Hymans Robertson

Falkirk Council Pension Fund

Actuarial Valuation as at 31 March 2005

Prepared By:

Alison Murray FFA
W Douglas B Anderson FIA

March 2006

Executive Summary

This report sets out the results of our actuarial valuation of the Fund as at 31 March 2005 and is addressed to Falkirk Council as administering authority to the Fund. It has been prepared in accordance with the Funding Strategy Statement.

The main conclusions are as follows:

- The funding level (ratio of assets to past service liabilities) as at 31 March 2005 is 86% (compared to 100% as at 31 March 2002). This corresponds to a past service deficit of £110.2m.
- The employers' average cost of future service benefits (i.e. ignoring any past service deficit) is 13.5% of pay (equivalent to 230% of employee contributions - up from 12.4% of pay in 2002) on the ongoing funding basis.
- Without anticipating future equity out-performance, the corresponding result would be a funding level of 65% and a future service rate of 22.5% of pay.
- Assuming that a funding level of 100% is to be targeted over a period of 20 years on the ongoing basis (if our assumptions are borne out in practice) the common employers' contribution rate is 16.8% of pensionable pay (285% of employees' contributions).
- Adjustments have been made to the common rate of employers' contribution to take account of certain circumstances that are peculiar to individual employers. The *minimum* contributions to be paid by each employer from 1 April 2006 to 31 March 2009 are shown in our Rates and Adjustment Certificate at Appendix G. Employers may make voluntary additional contributions, for example, to recover the shortfall over a shorter period than the maximum permitted.
- Employers are also required to make additional payments in respect of unreduced early retirements.

We would be pleased to discuss any aspect of our report with the Administering Authority.

Alison Murray

Alison Murray FFA
23 March 2006

W Douglas B Anderson FIA

Contents

1. Introduction

1.1 We have carried out an actuarial valuation of the Falkirk Council Pension Fund ("the Fund") as at 31 March 2005 and have pleasure in presenting our report to Falkirk Council ("the Administering Authority") as the administering authority to the Fund.

1.2 The previous valuation was carried out as at 31 March 2002 by Hymans Robertson LLP and the results were set out in the report dated February 2003. They are summarised in the table below.

2002 Results Summary	**£m**
Value of Accrued (Past Service) Liabilities	
Employee Members	338.4
Deferred Pensioners	44.5
Pensioners	233.0
Total Accrued Liabilities (L)	**615.9**
Value of Fund Assets (A)	**616.3**
Surplus/(Deficit)	**0.4**
Funding Level [(A)/(L)]	**100%**
Employer Contributions	**% of pay**
(a) Future Service Funding Rate	12.4%
(b) Past Service Adjustment	(0.0%)
Total Common Contribution Rate [(a)+(b)]	**12.4%**

1.3 The common rate of employers' contributions was certified to be 12.4% of payroll (210% of employees' contributions) for the period 1 April 2003 to 31 March 2006. The rise in contributions from 8.2% of payroll in 2002/03 to 12.4% in 2005/06 was phased in, in equal steps, over three years. Additional contributions were paid for early retirement costs. Individual Employer adjustments were certified in a small number of cases.

1.4 The Fund is part of the Local Government Pension Scheme (LGPS) and is a multi-employer defined benefit pension scheme. It is contracted out of the State Second Pension. Employees' contributions are fixed (mostly at the level of 6% of pay). Employers pay the balance of the cost of the scheme. The actual cost will not be known until the final pensioner dies, and employers' contributions are set to meet the expected cost of the benefit. The employers' contributions are reviewed at a series of three yearly valuation exercises. This valuation is one of the series.

Purposes of Valuation

1.5 The main purposes of this valuation are:

- to review the financial position of the Fund against the Administering Authority's funding objectives;
- to enable completion of all relevant certificates and statements in connection with the Local Government Pension Scheme Regulations (Scotland) 1998 ("the Regulations"), and other relevant regulations; and
- to comment on the circumstances that may give rise to future volatility in the funding level of the Fund or employers' contributions.

Funding Objectives

1.6 The Administering Authority sets the funding objectives in consultation with the employers and has prepared a Funding Strategy Statement (FSS).

