
	Members	372,059
	Dependants	75,794
	Total	447,853

Membership Statistics Notes

1. The brought forward balances from 31 March 2020 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.

Performance and Position

Restatement of pension liability as at 31 March 2020

The pension liability of the AFPS as at 31 March 2020 has been restated. Further details of the prior period adjustment and restated balances are set out in note 17 to the financial statements.

Financial Position as at 31 March 2021

As at 31 March 2021 the pension liability of the AFPS was valued at £254.0 billion (restated £229.9 billion as at 31 March 2020). The total change in liability represents a net increase of £24.1 billion, which includes an actuarial loss of £18.7 billion. The £18.7 billion consists of:

- £22.8 billion loss due to changes in actuarial assumptions; and
- £4.1 billion gain due to experience items arising on pension liabilities.

As at 31 March 2021 the compensation liability of the AFCS was valued at £3.294 billion (£2.866 billion as at 31 March 2020). The total change in liability represents a net increase of £0.428 billion, which includes an actuarial loss of £0.279 billion due to changes in actuarial assumptions.

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 13.4 and note 16 to the financial statements respectively.

Results for the Year

The 2020-21 net resource outturn was £6.497 billion which was within the voted estimate of £6.782 billion. Details can be found in the Statement of Outturn against Parliamentary Supply (SOPS) on page 35. An explanation of the variance is provided in the SOPS1 note on page 37.

In cash terms, the Scheme recorded a Net Cash Requirement (NCR) of £0.991 billion against the voted estimate of £1.371 billion, resulting in surplus cash of £0.380 billion which will be returned to the HM Treasury Consolidated Fund during 2021-22.

Issues Arising and Key Activities During 2020-21

Future Service Delivery Contract - Shared Services Connected Ltd (SSCL)

In November 2019 MOD exercised an option within the extant Contract to extend the engagement with DXC Technology an additional year to November 2020. In parallel, the Future Services Delivery Contract (FSDC) was tendered as the replacement for the DXC Technology contract. In December 2019 Shared Services Connected Ltd (SSCL) were awarded the follow-on contract to provide the services currently delivered by DXC

Technology, assuming responsibility for the administration of the Schemes from 1 June 2020 (with existing DXC Technology staff transferring to SSCL on this date).

After the primary focus of ensuring a smooth transition of existing members services, attention will be turned to a challenging three-year transformation programme. The change portfolio will focus on administration improvements aimed at enhancing the member's experience, ultimately realising self-service capabilities. Between now and 2023 the programme will focus on the migration of all pensions records from DXC legacy systems on to a single IT platform, necessitating full cleansing of data to prepare for the future self-service aspiration.

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 2020-21 the service provided the Scheme with 7,728 death notifications.

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.

Since 2002 the exercises have identified 1,792 cases with a total overpayment value of £6.7 million. A total amount of £1.5 million remains outstanding at 31 March 2021, of which £676,000 is currently with MOD Police for further investigation. The most recent NFI exercise (NFI 2018) resulted in 155 cases at a value of £595,000.

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 project concluded the vast majority of the intended work ahead of the data cut for the 2020 actuarial valuation and have since placed on contract with the Commercial partner, Shared Services Connected Ltd (SSCL), further correction tasks deemed not to be material to the valuation work. The Government Actuary's Department (GAD) have reported back significant reductions in questionable data fields identified between the two valuations. Active cohort issues have reduced by 97%, Deferred by 98% and Pensioner records by 80%. This is after the investigation of some 120,000 records identified as requiring analysis.

Quality Assurance

The Scheme Authority Audit & Assurance Team undertakes a rolling programme of assurance within the business. Its primary function is to provide an additional level of assurance, meaning there are now three levels of assurance checks:

- The Commercial partner, SSCL, Quality & Assurance team carry out 100% checks on all awards into payment. SSCL will also carry out an end to end review of an individual area of the business on a quarterly basis and provide AFPS Authority with a finding report detailing issues identified, action taken, and improvement measures required;
- The Contract Performance Monitoring Team check accuracy on 75-100 cases per month and can impose penalties on SSCL for errors;
- The Authority's Audit & Assurance Team check numerous cases per month which include awards processed by SSCL and the MOD Authority team, as detailed below.

The team ensure adherence to Scheme rules and guidance as well as quality checking the accuracy of pension calculations. During 2020-21 the team carried out 1,332 quality and assurance checks, including checks on the Commercial partner SSCL and the MOD Authority Team. The checks contained 1,176 rolling programmed checks, 50 Paymaster checks and 106 targeted checks on potential areas of risk/concerns identified. The value of the additional assurance checking continues to provide a platform that allows the Scheme Authority team to challenge the Commercial partners where issues are identified, and to inform process improvements and improve the customer experience.

Gone Away and Unclaimed Pensions

Having reported on the success of the Gone Away and Unclaimed Pensions exercises in the 2019-20 AFPS Annual Report and Accounts, Veterans UK has taken the opportunity as part of the new contract with SSCL, to place these processes in the business as usual domain. There is now a requirement on SSCL to take appropriate ongoing action in relation to 'gone away' correspondence received and unclaimed pensions within given timescales and act accordingly in respect of outcomes and findings. This will ensure that pensions are being paid appropriately and account liabilities are not being carried unnecessarily.

Life Certificate Exercise

A life certificate exercise continued during 2019-20 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 January 2021 all certificates were issued, with 26,400 returned, a response rate of 99%.

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.

The Government published a response to the consultation on the indexation and equalisation of GMP in public service pension schemes in January 2018 which meant that the “interim solution” to GMP indexation was extended until 6 April 2021. A past service cost for the interim solution was included in the 2017-18 accounts.

In October 2018, the High Court published its judgment in the Lloyds Banking Group case on the equalisation of GMP and found that pensions must be equalised for the effects of unequal GMP. As the Government has committed to addressing GMP equalisation, either through provision of full indexation of pensions or conversion of GMPs, an additional liability needed to be reflected in the Scheme financial statements.

The aggregate costs of each of the above options are broadly the same, although the impact at member level will not necessarily be so. The assessment provided by GAD of the impact on the Scheme liability in respect of the additional liabilities for members reaching State Pension age from 6 April 2021 was £1.0 billion, and was included as a past service cost in the 2019-20 accounts.

In March 2021 the Government announced full indexation as the permanent solution for public service pension schemes. This decision means that all public service pension schemes will be directed to provide full indexation to those public servants with a GMP reaching State Pension age beyond 6 April 2021.

2015 Scheme Pension Remedy

In February 2021 the Government announced in response to the consultation arising from the McCloud and Sargeant legal cases that it would introduce a Deferred Choice Underpin. This is to remove the unlawful age related discrimination brought about by offering older members of the workforce transitional protection from transferring to reformed pension schemes. The Deferred Choice Underpin gives all pension scheme members affected by the discrimination (those who were serving both on 31 March 2012 and on 1 April 2015, including those with a break in service of less than 5 years) a choice of legacy scheme or reformed scheme benefits for the period the discrimination occurred (1 April 2015 – 31 March 2022).

The choice will be offered when pension benefits, including Early Departure Payments, come into payment. From 1 April 2022 all those who continue in service will do so as members of AFPS 2015, regardless of age, meaning all members will be treated equally to ensure no further discrimination in the future.

Following the Government announcement, AFPS have set up a Remedy Project to address the discrimination suffered by a number of its members. AFPS are in the initial scoping stages of the Project which includes:

- Collaborative working with HMT and other public sector schemes to identify requirements and delivery timescales;

- Development of communications that comply with cross-government Remedy engagement activities;
- Identifying how AFPS can support affected members to make a choice as to which benefits they wish to receive for the remedy period;
- Development of Remedy functionality on to the current AFPS calculator so members can compare benefits from legacy and reformed schemes to assist with Remedy choice.

The transition of all serving members to the reformed scheme in 2022 will require primary legislation to be passed. The Public Service Pensions and Judicial Offices Bill is due to be introduced in the second session prior to summer recess with the aim of achieving Royal Assent by early 2022. The target of early 2022 is crucial to closing the remedy window by 1 April 2022 and allowing sufficient time for scheme regulations to be approved on the prospective elements of the reforms.

As highlighted in the 2019-20 accounts, pension schemes will bear the cost of remedy. Past service costs totalling a net of £980 million were recognised in prior years accounts.

COVID-19 - Continuity of Pension Scheme Administration

The enforced closure of the AFPS administration office in Glasgow as a result of COVID-19, resulted in a small contingent of DXC Technology (now SSCL) personnel being very quickly reinstated as an emergency force to maintain pension payments and urgent pension awards. As safer working methods were agreed and deployed, those numbers grew steadily back to full strength by the first week of August 2020.