1.7 Our valuation is based on the following funding principles, which are assumed to apply to the Fund:

- building up assets to provide for new benefits of current employees as they are earned;
- recovering any shortfall in assets relative to the value placed on accrued liabilities over the longer-term; and
- ensuring that there are always sufficient assets to meet the benefits as they fall due for payment to members.

1.8 The funding objectives differ from those in place at the previous valuation, in that the guidance on the FSS encourages a longer-term view of funding and emphasises the need to balance taking a prudent approach with the need for stability of employer contributions and affordability, particularly for Council employers.

Regulatory Requirements

1.9 This valuation is carried out in accordance with Regulation 76 of the Regulations, which specifies that the Administering Authority must obtain:

- an actuarial valuation of the assets and liabilities of each of the Fund as at 31 March 1999 and every three years thereafter;
- a report by an actuary; and
- a rates and adjustments certificate.

1.10 Within the rates and adjustment certificate we are required to specify:

- the employers' common contribution rate, which is the rate which, in our opinion, would in theory be required from all employers so as to ensure the Fund's solvency over the longer-term;

- any individual adjustments (increases or decreases) to the common contribution rate, which, in our opinion are required by reason of any circumstances peculiar to that employer,

which for this valuation apply for each year of the period of three years beginning with 1 April 2006.

1.11 Under the provisions of the Regulations, we are required to have regard to:

- the existing and prospective liabilities of the Fund arising from circumstances common to all those bodies,
- the desirability of maintaining as nearly constant a rate as possible, and
- the Administering Authority's funding strategy statement.

1.12 The Fund must comply with Her Majesty's Revenue & Customs (HMRC) Surplus Test (see Section 5 of this report) where the objective is to remain below a prescribed maximum level of funding.

Use of Results

1.13 This report is provided solely for the purposes of the Administering Authority and the Fund employers to fulfil their and our statutory obligations. It should not be used for any other purpose. The liability figures contained in this report are not appropriate for employer FRS17 accounting purposes. This report should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety.

1.14 Neither we nor Hymans Robertson LLP accepts any liability to any other party unless we have expressly accepted such liability in writing.

1.15 This report has been prepared in accordance with version 7.0 of "Retirement Benefit Schemes - Actuarial Reports - GN9" published by the Institute of Actuaries and the Faculty of Actuaries. The following aspects of GN9 are not relevant to the current circumstances of the LGPS and hence our report does not comply with these aspects of GN9:

- Paragraph 2.5 of GN9 requires the actuary to state the Minimum Funding Requirement (MFR) funding level. As the MFR does not apply to the LGPS, this report does not comply with paragraph 2.5 of GN9.
- Paragraph 2.6 of GN9 requires the actuary to report on the value of the liabilities that would arise had the Fund wound up on the valuation date (based on the cost of buying out the accrued benefits with insurance policies). As the LGPS is a statutory scheme, there is no regulatory provision for scheme wind up and the scheme members have a statutory right to their accrued benefits. Therefore the concept of solvency on a buy-out basis does not apply to the Fund. Accordingly, this report does not comply with paragraph 2.6 of GN9.

1.16 The Government's recent legislation relating to employers' obligations on the voluntary termination of their pension schemes, known as the Debt on Employer regulations, does not apply to the LGPS. The Government's new safety net system from April 2005, the Pension Protection Fund, also does not apply to the LGPS. We assume that all employers will be able to fulfil their obligations to pay contributions certified in this report. To the extent that any employer defaults on its contributions whilst the Fund is in deficit, another employer or employers in the Fund will bear any shortfall.

1.17 All of the membership data was provided by the Administering Authority, and on the whole this appeared to be consistent with the accounting information. We have no reason to believe that the data is not materially complete and correct.

1.18 We were supplied with audited accounts for the years from 1 April 2002 to 31 March 2003, 1 April 2003 to 31 March 2004 and 1 April 2004 to 31 March 2005. Appendix C shows a breakdown of the assets as at 31 March 2005.

2. Fund and Benefit Information

Benefits and member contributions

2.1 The principal elements of the benefit structure of the Fund are set out in the Regulations and are summarised in Appendix A. These benefits are common to all employers participating in the Fund.