During this time of reduced manpower, prioritisation of pension payments to current members, new retirements and bereavements were made the main focus. Other urgent requests made by individual members were also dealt with and over time, as resource increased, other aspects of routine administration were brought back online. A service has been maintained throughout the COVID-19 disruption, albeit at times outside the contractually agreed timescales.

Most pension operation processes require access to the physical site in Glasgow but where possible, laptops were sourced and a small contingent of staff successfully worked from home. With reduced numbers now deployed on site adhering to two metre isolation rules, a mixed pattern of office and homeworking has been maintained.

The transition from DXC Technology to SSCL as the primary contractor on 1 June 2020 during the middle of the COVID-19 disruption saw some material impact on the pension operation services as a result of the prioritisation outlined above. This work position was, however, managed through commercially agreed waivers and returned to normal throughput times in short time, ensuring all priority customer requests were actioned without delay. The contracting of new change items and the onset of the transformation programme were impacted and rescheduled following full personnel return.

COVID-19 had no material impact on the Scheme's financial reporting for 2020-21.

Key Activities Arising for 2021-22

Pension Sharing Order

An exercise will commence in 2021-22 to review and correct approximately 8,500 historic Pension Sharing Order (PSO) cases. Veterans UK are guided by policy and use age related factors provided by the Government Actuary's Department to apportion the AFPS benefits of a scheme member under a PSO following a divorce or dissolution of a civil partnership. Historic guidance provided by the Department for Work and Pensions on dates to be used to value the share of benefits when PSO's were sealed by the Court was misinterpreted. As a result, members and their former spouses who have a PSO in place since the year 2004 may have been paid at an incorrect rate and will therefore be reviewed and recalculated accordingly.

Those members and their former spouses affected by a material reduction in their pension will not be required to repay any overpayment incurred. HM Treasury have approved the write-off of overpayments resulting from any misinterpretation errors. The total write-off is estimated in the region of £1.3 million to £1.7 million and is expected to be recognised in the 2021-22 accounts.

Information for Members

Pension Increase Rate

The Pensions increase rate for 2020-21 was 1.7% (2.4% in 2019-20) with effect from 6 April 2020 (8 April 2019). The Pension increase rate for 2021-22 is 0.5%, effective from 12 April 2021.

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.

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.

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.

Managers, Advisers and Employers

Managers

Accounting Officer:

David Williams
 Permanent Secretary of State for Defence
 Ministry of Defence
 Whitehall
 London SW1A 2HB

Director General Finance:

Charlie Pate
 Ministry of Defence
 Whitehall
 London
 SW1A 2HB

AFPS & AFCS Administrator:

Richard Cornish
 Chief Executive Officer
 Defence Business Services
 Ministry of Defence
 Abbey Wood North
 Bristol BS34 8JH

Pension Policy:

Air Commodore Adrian Bettridge
 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 Advisors:

Government Legal Department
 1 Kemble Street
 London
 WC2B 4TS

Medical Advisors:

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:

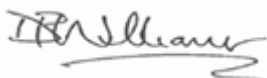
Post: **AFPS**
Veterans UK
Mail Point 480, Kentigern House
65 Brown Street
Glasgow, G2 8EX
Email: DBS-PensionsHelpDesk@dbspv.mod.uk
Phone: 0800 085 3600

AFCS
Veterans UK
Tomlinson House, Norcross
Thornton-Cleveleys
FY5 3WP
Veterans-UK@mod.gov.uk
0808 1914 218

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.



David Williams
Accounting Officer
12 July 2021

Report of the Actuary

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 2021, and the movement in the scheme liability over the year 2020-21, prepared in accordance with the requirements of Chapter 9 of the 2020-21 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 2019 based on the data provided as at 31 March 2019 and rolling forward that liability to 31 March 2021.

Membership data

4. Tables A to C summarise the principal membership data as at 31 March 2019 used to prepare this statement.

Table A – Active members

	Number thousands	Total pensionable pay* (p.a.) £ millions
Males	169	5,105
Females	21	612
Total	190	5,717

* Pensionable pay is the full-time equivalent figure.

Table B – Deferred members

	Number thousands	Total deferred pension* (p.a.) £ millions
Males	374	975
Females	49	160
Total	423	1,135

* Pension amounts include the pension increase granted in April 2019.

Table C – Pensions in payment

	Number thousands	Annual pension* (p.a.) £ millions
Males	331	3,739
Females	15	132
Spouses & dependants	60	369
Total	405	4,240

* Pension amounts include the pension increase granted in April 2019.

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

Methodology

5. The present value of the liabilities as at 31 March 2021 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 2021. The current service cost (expressed as a percentage of pensionable pay) in respect of accruing costs in the year ended 31 March 2021 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 2020 in the 2019-20 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 2021 p.a.	31 March 2020 p.a.
Nominal discount rate	1.25%	1.80%
Rate of increase in pensions in payment and deferred pensions (assuming CPI inflation)	2.22%	2.35%
Rate of general pay increases	3.72%	4.10%
Rate of short-term general pay increase	n/a	n/a
Real discount rate in excess of:		
• CPI inflation	(0.95%)	(0.5%)
• Long-term pay increases	(2.38%)	(2.20%)
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 2021.

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. The assumptions in Table E above are the same as those adopted for the 31 March 2016 funding valuation of the scheme and the accounts as at 31 March 2020.
11. Mortality improvements are assumed to be in line with the latest 2018-based projections for the United Kingdom published by the ONS in October 2019. This is the same assumption as that used for the 2019-20 accounts.
12. The other demographic assumptions, such as for commutation and family statistics, are unchanged from the 2019-20 accounts.

Liabilities

13. Table F summarises the assessed value as at 31 March 2021 of benefits accrued under the scheme prior to this date based on the data, methodology and assumptions described in paragraphs 4 to 12. The corresponding figures for the previous year are shown for comparison, which have been restated from the amount disclosed last year to allow for a correction in respect of pension increases applied to the pensioner liability. Pension increases for 2019 were double counted in our calculations as at 31 March 2020, and removal of this double counting reduces the liability as at 31 March 2020. The liabilities at 31 March 2020 and 2021 both include an allowance for the higher cost of benefits accruing under McCloud.

Table F – Statement of Financial Position

	31 March 2021	31 March 2020*
	£ billion	£ billion
Total market value of assets	nil	nil
Value of liabilities	254.0	229.9
Surplus/(Deficit)	(254.0)	(229.9)
of which recoverable by employers	n/a	n/a

* Restated from the amount disclosed last year to allow for an adjustment to the timing of pension increases applied to the pensioner liability.

Accruing costs

14. The cost of benefits accrued in the year ended 31 March 2021 (the current service cost) is assessed as 100.7% of pensionable pay.
15. For the avoidance of doubt, the actual rate of contributions payable by employers and employees is not the same as the current service cost assessed for the accounts. Members do not contribute to the scheme. The actual employer contribution rate was determined as part of a funding valuation using different assumptions. Table G shows the employer and employee contributions during the year 2020-21 as a percentage of pensionable pay and compares the total contributions with the current service cost assessed for the 2020-21 accounts.

Table G – Contribution rate

	2020-21	2019-20
	% of pay	% of pay
Employer contributions (excluding expenses and AFCS 2.0% allowance)	63.5%	63.5%
Employee contributions	0.0%	0.0%
Total contributions	63.5%	63.5%
Current service cost (expressed as a % of pay)	100.7%	80.9%

16. 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 and the assumption for future improvements in life expectancy has been updated. The discount rate for accounts is set each year by HM Treasury to reflect the requirements of the accounting standard IAS 19.
17. The pensionable payroll for the financial year 2020-21 was £6.0 billion (derived from contributions payable by employers over the year). Based on this information, the accruing cost of pensions in 2020-21 (at 100.7% of pay) is assessed to be £6.0 billion. This includes an allowance for the higher cost of benefits accruing over the year under McCloud.
18. Past service costs arise when an employer undertakes to provide a different level of benefits than previously promised. I am not aware of any other events that have led to a material past service cost over 2020-21.

19. I am not aware of any events that have led to a material settlement or curtailment gain or loss over 2020-21.

Sensitivity analysis

20. The results of any actuarial calculation are inherently uncertain because of the assumptions which must be made. In recognition of this uncertainty I have been asked to indicate the approximate effects on the actuarial liability as at 31 March 2021 of changes to the most significant actuarial assumptions.
21. 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.
22. Table H shows the indicative effects on the total liability as at 31 March 2021 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% p.a.	- 11.0%	- £27.9 billion
(ii) (long-term) earnings increase*:	+0.5% p.a.	+ 1.0%	+ £2.5 billion
(iii) pension increases*:	+0.5% p.a.	+ 11.0%	+ £27.9 billion
Demographic assumptions			
(iv) additional 1 year increase in life expectancy at retirement		+ 4.0%	+ £10.2 billion

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

Covid-19 implications

23. As with the accounts last year, the 2020-21 Resource Accounts are being produced when the UK continues to deal with the Covid-19 pandemic. I have considered the potential implications of how this pandemic could impact on the actuarial calculations required for the Resource Accounts.
24. The assumptions for the discount rate and pension increases are specified by HM Treasury in the PES (2020) 12 Revised, dated 18 December 2020, and remain unchanged for these accounts. The PES assumptions reflect market conditions at the previous 30 November and are typically not amended for any changes between November and the accounting date.
25. The long-term salary assumption is set by MOD, having taken actuarial advice, and is intended to be an average over the future careers of scheme members, with a recognition that increases in any particular year may be lower or higher than the assumption. The assumption allows for a reduction in our view of the long-term salary

increases as well as lower short-term forecasts from the Office for Budget Responsibility.

26. The current population mortality projections make no specific allowance for the impact of Covid-19 or any other pandemics. The starting rates of mortality improvement are based on projections of past trends in UK mortality and the effects of past pandemics will already be reflected in these trends. In general, the effects of pandemics on mortality rates are usually expected to be short term, with rates going back to what they would have been before the pandemic after a year or two, unless the pandemic remains over several years. My view is that it remains too early in the pandemic to determine whether Covid-19 changes the long-term view of life expectancy in the UK. It is therefore not unreasonable to retain the existing mortality assumptions. A death rate from Covid-19 in excess of that already allowed for in the mortality assumptions would emerge as an experience gain over the next year's accounts.

Joanne Rigby FIA
Actuary
Government Actuary's Department
5 July 2021

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 and its net resource outturn, Statement of Financial Position 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 or 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.

Governance Statement

Scope of responsibility

As the Accounting Officer for the Armed Forces Pension Scheme (AFPS) and the Armed Forces Compensation Scheme (AFCS), collectively “the Schemes”, I am required to provide assurances about the stewardship of the Schemes. These assurances are provided in this Governance Statement, in line with HM Treasury guidance. I also 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.

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.

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) Management Board, previously known as the Executive Leadership Team, have operated in accordance with the recognised precepts of good corporate governance: leadership, effectiveness, accountability and sustainability.

I was appointed as Accounting Officer for the Schemes on 6 April 2021, following my predecessor, Sir Stephen Lovegrove KCB, stepping down from the role. In doing so, I have taken assurance from a governance statement declaring he had reviewed the assurance frameworks within his areas of responsibility. He confirmed that he was satisfied with the governance, internal control and risk management of the scheme for the year ended 31 March 2020. These governance arrangements have remained unchanged during 2020-21.

The Purpose of the Governance Framework

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 2021 and up to the date of the approval of the annual accounts.

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

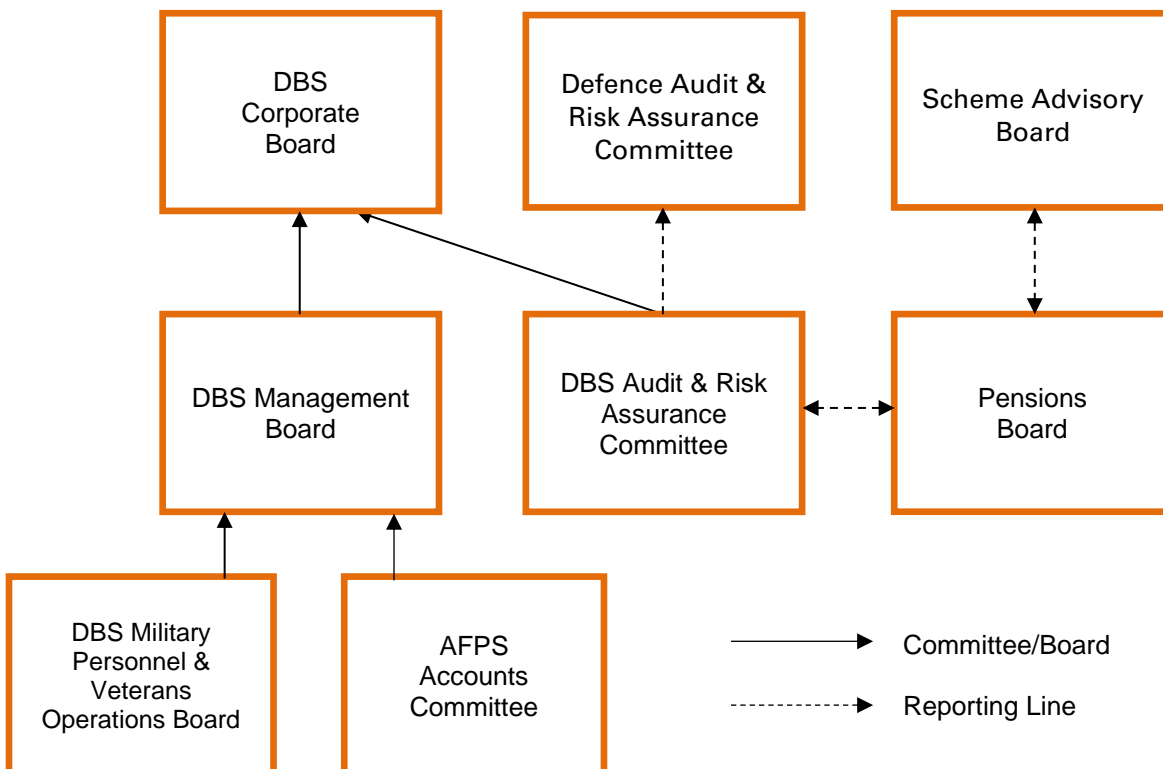
I delegated budget holder and delivery authority responsibility of the Schemes to the Chief Executive Officer (CEO) of the DBS, who sub-delegated the administrative management of the Schemes to DBS Head of Veterans UK. Director General Finance delegated the role of Senior Finance Officer (SFO) for the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

Administration of the Schemes is delivered through a combination of Ministry of Defence (MOD) civilian personnel and contractors, Shared Services Connected Ltd (SSCL), via a commercial partnering agreement which came into effect on 1 June 2020.

In November 2019 MOD exercised an option within the extant Contract to extend the engagement with DXC Technology an additional year to November 2020. In parallel, the Future Services Delivery Contract (FSDC) was tendered as the replacement for the DXC Technology contract. In December 2019 SSCL were awarded the follow-on contract to provide the services currently delivered by DXC Technology, assuming responsibility for the administration of the Schemes from 1 June 2020 (with existing DXC Technology staff transferring to SSCL on this date). For the avoidance of doubt, other than a change in service provider all extant joint processes and governance remained in place with the arrival of SSCL for the foreseeable future.

The arrangement for joint working with SSCL is governed by commercial agreements and is managed by DBS Military Personnel & Veterans Operations Board (MP&V OB).

Boards and Committees



The **DBS Corporate Board** comprises 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. The Corporate Board convened five times between April 2020 and March 2021.

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 * (until 15 October 2020)	3 of 3
Tamsin Woodeson, Deputy Chief Executive Officer & Chief Customer Officer (until 15 October 2020), Acting Chief Executive Officer (from 16 October 2020)	5 of 5
Andrew Stafford, Chief Operating Officer	5 of 5
Clare Finn, Head of Resources. Acting Chief Customer Officer (from 16 October 2020)	4 of 5
MOD Non-Executive Directors: Katherine Carr & Michelle Pester Head of MOD Enabling Organisations Sponsorship - Job Share	5 of 5
Non-Executive Directors: Paul Smith	5 of 5
Vivienne Bracken	5 of 5

* Richard Cornish was appointed DBS Chief Executive Officer from 19 April 2021

The DBS Corporate Board is required to consider its own effectiveness on an annual basis, and the Board Chair presented the results of the latest board effectiveness review at the November 2020 meeting. The report included ten recommendations including a detailed review of the role of the two committees on security, audit and risk assurance. Implementation of these recommendations is planned by August 2021.

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 ARAC review. The DARAC comprises 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.