2.2 There are a small number of discretionary powers, which may be exercised by the Administering Authority or by individual employers. The principal discretions are also summarised in Appendix A. With the exception of the employers' powers to augment benefits, normally on early retirement, we would not expect that the exercise of these powers would have a material effect on the valuation results.

2.3 Although the main benefits affecting our calculations remain unchanged since the previous valuation, there have been a number of amendments to the Regulations, under the auspices of the Government's Stocktake review of the scheme. The changes are summarised in Appendix A. The changes already made do not materially affect the results of our valuation.

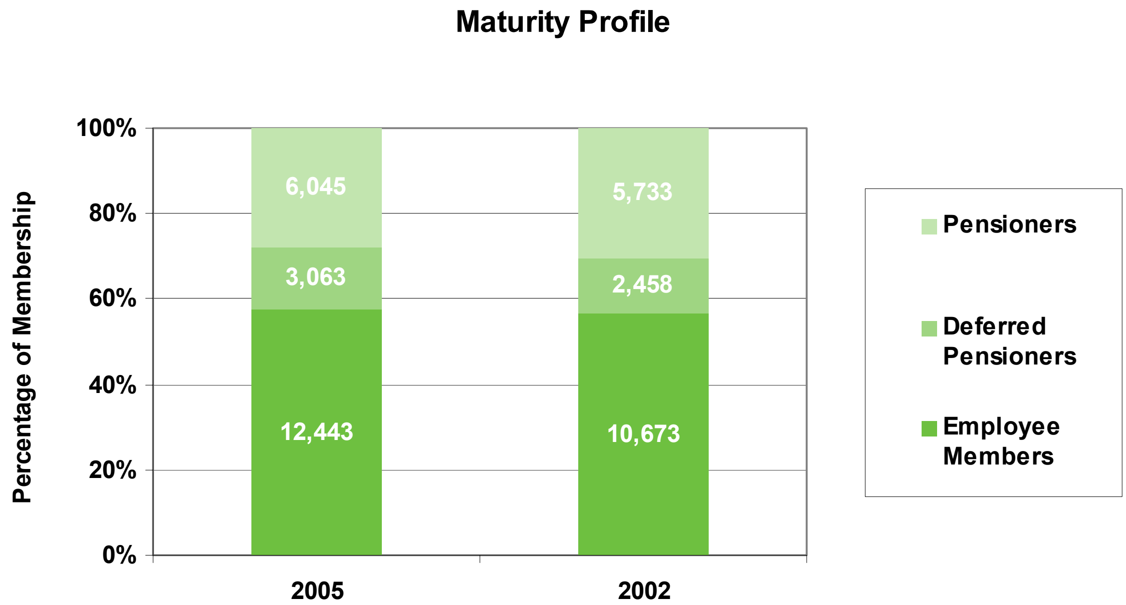
2.4 However, the Government has issued draft amending regulations that remove the Rule of 85 for service after October 2006 in England and Wales. Similar proposals are expected in Scotland. These could reduce the cost of future service benefits. No allowance has been made in this valuation for the abolition of the Rule of 85.

2.5 Most employees contribute at the rate of 6% of pay, with a closed group of manual employees who joined before April 1998 contributing at the rate of 5% of pay. The employers meet the balance of the cost of the scheme.

Fund membership

2.6 The membership of the Fund as at 31 March 2005, and changes since the previous valuation are summarised in Appendix B for each benefit category.

2.7 The chart on the following page illustrates the change in the structure of the Fund's membership between 2002 and 2005.



2.8 At a broad outgoing level, the membership split has remained relatively stable. Within the membership categories, the proportion of part time members has increased considerably - from 32% of the active membership in 2002 to over 37% as at 31 March 2005. Most of these members are female. For this valuation we have adopted different demographic assumptions for full-time and part-time members as they exhibit materially difference characteristics in terms of employment patterns and promotional salary experience.

2.9 The change in the average ages of Fund members (weighted by salary/pension) over the intervaluation period is shown in the table below.