The **DBS Management Board** is chaired by the CEO and comprises the DBS Executive Heads and the Schemes' SFO. The Management Board is responsible for managing DBS within Corporate Board agreed financial limits, and is the primary authority for day-to-day management of DBS. The Management Board meets once a month and convened 11 times between April 2020 and March 2021.

Table 2 – Composition of the DBS Management Board	Meetings Attended
Chief Executive Officer & Chair *:	
Kathy Barnes, (until 15 October 2020)	5 of 6
Tamsin Woodeson, Acting Chief Executive Officer (from 16 October 2020)	5 of 5
Executives:	
Tamsin Woodeson, Deputy Chief Executive Officer & Chief Customer Officer (until 15 October 2020)	5 of 6
Andrew Stafford, Chief Operating Officer	11 of 11
Andy White, Chief Information Officer	11 of 11
Jon Parkin, Chief People Officer	11 of 11
Sue Higgins, Head of Business Change (until 6 November 2020)	4 of 6
Tom Scarterfield, Acting Head of Business Change (from 7 November 2020)	5 of 5
Clare Finn, Head of Resources & Schemes' SFO. Acting Chief Customer Officer (from 16 October 2020)	11 of 11
Andy Dowds, Head of Veterans UK	8 of 11
Shirley Beard, Head of Finance & Procurement Services	10 of 11
Brigadier Caroline Hull, Head of Military Personnel	10 of 11
Graeme Macaulay, Head of Civilian Personnel	11 of 11
* Richard Cornish was appointed DBS Chief Executive Officer from 19 April 2021	

The **DBS Military Personnel & Veterans Operations Board (MP&V OB)**, a committee of the DBS Management Board, manages the commercial agreements with SSCL. The Service Delivery Management Team within DBS actively monitors the performance of SSCL 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 SSCL, and reported to the MP&V OB. The MP&V OB is also responsible for reviewing unit level risks on a monthly basis, with the most critical escalated to the DBS Management Board where the impacts are assessed, and appropriate mitigating action taken.

The **AFPS Accounts Committee**, a committee of the DBS Management Board, undertakes a detailed review of financial performance of the Schemes on a monthly basis. Membership of the AFPS Accounts Committee includes three DBS Management Board 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 DBS Management Board for review, decision and endorsement.

The **DBS Audit & Risk Assurance Committee (ARAC)**, a committee of the DBS Corporate Board, comprises two Non-Executives and one MOD Non-Executive, and is attended by members of the DBS Management Board. The chair of the Pensions Board also has a standing invitation and attends most committees. The ARAC supports the CEO in discharging their 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 ARAC reviewed the 2020-21 AFPS Accounts prior to approval by the Defence Audit & Risk Assurance Committee (DARAC). The ARAC met six times between April 2020 and March 2021.

Table 3 – Composition of the DBS Audit & Risk Assurance Committee	Meetings Attended
Non-Executive Members:	
Paul Smith (Chair)	6 of 6
Ian Wilson	6 of 6
MOD Non-Executive Members:	
Katherine Carr & Michelle Pester	6 of 6
Head of MOD Enabling Organisations Sponsorship - Job Share	

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 Pension Regulator has instigated an ongoing formal relationship with AFPS and the Pension Board and there have been four satisfactory meetings in the period on governance and administration of the Schemes. The Pensions Board produces an Annual Report of its activities which is publicly available.

Financial Management

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 DBS Management Board. 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. SSCL 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.

The Pensions Finance Team, with input from the Government Actuary's Department (GAD) 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 and the Pensions Board Chair throughout the year to identify best practice on several ongoing initiatives.

Risk Assessment

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 DBS Management Board where the impacts are assessed, and appropriate mitigating action taken. The DBS ARAC has oversight of all risks raised within DBS. Any risks not capable of being managed by DBS would be escalated to the Performance and Risk Review, which is chaired by the MOD Chief Operating Officer as the owner of DBS, and ultimately to me for action. No risks were escalated by DBS in 2020-21.

The Risk and Control Framework

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.

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.

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

The DBS Enterprise Risk Management Strategy Framework v1.1 is compliant with MOD's Directive JSP892. During the year the DBS Management Board ensured that the key principles of the Framework were used to underpin the way in which risks are managed within DBS.

Fraud

All staff within MOD have direct access to the Confidential Hotline, previously known as the Fraud Incident and Irregularity Reporting Unit (FIIRU), which forms part of the Department's Confidential Hotline and 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 Confidential Hotline. Potential AFPS fraudulent claims are reported to the MOD Fraud Defence 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 page 11 contains details of the

results of the NFI exercises since 2002. There are currently four potential fraud cases under investigation identified through the NFI exercise.

A life certificate exercise continued during 2020-21 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 January 2021 all certificates were issued, with 26,400 returned, a response rate of 99%. Of these, 129 potential fraud cases are under investigation.

Information Assurance

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.

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 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).

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. DBS has a DP compliance officer in post who is undertaking DP compliance reviews and a schedule of assurance checks.

There were twenty-one incidents reported internally to the MOD Information Rights Compliance Team during the year in relation to AFCS and four for AFPS, one of which was assessed as serious in nature and reported to the Information Commissioners Office. This incident was an internal procedure failure where medical information was incorrectly input onto another individuals JPA records. The twenty-one AFCS incidents were categorised as; 'data handling incidents / internal process failures created by human error of Veterans UK personnel'; 'files declared as unlocated in the building or at Restore (archiving facility) and subsequently found'; and 'loss of claim and appeal forms'. Given the high volume of case work processed on an annual basis within Veterans UK, this number of incidents was deemed very low.

Bi-monthly security improvement meetings are held with the Veterans UK operational and policy teams and DBS Integrated Assurance team (IA and Security policy leads) via Skype

meetings due to the COVID-19 restrictions. These meetings review the plan to improve operational processes, reduce hardcopy holdings and in a drive to reduce personal data incidents.

Business Continuity

AFPS/AFCS output from DBS sites at Norcross and Glasgow, and 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 2021-2022. Whilst BC Business Impact Analysis (BIA) for pensions operations were suspended due to COVID-19, the formal BIA process resumed in April 2021.

The CAPS Disaster Recovery (DR) Plan was reviewed and updated (to V8.0) in February / March 2021 and will undergo annual test in August 2021. The review and test are in parallel with on-going CAPS transformation. CAPS DR was last tested on 17-21 August 2020. This was a successful full transfer of service to the DR site.

Subsequent to annual review, the SSCL Business Process Outsourcing (BPO) Service Delivery BC Plan will be formally accepted and released no later than July 2021. This plan covers the Joint Personnel Administration Centre (JPAC), Enquiry Centre (EC) and back-office pensions activity. It was subject to DR test for banking processes (ODEX/BACS/RBS) on 28-29 January 2020. The annual plan exercise scheduled for March 2021 has been deferred until further uplift and plan acceptance has taken place (it should be noted operations covered by the plan are currently subject to BC measures).

The COVID-19 crisis has affected the AFPS process with staff attendance at their normal work site being significantly disrupted from 20 March 2020.

The DBS COVID-19 response uses a priority outputs/services approach (placing outputs/services in order of criticality and required recovery). This was supported by a) the emergency allocation of IT enabling critical staff home working and b) maintaining a minimal staff presence on site. Authority (MOD) AFPS staff maintained priority tasks in support of the Contractor payments process, e.g. for medical discharges from the Armed Forces, Early Payment of Preserved Pension applications and discretionary decisions. This was achieved by working from home, enabled by the early allocation of additional laptops and then a gradual return to the workplace after the introduction of Safe Systems of Working (SSoW). Impacts included longer customer waiting times for certain casework with service leaver benefits, Death in Service awards and Dependants claims considered the priority. Normal service levels were restored by September 2020. A joint DBS/SSCL Return to Work (RtW) committee was set up to coordinate on-site working.

A full DBS pandemic exercise was conducted on 20 August 2020 and further BC sustainability workshops were held on 5 November 2020 and 24 February 2021. All events included pension delivery. The exercise aimed to inform the response to a potential COVID-19 'second wave' or a negative fluctuation in the current pandemic status and help ensure planning remained robust enough to mitigate impacts to DBS staff and priority outputs/services.

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the governance framework. My review is informed by the MOD Chief Operating Officer who has oversight and ownership of DBS, the executive managers within the DBS who have responsibility for the development and maintenance of the internal control framework, the DBS ARAC who are responsible for reviewing assurances as to its effectiveness over governance and for advising the DBS Corporate Board and DBS CEO accordingly, the DARAC who are responsible for reviewing and endorsing the year end accounts, the work of the internal auditors DIA, and comments made by the external auditors in their management letter and other reports.