Maturity Profile (All Employers Combined)	2005	2002
Average Age (years):		
Employee Members	43.4	42.8
Deferred Pensioners	44	42.9
Pensioners	67.8	67.2
Average Age of Retirements over last 3 years	62.7	62.8
Average Age of Pensioner Deaths over last 3 years	78.3	77.2
Ratio of Pension Roll to Salary Roll	11%	11%
Expected Future Remaining Working Lifetime (years)	8.5	11.0

2.10 The above chart and table show that the Fund has matured, albeit to a relatively modest degree. The increase in the average age of employees is important as this affects the assessed cost of future service liabilities as well as the past service liabilities (the assessed cost increases with age).

2.11 The average age at death for pensioners has increased by just over one year. However, this masks significant differences between different categories of pensioner.

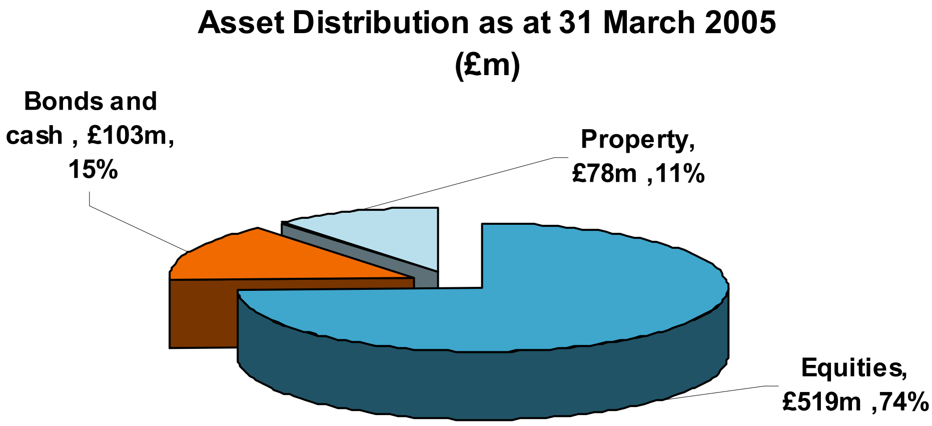
Individual Employer Information

2.12 Appendix B also shows the number of members of each of the participating employers and ex-employers as at the valuation date.

Fund assets

2.13 The Administering Authority has provided copies of the audited accounts for the Fund for the three years from 1 April 2002. The consolidated Revenue Account is shown in Appendix C, together with our estimates of the implied return on the Fund assets in each of the three years calculated from the change in the market value of assets and net annual cashflows to the Fund.

2.14 The Fund's assets are invested by the Administering Authority. The market value of assets as at 31 March 2005 was £700m [1]. A simplified summary of the asset split is shown below. A more detailed breakdown of the Fund assets is provided in Appendix C.



2.15 The Fund does not formally segregate assets between participant employers. In calculating adjustments to the Common Contribution Rate for individual employers to reflect any 'peculiar' characteristics, we apportion assets to individual employers (or to pools of employers). We use a technique known as analysis of surplus to carry out this apportionment process.

2.16 As our starting point we allocated the Fund assets to the employers as at 31 March 2002 in proportion to their then accrued liabilities, valued on the assumptions used in the 2002 valuation. (i.e. assets equivalent to 100% of the employer's accrued liabilities).

[1] excluding defined contribution AVC funds

3. Method and Assumptions for 2005 Valuation

Methodology

3.1 For this valuation, as for the previous valuation, we have adopted an approach that considers separately the benefits in respect of service completed before the valuation date (past service) and benefits in respect of service expected to be completed after the valuation date (future service). This approach enables us to focus on two results:

- The *past service funding level* of the Fund. This is the ratio of the value of the assets to the value of the past service liabilities, after making allowance for future increases to members' pay. A funding level in excess of 100% indicates a *surplus* of assets over liabilities and a funding level of less than 100% indicates a *deficit*.

- The *future service funding rate* i.e. the level of contributions required from the employers to support the cost of benefits for future service.

3.2 For this valuation we have used the *projected unit method* with a one year control period to determine the cost of benefits accruing for the Fund as a whole and for employers who continue to admit new members. This means that the contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay/contributions over that period. The method of valuation has not changed since the previous valuation. A description of the valuation method is set out in Appendix D.