Internal Audit

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 ARAC, with progress reports regularly taken by the DBS ARAC throughout 2020-21. The Head of DIA, or one of his senior managers, attends meetings of the DBS ARAC and provides expert advice on audit issues.

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. DIA reported adequate control frameworks were in place for a selection of pension administration processes examined, including compliance with policy and procedures and pension administration and payment processes. In addition, they reported that the control framework governing the production of the Office for Budget Responsibility (OBR) Cash Flow Forecast and Main Estimate submissions were operating as intended.

However, through their audit of the 'Application of Pension Increases', the DIA identified an area of control weakness over the adequacy of the oversight mechanisms in place to oversee the manual administration of pension increases by Equiniti Paymaster (sub-contractor to SSCL). Their audit testing identified an incorrect award which resulted in an overpayment that would have continued indefinitely. DIA noted that the sample of automated recalculations generated by the pension system, were all found to be correct.

DIA reported that throughout the year all agreed management actions from internal audit reports were implemented within the agreed timescales and were validated as adequately implemented. In addition, DIA reported that they continued to work effectively with the AFPS Operational Audit & Assurance Team, who provide the second line of defence assurance to management over the AFPS and AFCS assurance functions.

Significant Governance Issues

I am pleased to report that there have been no significant governance issues arising during 2020-21. 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.

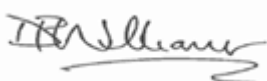
Future Improvements

Following the award of the Service Delivery Contract (SDC) to SSCL, Veterans UK has embarked on a substantial transformation programme of digitalisation which will significantly improve administrative processes in support of our members. Although the effects of COVID-19 have had an impact on the programme, SSCL and Veterans UK continue to work collaboratively to drive the programme forward. Throughout the life of the contract, SSCL will introduce innovative solutions across the AFPS and AFCS arena which will in turn drive efficiencies within the pension administration function. Some of the main enhancements being introduced are listed below:

- Self Service will see Veterans UK provide a platform to enable customers to securely complete digital claims, forms, reviews and appeals. It will provide a single user interface with an individual's complete records extracted from current pensions, compensation and welfare systems. A single screen window will display a customer's pension and compensation scheme entitlements alongside personal data from where the customer will be able to access the details of each scheme. This will be a significant improvement providing the customer with instant access to accurate and real time information.
- Single View will provide a new view and enquiry resolution facility providing real time information in respect of AFPS, AFCS, the War Pension Scheme and other aspects of Veterans UK services, such as the Veterans Welfare Service and Far East Nepal Administration. The new system will allow interrogation by Veterans UK when resolving enquiries. The current Veteran UK systems are not compliant with Government Digital Standards and will therefore not be supported for AFPS (05 and 75) and AFCS post November 2021. This improvement, therefore, is not only beneficial to the administrators of the schemes but required for business continuity.
- Integrated Document Management will provide document storage for both member and general documents. Member documents that have been imported or created by the system will be stored in one location making retrieval more efficient. Barcoding of forms issued to individuals will remove the burden of manually indexing scanned documentation, reducing the risk of human error.

Summary

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.



David Williams
Accounting Officer
12 July 2021

Parliamentary Accountability and Audit Report

Statement of Outturn against Parliamentary Supply

In addition to the primary statements prepared under International Financial Reporting Standards (IFRS), the Government Financial Reporting Manual (FReM) requires the Armed Forces Pension & Compensation Schemes to prepare a Statement of Outturn against Parliamentary Supply (SOPS) and supporting notes.

The SOPS and related notes are subject to audit, as detailed in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

The SOPS is a key accountability statement that shows, in detail, how an entity has spent against their Supply Estimate. Supply is the monetary provision (for resource and capital purposes) and cash (drawn primarily from the Consolidated fund), that Parliament gives statutory authority for entities to utilise. The Estimate details supply and is voted on by Parliament at the start of the financial year.

Should an entity exceed the limits set by their Supply Estimate, called control limits, their accounts will receive a qualified opinion.

The format of the SOPS mirrors the Supply Estimates, published on gov.uk, to enable comparability between what Parliament approves and the final outturn.

The SOPS contain a summary table, detailing performance against the control limits that Parliament have voted on, cash spent (budgets are compiled on an accruals basis and so outturn won't exactly tie to cash spent) and administration.

The supporting notes detail the following: Outturn by estimate line, providing a more detailed breakdown (SOPS 1); and a reconciliation of outturn to net cash requirement (SOPS 3).

The SOPS provides a detailed view of financial performance, in a form that is voted on and recognised by Parliament. The financial review, in the Performance Report, provides a summarised discussion of outturn against estimate and functions as an introduction to the SOPS disclosures.

Statement of Outturn against Parliamentary Supply for the year ended 31 March 2021

Summary of Resource Outturn 2020-21

This section has been subject to audit.

£000	2020-21							2019-20	
	Note	Outturn			Estimate			Outturn vs Estimate saving / (excess)	Prior Year Outturn Total
		Voted	Non-Voted	Total	Voted	Non-Voted	Total		
Annually Managed Expenditure - Resource	SOPS1	6,496,963	-	6,496,963	6,782,024	-	6,782,024	285,061	6,847,690
Total Budget		6,496,963	-	6,496,963	6,782,024	-	6,782,024	285,061	6,847,690
Non-Budget -Resource		-	-	-	-	-	-	-	-
Total		6,496,963	-	6,496,963	6,782,024	-	6,782,024	285,061	6,847,690

Figures in the areas outlined in thick line cover the voted control limits voted by Parliament. Refer to the Supply Estimates guidance manual, available on gov.uk, for detail on the control limits voted by Parliament.

Net cash requirement 2020-21

2020-21		2020-21	2019-20
Outturn	Estimate	Outturn vs Estimate saving/(excess)	Prior Year Outturn Total
£000	£000	£000	£000
990,936	1,370,858	379,922	1,154,265

Administration costs

2020-21		2020-21	2019-20
Outturn	Estimate	Outturn vs Estimate saving/(excess)	Prior Year Outturn Total
£000	£000	£000	£000
-	-	-	-

Although not a separate voted limit, any breach of the administration budget will also result in an Excess Vote.

As explained in the Report of the Managers on page 5, the costs of administering the Schemes are borne by the MOD and are reflected in the Department's Annual Report and Accounts.

The Notes on pages 37 to 38 form part of this Statement.

Notes to the Statement of Outturn against Parliamentary Supply

SOPS1. Analysis of Resource outturn by Estimate line

£000	2020-21									2019-20
	Resource Outturn						Estimate	Outturn vs Estimate saving / (excess)	Prior Year Outturn Total	
	Administration			Programme			Total	Total	Total	Total
	Gross	Income	Net	Gross	Income	Net	Total	Total	Total	Total
Spending in Departmental Expenditure Limit										
Voted:	-	-	-	-	-	-	-	-	-	-
Non Voted:	-	-	-	-	-	-	-	-	-	-
Annually Managed Expenditure										
Voted:										
A: Armed Forces Pension & Compensation Schemes	-	-	-	10,434,275	(3,937,312)	6,496,963	6,496,963	6,782,024	285,061	6,847,690
Non Voted:	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	10,434,275	(3,937,312)	6,496,963	6,496,963	6,782,024	285,061	6,847,690

Explanation of the variance between Resource Estimate and outturn:

The outturn is less than the Estimate due to:

- Current service cost of £6.050 billion (for AFPS) being £149 million lower than the Estimate of £6.199 billion primarily due to additional resource secured via the Supplementary Estimate to cover anticipated current service costs that did not materialise.
- Interest costs of £4.148 billion (for AFPS) being £72 million lower than the Estimate of £4.220 billion primarily due to a lower opening liability balance for AFPS as a result of restatement.
- Income received by the Scheme being £75 million higher than that forecast at the original Estimate due to a reduction in leavers from active service and therefore increased employer contribution receipts.
- A combination of smaller variances with a net saving of £11 million against the Estimate.

SOPS2. Reconciliation of outturn to net operating expenditure

The total resource outturn of £6.5 billion shown above in the SOPS summary table on page 36 is the same as the combined net expenditure shown in the Statement of Comprehensive Net Expenditure (SoCNE) on page 47. Therefore, no reconciliation table is required.