3.3 For employers who no longer admit new entrants, we have adopted the *attained age method*, this means that the contribution rate is derived as the average cost of benefits accruing to employee members over the period until they die, leave the Fund or retire. A description of this method is also set out in Appendix D.

Actuarial Assumptions

3.4 In our valuation, we must make assumptions about the factors affecting the Fund's finances such as inflation, pay increases, investment returns, how long members will live and staff turnover, etc in order to place a value on the liabilities.

3.5 The future level of pay increases will determine the level of benefits to be paid in future in respect of active members and the contributions received by the Fund. Once in payment, pension benefits are increased annually in line with the headline RPI index[2].

3.6 The cost of providing benefits depends not only upon the amount but also the incidence of benefits paid i.e. at what point in the future benefits begin to be paid and for how long they continue to be paid.

3.7 As contributions are being invested now to provide for benefits payable in the future (i.e. the benefits are being prefunded) part of the cost of providing the benefits can be met from investment returns achieved by the Fund's assets that build up from contributions. The higher the rate of return achieved by the assets, the lower the contribution requirement that has to be paid in future to meet the cost of the benefits.

[2] in line with the Pension (Increases) Act 1971, lower increases can apply to Guaranteed Minimum Pensions.

3.8 The assumptions adopted at the valuation can therefore be considered as:-

- The demographic (or statistical) assumptions, which generally speaking are estimates of the likelihood of benefits and contributions being paid, and

- The financial assumptions such as future levels of inflation or salary increases which determine the amount of benefits and contributions payable. The future rate of investment return is used to discount future benefits and contributions to obtain their current or present value.

3.9 The key assumptions have been discussed with the Administering Authority. A summary of all the assumptions used is included in Appendix E.

Financial Assumptions

3.10 Since we have taken assets into account at their market value it is appropriate for us to take our lead from the market when setting the financial assumptions used to value the ongoing liabilities, to ensure consistency of the asset and liability valuation bases. The key financial assumptions are:

- Future levels of price inflation

- Future levels of real pay increases – i.e. over and above price inflation

- The discount rate (investment return) that is applied to future cashflows to determine their present value[3].

3.11 We have derived our discount rate as the expected future rate of investment return from the broad categories of assets held by the Fund. In deriving this assumption we have considered what additional returns might reasonably be expected from the Fund's investments over and above the minimum risk rate of return on Government bonds.

3.12 We have agreed with the Administering Authority to anticipate long term outperformance from the Fund's equity investment of 2% a year (in excess of the return on Government bonds). Property is anticipated to outperform gilts by 1% a year and corporate bonds by 0.5% a year. These rates are set out in the FSS.

3.13 The key financial assumptions for the current valuation and previous valuation as at 31 March 2002 are set out below. The figures marked "real" are net of assumed price inflation.

[3] For this valuation we have used the same discount rate for past and future liabilities as for the previous valuation.

Financial Assumptions	Mar 2005 Unsmoothed % p.a. Nominal	% p.a. Real	Mar 2002 Smoothed % p.a. Nominal	% p.a. Real
Minimum Risk rate of return	4.7%	1.8%	5.0%	2.4%
Anticipated extra long-term return from:				
Equities	2.0%		1.6%	
Property	1.0%			
Bonds (50% gilt 50% corporates)	0.5%		0.5%	
Overall anticipated long term return from:				
Equities	6.7%	3.8%	6.6%	4.0%
Property	5.7%	2.8%		
Bonds (50% gilt 50% corporates)	5.0%	2.1%	5.2%	2.6%
Discount Rate: (75% Equities 15% Bonds 10% Property)	**6.3%**	**3.4%**	**6.2%**	**3.6%**
Pay Increases	**4.4%**	**1.5%**	**4.1%**	**1.5%**
Price Inflation/Pension Increases	**2.9%**	-	**2.6%**	**-**

The yields as at 31 March 2002 were “smoothed”, i.e. based on an average over the twelve months to the valuation date.