SOPS3. Reconciliation of net resource outturn to net cash requirement

Item	Reference	2020-21			2019-20
		Outturn Total £000	Estimate £000	Outturn vs Estimate savings/ (excess) £000	Outturn £000
Resource Outturn	SOPS1	6,496,963	6,782,024	285,061	6,847,690
Capital Outturn		-	-	-	-
Accruals to cash adjustments:					
<i>Adjustments to remove non-cash items:</i>					
New provisions and adjustments to previous provisions		(10,434,275)	(10,644,255)	(209,980)	(10,697,581)
<i>Adjustments to reflect working balances:</i>					
Increase/(decrease) in receivables		13,277	4,168	(9,109)	76,066
(Increase)/decrease in payables		(6,873)	(23,927)	(17,054)	69,098
Use of provision:					
Pension		4,837,539	5,163,653	326,114	4,768,982
Compensation		84,305	89,195	4,890	90,010
Net cash requirement		990,936	1,370,858	379,922	1,154,265

As noted in the introduction to the SOPS above, outturn and Estimates are compiled against the budgeting framework, not on a cash basis. Therefore, this reconciliation bridges the resource and capital outturn to the net cash requirement.

Parliamentary Accountability Disclosures

This section has been subject to audit.

Losses statement

	2020-21	2019-20
Total number of losses	3,940	2,132
Total value of losses £000	627	422

The 2020-21 losses are inclusive of 625 cases in relation to the GMP indexation exercise. The corrective action required as part of this exercise has identified a number of overpayments which have been written off as per agreed processes across all public sector pension schemes. The total value of these equate to £458,000. Further details on GMP indexation can be found in the Report of the Managers on page 12.

Special payments

	2020-21	2019-20
Total number of special payments	-	-
Total value of special payments £000	-	-

There were no individual losses greater than £300,000 or special payments during 2020-21.

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) (together “the Scheme”) for the year ended 31 March 2021 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury’s Government Financial Reporting Manual.

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 that report 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 2021 and of its total comprehensive 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 2021 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), Practice Note 15 (revised) ‘The Audit of Occupational Pension Schemes in the United Kingdom’ and Practice Note 10 ‘Audit of Financial Statements of Public Sector Entities in

the United Kingdom'. 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the Scheme in accordance with the ethical requirements that are relevant to my audit of 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.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the Scheme's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for the Scheme is adopted in consideration of the requirements set out in HM Treasury's Government Financial Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

Other Information

The other information comprises information included in the Annual Report, but does not include the parts of the Parliamentary Accountability Disclosures described in that report as having been audited, the financial statements and my auditor's certificate thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 parts of 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; 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.

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 in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error; and
- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the Scheme will not continue to be provided in the future.

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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the Scheme's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the Scheme's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the Scheme's controls relating to the Naval and Marine (AFPS 75 and Attributable Benefits Scheme) Order 2010, the Army Pensions (AFPS 75 and Attributable Benefits Scheme) Warrant 2010, the Air Force (AFPS 75 and Attributable Benefits Scheme) Order 2010, the Armed Forces (Pension & Compensation) Act 2004, the Armed Forces Pension Regulations Statutory Instrument Order 2014, the Armed Forces Early Departure Payment (EDP) Scheme Regulations Statutory Instrument 2014, the Armed Forces (Transitional Provisions) Pensions Regulations Statutory Instrument 2015, the Armed Forces (Pension & Compensation) Act 2004, the Public Service Pensions Act 2013, the Government Resources and Accounts Act 2000, Managing Public Money and the regulations set by the Pensions Regulator.
- discussing among the engagement team and involving relevant internal and external specialists, including actuarial specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: revenue recognition, posting of unusual journals, significant or unusual transactions and selection of inappropriate methodology or assumptions underpinning the pensions liability and related estimates;
- obtaining an understanding of the Scheme's framework of authority as well as other legal and regulatory frameworks that the Scheme operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Scheme. The key laws and regulations I considered in this context included the Naval and Marine (AFPS 75 and Attributable Benefits Scheme) Order 2010, the Army Pensions (AFPS 75 and Attributable

Benefits Scheme) Warrant 2010, the Air Force (AFPS 75 and Attributable Benefits Scheme) Order 2010, the Armed Forces (Pension & Compensation) Act 2004, the Armed Forces Pension Regulations Statutory Instrument Order 2014, the Armed Forces Early Departure Payment (EDP) Scheme Regulations Statutory Instrument 2014, the Armed Forces (Transitional Provisions) Pensions Regulations Statutory Instrument 2015, the Armed Forces (Pension & Compensation) Act 2004, the Public Service Pensions Act 2013, the Government Resources and Accounts Act 2000, Managing Public Money and the regulations set by the Pensions Regulator; and

- obtaining an understanding of the control environment in place at the Scheme, the administrator and the scheme actuary in respect of membership data, the pension liability, contributions due and benefits payable.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business;
- performing substantive testing of contributions received and benefits paid in the year to ensure compliance with laws and regulations and regularity;
- engaging an auditor's expert to review the actuarial methods and assumptions used by the scheme actuary, reviewing the expert's report and undertaking any further procedures as necessary: and
- reviewing any significant correspondence with the Pensions Regulator.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

This description forms part of my certificate.

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

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.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General
15 July 2021

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

Financial Statements



Financial Statements

Combined Statement of Comprehensive Net Expenditure

for the year ended 31 March 2021

	Note	2020-21 £000	Restated (Note 17) 2019-20 £000
Principal arrangements – Armed Forces Pension Scheme			
Income			
Contributions receivable	3	(3,937,214)	(3,792,738)
Transfers in	4	(98)	(270)
Other income	5	-	(56,883)
Expenditure			
Current service cost	6	6,050,068	4,700,581
Past service cost	6	-	120,000
Enhancements	7	1,966	1,947
Transfers in	8	98	270
Pension financing cost	9	4,148,372	5,633,141
Net expenditure		6,263,192	6,606,048
Armed Forces Compensation Scheme			
Current service cost – AFCS	16	181,021	174,376
Compensation financing cost	16	52,750	67,266
Net expenditure		233,771	241,642
Combined net expenditure	SOPS1	6,496,963	6,847,690
Other comprehensive net expenditure			
Pension re-measurements:			
Actuarial loss – Armed Forces Pension Scheme	13.7	18,737,035	28,913,043
Actuarial loss – Armed Forces Compensation Scheme	16	278,734	457,168
Total Comprehensive Net Expenditure		25,512,732	36,217,901

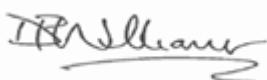
The notes on pages 51 to 66 form part of these financial statements.

Combined Statement of Financial Position

as at 31 March 2021

	Note	2021 £000	Restated* (Note 17) 2020 £000
Principal arrangements – Armed Forces Pension Scheme			
Current assets			
Receivables	10	342,338	329,087
Cash and cash equivalents	11	32,907	55,843
Total current assets		375,245	384,930
Current liabilities			
Payables (within 12 months)	12	(656,926)	(673,262)
Total current liabilities		(656,926)	(673,262)
Net current liabilities, excluding pension liability		(281,681)	(288,332)
Pension liability	13.4	(254,000,000)	(229,900,000)
Net liabilities, including pension liabilities		(254,281,681)	(230,188,332)
Armed Forces Compensation Scheme			
Receivables	14	1,140	1,114
Payables (within 12 months)	15	(3,559)	(3,286)
Provision for liabilities and charges	16	(3,294,000)	(2,865,800)
Net liabilities		(3,296,419)	(2,867,972)
Combined schemes - Total net liabilities		(257,578,100)	(233,056,304)
Taxpayers' equity			
General Fund		(257,578,100)	(233,056,304)
Total equity		(257,578,100)	(233,056,304)

* The Statement of Financial Position, and the relevant supporting notes, as at 31 March 2020 have been restated to include a prior period adjustment in respect of a correction to the actuarial liability for pensions in payment. Additional detail is provided at note 17 to the financial statements.



David Williams
Accounting Officer
12 July 2021

The notes on pages 51 to 66 form part of these financial statements.

Combined Statement of Changes in Taxpayers' Equity

for year ended 31 March 2021

	Note	2020-21 £000	Restated (Note 17) 2019-20 £000
Balance at 1 April		(233,056,304)	(197,992,668)
Net Parliamentary Funding			
– drawn down		968,000	1,154,000
– deemed		55,843	56,108
Supply payable adjustments	12	(32,907)	(55,843)
Excess Vote – Prior Year		-	-
CFERs payable to the Consolidated Fund		-	-
Contingencies Fund Advance		-	-
Repayment to the Contingencies Fund		-	-
Comprehensive Net Expenditure for the Year	SOPS1	(6,496,963)	(6,847,690)
Actuarial loss – Armed Forces Pension Scheme	13.7	(18,737,035)	(28,913,043)
Actuarial loss – Armed Forces Compensation Scheme	16	(278,734)	(457,168)
Net Change in Taxpayers' Equity		(24,521,796)	(35,063,636)
Balance at 31 March 2021		(257,578,100)	(233,056,304)

The notes on pages 51 to 66 form part of these financial statements.

Combined Statement of Cash Flows

for the year ended 31 March 2021

	Note	2020-21 £000	2019-20 £000
Cash flows from operating activities			
Net expenditure for the year	SOPS1	(6,496,963)	(6,847,690)
Adjustments for non-cash transactions:			
Increase in receivables – principal arrangements	10	(13,251)	(76,026)
Increase in receivables – AFCS	14	(26)	(40)
Increase/(decrease) in payables – principal arrangements	12	6,600	(68,925)
Increase/(decrease) in payables – AFCS	15	273	(173)
Increase in pension provision	13.4	10,198,440	10,453,722
Increase in pension provision – enhancements and transfers in	13.4	2,064	2,217
Use of provisions – pension liability	13.5	(4,832,233)	(4,761,984)
Use of provisions – refunds and transfers	13.6	(5,306)	(6,998)
Increase in provisions – compensation scheme	16	233,771	241,642
Use of provisions – compensation scheme	16	(84,305)	(90,010)
Net cash outflow from operating activities		(990,936)	(1,154,265)
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		968,000	1,154,000
From the Contingencies Fund		-	-
Repayment to the Contingencies Fund		-	-
Net Financing		968,000	1,154,000
Net decrease in cash and cash equivalents in the year before adjustment for receipts and payments to the Consolidated Fund		(22,936)	(265)
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 in cash and cash equivalents in the year after adjustment for receipts and payments to the Consolidated Fund	11	(22,936)	(265)
Cash and cash equivalents at the beginning of the year	11	55,843	56,108
Cash and cash equivalents at the end of the year	11	32,907	55,843

The notes on pages 51 to 66 form part of these financial statements.

Notes to the Financial Statements

1. Accounting Policies

1.1 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 2020-21 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.

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 (SoFP) shows the unfunded net liabilities of the Scheme; the Statement of Comprehensive Net Expenditure (SoCNE) 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 SoCNE.

1.2 Going Concern

The Statement of Financial Position as at 31 March 2021 shows a combined pension and compensation liability of £257.6 billion (2019-20 restated: £233.1 billion). Other movements in the liability reflect the inclusion of liabilities falling due in the long-term, which are to be financed mainly by drawings from the Consolidated Fund. Such drawings will be grants of Supply approved annually by Parliament to meet the Scheme's pension benefits, which come into payment each year.

Under the Government Resources and Accounts Act 2000, no money may be drawn from the Fund other than as required for the service of the specified year or retained in excess of that need.

In common with other public service pension schemes, the future financing of the Scheme's liabilities is to be met by future grants of supply to be approved annually by Parliament. Such approval for amounts required for 2021-22 has already been given. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

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 Judgments and Key Sources of Estimation Uncertainty

The preparation of these financial statements 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. These estimates have the most significant impact on the valuation of the pension and compensation liabilities and the associated costs and actuarial gains/losses.

2.2 Changes in Accounting Standards

Accounting standards issued but not yet adopted by the FReM at the reporting date:

- IFRS 16 Leases – there are no material balances within the AFPS financial statements affected by the changes to IFRS16.
- IFRS 17 Insurance Contracts – there are no material balances within the AFPS financial statements affected by the changes to IFRS 17.

2.3 Contributions receivable

Employer's normal pension contributions (SCAPE) are accounted for on an accruals basis in the period to which the associated salaries relate.

Employer contributions are out of scope for IFRS 15 Revenue.

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 included in these financial statements.

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 SoCNE. The cost is based on a discount rate of 1.80% pa (i.e. -0.50% in excess of CPI inflation). This was 2.90% pa (0.29% in excess of CPI inflation) in 2019-20.

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.

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 SoCNE. The financing cost is based on the discount rate of 1.80% nominal (i.e. -0.50% including inflation). This was 2.90% (0.29% including inflation) in 2019-20.

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 2020 was discounted at 1.80% pa (i.e. -0.5% in excess of CPI inflation). The discount rate as at 31 March 2021 was 1.25% pa (i.e. -0.95% 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 financial statements and in the Report of the Actuary starting on page 18.

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 SoFP 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 in the period to which they relate.

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 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 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 SoFP date are recognised in the SoCNE for the year.

2.17 Armed Forces Compensation Scheme

A provision is made within these financial statements 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 SoFP, and separately disclosed within note 11.

2.19 Payables and receivables

Payables and receivables are held at amortised cost in accordance with 'IFRS 9 Financial Instruments'. Owing to the immaterial size of such receivables balances and losses thereon, any expected credit losses are not considered to be material to the Scheme.

3. Contributions receivable

	2020-21 £000	2019-20 £000
Employers	3,935,248	3,790,791
Employees: Purchase of added years	1,966	1,947
	3,937,214	3,792,738

£3.972 billion contributions are expected to be payable to the Scheme in 2021-22. During the year ended 31 March 2021, employer contributions were paid at a rate 65.5% of pensionable pay (2019-20: 65.5%).

4. Transfers in (see also note 8)

	Note	2020-21 £000	2019-20 £000
Individual transfers in from other schemes	8	98	270
		98	270

5. Other pension income

	2020-21 £000	2019-20 £000
Other income	-	56,883
	-	56,883

Other Income in 2019-20 relates to Gurkha Pension Scheme increases.

6. Service cost

	Note	2020-21 £000	2019-20 £000
Current service cost	13.4	6,050,068	4,700,581
Past service cost	13.4	-	120,000
		6,050,068	4,820,581

The 2019-20 past service cost of £0.12 billion is the net result of £1.0 billion of past service costs in relation to GMP, £0.04 billion of past service costs in relation to the Goodwin case; offset by a negative past service cost of £0.92 billion in relation to the re-assessment of the McCloud costs.

7. Enhancements

	Note	2020-21 £000	2019-20 £000
Purchase of added pension and years	13.4	1,966	1,947
		1,966	1,947

8. Transfers in - additional liability

	Note	2020-21 £000	2019-20 £000
Individual transfers in from other schemes	13.4	98	270
		98	270

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

9. Pension financing cost

	Note	2020-21 £000	2019-20 £000
Net interest on defined benefit liability	13.4	4,148,372	5,633,141
		4,148,372	5,633,141

Statement of Financial Position – Armed Forces Pension Scheme

10. Receivables

	2021 £000	2020 £000
Amounts falling due within one year:		
Overpaid pensions	7,224	5,772
Bereavement Scholarship Scheme	403	336
Ministry of Defence – SCAPE & AVC receipts and Transfers In	331,633	320,432
	339,260	326,540
Amounts falling due after more than one year:		
Overpaid pensions	3,078	2,547
	342,338	329,087

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.

11. Cash and cash equivalents

	2021 £000	2020 £000
Balance at 1 April	55,843	56,108
Net change in cash balances	(22,936)	(265)
Balance at 31 March	32,907	55,843
The following balances at 31 March were held at:		
Government Banking Service	32,907	55,843
Balance at 31 March	32,907	55,843

12. Payables

	2021 £000	2020 £000
Amounts falling due within one year:		
Pensions	323,020	315,109
Lump Sums	216,329	217,030
HM Revenue & Customs	43,534	42,575
Third party organisations	959	1,000
Ministry of Defence	40,177	41,705
	624,019	617,419
Amounts issued from the Consolidated Fund for supply but not spent at year end	32,907	55,843
	656,926	673,262

13. Pension Liabilities

13.1 Assumptions underpinning the pension liability

The AFPS is an unfunded defined benefit scheme. The Government Actuary's Department carried out an assessment of the Scheme liabilities as at 31 March 2021. The Report of the Actuary starting on page 18 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 2021	At 31 March 2020	At 31 March 2019	At 31 March 2018	At 31 March 2017
Long term rate of increase in salaries	3.72%	4.10%	4.10%	3.95%	4.55%
Inflation assumption	2.22%	2.35%	2.60%	2.45%	2.55%
Discount rate net of pension increases	(0.95%)	(0.50%)	0.29%	0.10%	0.24%
Mortality rate at age 60	Years	Years	Years	Years	Years
- Current Pensioners					
• Officers Men	26.1	26.1	26.8	26.7	29.5
• Officers Women	27.7	27.6	28.4	28.3	31.6
• Other Ranks Men	26.1	26.1	26.8	26.7	26.9
• Other Ranks Women	27.7	27.6	28.4	28.3	29.0
- Future Pensioners (from active status) *					
• Officers Men	27.9	27.8	28.9	28.8	31.7
• Officers Women	29.5	29.4	30.4	30.3	33.8
• Other Ranks Men	27.9	27.8	28.9	28.8	31.7
• Other Ranks Women	29.5	29.4	30.4	30.3	33.8
Mortality rate at age 65					
- Current Pensioners					
• Officers Men	21.4	21.3	22.0	21.9	24.5
• Officers Women	23.0	22.9	23.6	23.5	26.6
• Other Ranks Men	21.4	21.3	22.0	21.9	22.1
• Other Ranks Women	23.0	22.9	23.6	23.5	24.1
- Future Pensioners (from active status) *					
• Officers Men	23.1	23.0	24.0	23.9	26.6
• Officers Women	24.6	24.5	25.4	25.4	28.7
• Other Ranks Men	23.1	23.0	24.0	23.9	24.1
• Other Ranks Women	24.6	24.5	25.4	25.4	26.1

* 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 2021, 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 financial statements 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.