Demographic Assumptions

3.14 We have carried out a major investigation into the demographic experience of Scottish LGPS pensioners and other demographic aspects for English and Welsh funds. We have used the assumptions derived from this study for this valuation, adjusted where appropriate in line with the Administering Authority’s funding strategy. In particular, we have made some allowance for expected improvements in pensioner mortality.

3.15 Details of the assumptions are included in Appendix E. The assumptions adopted at the previous valuation are shown in the report on that valuation.

3.16 We assume that benefits are drawn from the earliest age that each individual can retire without a reduction to their pension and without requiring the consent of their employer. This is consistent with the strain factors used for redundancy or efficiency early retirements. If, in practice, retirement occurs later than the earliest age, the funding level will improve.

3.17 Taken as a whole, the change to the demographic assumptions has increased the value placed on the past service liabilities and increased the assessed cost of future service benefits.

Comments on the Valuation Assumptions

3.18 There is a broad spectrum of potentially acceptable valuation assumptions.

3.19 In our opinion, the assumptions adopted for this valuation lead to an assessment of the financial position of the Fund and the long-term cost of providing the benefits for future service that just falls into the more prudent half of the spectrum.

3.20 Expectations of future inflation (as implied by gilt markets) have risen since the 2002 valuation (from 2.6% a year to 2.9% a year). This leads to a higher cost of expected future benefits. The anticipated rate of return from Fund assets described in section 3.12 leads to a slightly higher discount rate (relative to Government bonds) than in 2002. This reduces the values placed on the liabilities.

3.21 As the valuation basis is less prudent than previously, there are fewer margins to protect employers from further contribution rises if future experience is worse than assumed. Section 6 describes how future valuation results may be affected if the actuarial assumptions are not borne out in practice. We recommend a programme of actively monitoring the developing funding position of the Fund and the potential impact on future employer contributions.

3.22 Moreover, if future experience is better than assumed in this valuation, we would recommend that the opportunity is taken to rebuild prudential margins within the financial assumptions. That is, that there should be no expectation of employer contribution reductions if experience is better than assumed between 2005 and 2008.

Assets

3.23 We have taken the assets of the Fund into account at their market value as indicated in the Fund accounts for the period ended 31 March 2005. This is consistent with the approach of valuing the liabilities by reference to spot market conditions on the valuation date.

3.24 The approach taken to valuing the Fund's assets has been changed since the previous valuation, where a smoothed market value was used, although due to market conditions after the 2002 valuation date in practice the asset value in that valuation was capped at the market value.

3.25 The assets of the Fund include additional voluntary contributions (AVCs) paid by members. In some cases, these AVCs are paid on a money-purchase basis, where the accumulated funds are applied at retirement to purchase benefits for the members from the Fund, or via an insurance company. In our valuation we have excluded these assets and the corresponding liabilities.

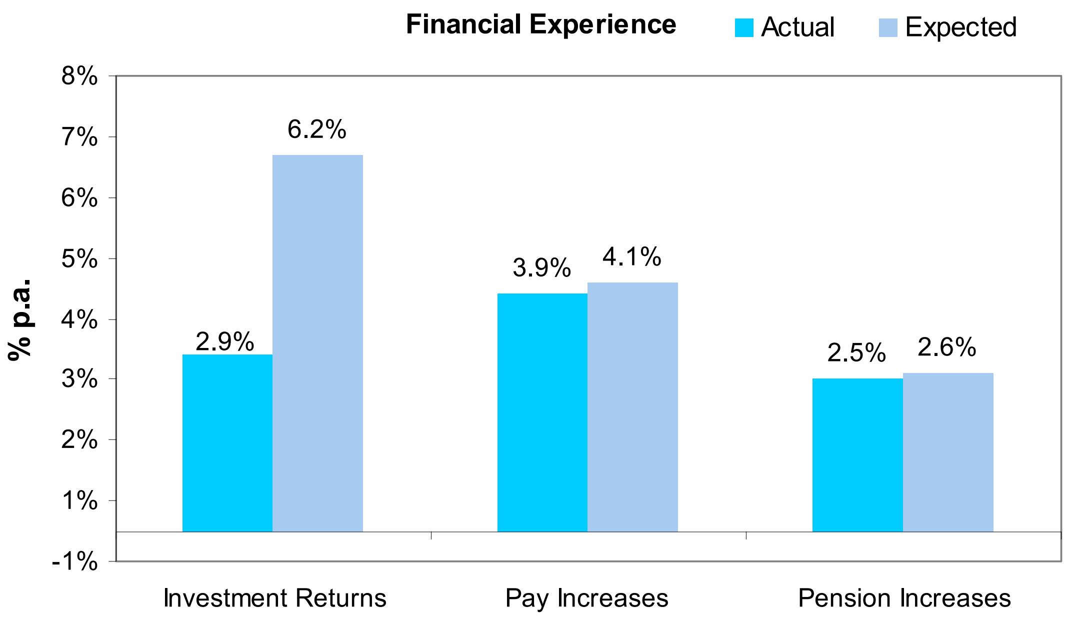
4. Experience since 2002

Results of 2002 Valuation

4.1 In the previous valuation of the Fund, the assets were valued at £616m and the past service liabilities on the ongoing basis amounted to £616m, equating to a funding level (ratio of assets to liabilities) of 100%.

Financial Experience

4.2 The chart below shows the actual financial experience of the Fund during the intervaluation period compared to the assumptions adopted at the 2002 valuation:



The figures for pay increases exclude any allowance for increments and promotional pay increases. These are included within separate promotional salary scale assumptions (see Appendix E).

4.3 The principal conclusions are:

- Investment under-performance relative to the anticipated returns built into the 2002 valuation of liabilities dominates.

- Nominal investment returns only averaged 2.9% a year over the three year period to 31 March 2005, and 0.4% a year in real terms. This was 3.3% a year less than that assumed at the 2002 valuation, leading to an expected reduction in the funding level on a like for like basis of around 11 percentage points for this factor alone.

- Pay increases over the intervaluation period were less than expected in both nominal and real terms.

- Price inflation was relatively benign, with headline RPI only rising by 7.8%, or 2.5% a year.

4.4 At the previous valuation, the employer share of the cost of future service benefits was calculated to be 210% of employee contributions. Employer contributions were stepped up to this rate over the three years from 1 April 2003. As a result, employer contributions were less than the cost of benefits accruing over the inter valuation period.

4.5 Overall, the financial experience of the Fund during the intervaluation period compared to the assumptions adopted at this valuation was a negative factor during the intervaluation period.

Demographic Experience

4.6 The impact of the variation in experience relative to the demographic assumptions adopted at this valuation as a whole has been a positive factor for the Fund.

Employee Members

4.7 The table below shows the key items of experience for active members. The expected figures are based on our 2002 assumptions. (Our approach to setting the demographic assumptions for this valuation is explained in Section 3.)

	Actual	Assumed	%Diff
Early Leavers	3,106	2,180	42%
Deaths	45	63	-28%
Ill Health Retirements	230	278	-17%
Early Retirements	116	-	

4.8 There were significantly more employee members leaving the Fund with deferred benefits or a refund of contributions than anticipated by the 2002 valuation assumptions. This excess of “withdrawals” has led to an improvement in the funding level, as the benefits for early leavers are linked to price inflation rather than salary inflation and hence have a lower assessed value. For the 2005 valuation we have anticipated higher withdrawals and hence are pre-banking a higher level of withdrawal profit than in 2002.

4.9 The number of ill-health early retirements is lower than expected at an aggregate level although this may mask differences in experience between employers. These lower than expected number of ill-health early retirements will have improved the funding level relative to that in 2002. For the 2005 results we have made allowance for fewer ill-health retirements than in the 2002 valuation (for part-time members). This has released some reserves and reduced the future service rate.

Pensioner Mortality

4.10 Pensioner mortality was slightly heavier (more deaths) than expected on our 2002 valuation assumptions. However, we observed significant differences in mortality between former officer and former manual workers as well as between age and ill-health retirees. The assumptions used in the 2005 valuation make allowance for these differences. Pensioner mortality has had a slightly positive effect on the valuation results.

5. Valuation Results

Past Service Position

5.1 One of the key funding objectives of the Fund, described in Section 3, is to build up sufficient assets to provide adequate security for members' benefits as they accrue: in other words, to target a funding level of at least 100%. The funding position as at 31 March 2005 is below this target, as shown in the table below.