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 provision for pension liability

	At 31 March 2021 £bn	Restated (Note 17) At 31 March 2020 £bn	At 31 March 2019 £bn	At 31 March 2018 £bn	At 31 March 2017 £bn
Pensions in Payment	123.9	116.4	103.1	102.7	103.7
Deferred Pensions	43.8	40.2	31.3	33.8	32.3
Active members (Past Service)	86.3	73.3	60.9	59.0	55.8
Total	254.0	229.9	195.3	195.5	191.8

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 SoFP 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 13.7 and 13.8. The notes also disclose 'experience' gains or losses for the year, showing the amounts charged or credited for the year because events have not coincided with assumptions made for the last valuation.

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 2021 of changes to these assumptions (rounded to the nearest ½%).

Change in Assumption		Approximate effect on total liability	
Financial Assumptions			
Discount rate ¹	+ ½% a year	- 11.0%	- £27.9 billion
Earnings increases ¹	+ ½% a year	+ 1.0%	+ £2.5 billion
Pension increases ¹	+ ½% a year	+ 11.0%	+ £27.9 billion
Demographic assumptions			
Additional one year increase to life expectancy at retirement ¹		+ 4.0%	£10.2 billion

¹ Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

13.4 Analysis of movements in the Scheme liability

	Note	2020-21 £000	Restated (Note 17) 2019-20 £000
Scheme liability at 1 April		(229,900,000)	(195,300,000)
Current service cost	6	(6,050,068)	(4,700,581)
Past service cost	6	-	(120,000)
Pension financing cost	9	(4,148,372)	(5,633,141)
Enhancements	7	(1,966)	(1,947)
Pension transfers in	8	(98)	(270)
		(240,100,504)	(205,755,939)
Benefits payable	13.5	4,832,233	4,761,984
Pension payments to and on account of leavers	13.6	5,306	6,998
		4,837,539	4,768,982
Actuarial loss	13.7	(18,737,035)	(28,913,043)
Scheme liability at 31 March		(254,000,000)	(229,900,000)

13.5 Analysis of benefits paid

	2020-21 £000	2019-20 £000
Pensions to retired employees and dependants (net of recoveries or overpayments)	4,451,878	4,331,581
Commutations and lump sum benefits on retirement	380,355	430,403
Total benefits paid	4,832,233	4,761,984

13.6 Analysis of payments to and on account of leavers

	2020-21 £000	2019-20 £000
Individual transfers to other schemes	5,306	6,998
Total payments to and on account of leavers	5,306	6,998

13.7 Analysis of actuarial gains / (losses)

	2020-21 £000	Restated (Note 17) 2019-20 £000
Experience gain / (loss) arising on the Scheme liabilities	4,100,000	4,700,000
Changes in assumptions underlying the present value of Scheme liabilities	(22,837,035)	(33,613,043)
Total actuarial (loss) / gain	(18,737,035)	(28,913,043)

13.8 History of experience gains / (losses)

	2020-21	Restated (Note 17) 2019-20	2018-19	2017-18	2016-17
Experience gains / (losses) on scheme liabilities: (£000)	4,100,000	4,700,000	(2,222,446)	(620,698)	(532,900)
Percentage of the present value of the scheme liabilities	1.61%	2.04%	(1.14%)	(0.32%)	(0.28%)
(Losses) / gains arising due to changes in actuarial assumptions: (£000)	(22,837,035)	(33,613,043)	8,900,000	2,200,000	(42,300,000)
Percentage of the present value of the scheme liabilities	(8.99%)	(14.62%)	4.56%	1.13%	(22.05%)
Total amount recognised in Combined Statement of Comprehensive Net Expenditure: (£000)	(18,737,035)	(28,913,043)	6,677,554	1,579,032	(42,832,900)
Percentage of the present value of the scheme liabilities	(7.38%)	(12.58%)	3.42%	0.81%	(22.33%)
Total cumulative actuarial (loss) / gain: (£000)	(142,559,839)	(123,822,804)	(94,909,761)	(101,587,315)	(103,166,347)

Statement of Financial Position – Armed Forces Compensation Scheme

14. Receivables

	2021 £000	2020 £000
Amounts falling due within one year:		
Overpaid compensation	1,140	1,114
	1,140	1,114

15. Payables

	2021 £000	2020 £000
Amounts falling due within one year:		
Compensation	3,559	3,286
	3,559	3,286

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 seven 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 2021	31 March 2020
Gross discount rate	1.25%	1.80%
CPI inflation	2.22%	2.35%
GIP increases	2.22%	2.35%
Discount rate net of CPI	-0.95%	-0.50%
Discount rate net of GIP increases	-0.95%	-0.50%

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 2021. 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.

	2021 £000	2020 £000
Balance at 1 April	(2,865,800)	(2,257,000)
Use of provision in year	84,305	90,010
Interest on Scheme liabilities	(52,750)	(67,266)
Current Service cost – AFCS	(181,021)	(174,376)
Experience gain arising on Scheme liabilities	-	45,000
Loss due to change in assumptions underlying the present value of Scheme liabilities	(278,734)	(502,168)
Balance at 31 March	(3,294,000)	(2,865,800)
Breakdown of Balance at 31 March:		
Incidents incurred but not yet claimed – Lump Sums and Guaranteed Income Payments	(167,400)	(146,900)
Guaranteed Income Payments – “In Payment”	(2,844,300)	(2,469,800)
Guaranteed Income Payments – “Underlying Entitlement”	(282,300)	(249,100)
	(3,294,000)	(2,865,800)

17. Prior Period Adjustment

Effect on Combined Statement of Comprehensive Net Expenditure	Published 2019-20 £000	Adjustment 2019-20 £000	Restated 2019-20 £000
Actuarial loss – Armed Forces Pension Scheme	32,113,043	(3,200,000)	28,913,043
Total Comprehensive Net Expenditure	39,417,901	(3,200,000)	36,217,901

Effect on Combined Statement of Financial Position	Published 2019-20 £000	Adjustment 2019-20 £000	Restated 2019-20 £000
Pension liability	(233,100,000)	3,200,000	(229,900,000)
Net liabilities, including pension liabilities	(233,388,332)	3,200,000	(230,188,332)
Combined schemes – Total net liabilities	(236,256,304)	3,200,000	(233,056,304)
General Fund	(236,256,304)	3,200,000	(233,056,304)
Total equity	(236,256,304)	3,200,000	(233,056,304)

Effect on Combined Statement of Taxpayers' Equity	Published 2019-20 £000	Adjustment 2019-20 £000	Restated 2019-20 £000
Actuarial loss – Armed Forces Pension Scheme	(32,113,043)	3,200,000	(28,913,043)
Net Change in Taxpayers' Equity	(38,263,636)	3,200,000	(35,063,636)
Balance at 31 March 2020	(236,256,304)	3,200,000	(233,056,304)

The effect of the restatement on the financial statement is summarised above. There is no effect for the year ended 31 March 2019. The prior period adjustment has resulted from a correction to the actuarial liability of pensions in payment following an error whereby the 2019-20 pension increases were double counted.

Detailed member data as at 31 March 2019 was provided to GAD for the actuarial calculation of the AFPS liability for the 2019-20 Annual Report and Accounts. As part of the actuarial calculations of pensions in payment as at 31 March 2020, the annual pension increase was incorrectly included twice.

18. 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.

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 2020-21, the Schemes received employer contributions (SCAPE) and employees' contributions from MOD in respect of active members of the AFPS. These contributions totalled £3.935 billion, £3.791 billion in 2019-20 (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 2020-21 these totalled £371.6 million, £441.1 million in 2019-20.

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. 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.

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