Accrued (Past Service) Liabilities	**£m**
Value on minimum risk rate of return:	
Employee Members	631.2
Deferred Pensioners	98.6
Pensioners	353.3
(a) Total	**1,083.1**
Less Credit for Anticipated Future Excess Returns:	
Employee Members	(186.5)
Deferred Pensioners	(30.5)
Pensioners	(55.7)
(b) Total Credit for Anticipated Future Returns	**(272.7)**
Net Value after Credit for Future Excess Returns:	
Employee Members	444.7
Deferred Pensioners	68.2
Pensioners	297.6
(a)-(b) Total Net Liabilities	**810.4**
Assets	
Market Value of Assets	700.0
Contributions due for augmentations/redundancies	0.2
Total Value of Assets	**700.2**
Surplus (Deficit)	**(110.2)**
Funding Level	86%

5.2 It should be noted that the market value of both assets and liabilities may be volatile. The results of this valuation show only a snapshot of the funding level of the Fund as at 31 March 2005 and this result should be seen in the context of market levels before and since then.

5.3 The past service funding level of the Fund has declined since the previous valuation. The main reasons for this are:

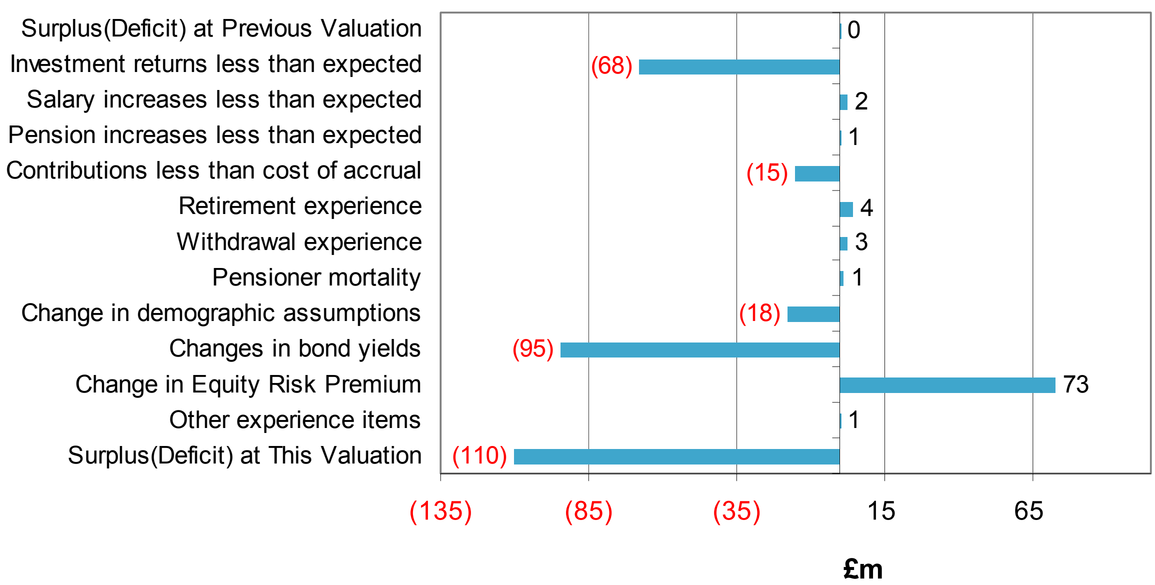
- the lower return on Fund assets over the period since the previous valuation relative to the rate required to keep pace with the liabilities;
- the changes to the demographic assumptions, principally the allowance for longer life expectancy;
- the changes to the financial assumptions, notably the fall in real gilt yields; and
- the phasing in of employer contribution increases, which meant that contributions were less than the cost of benefits accruing.

These losses have been partially offset by:

- fewer ill-health retirements and greater numbers of early leavers than anticipated;
- an increase in the allowance for asset out-performance relative to gilt yields; and
- increases in pensionable pay for employees, which were lower than anticipated.

5.4 The net effect of the gains and losses listed above are summarised in the chart below.

Reconciliation of Opening and Closing Position



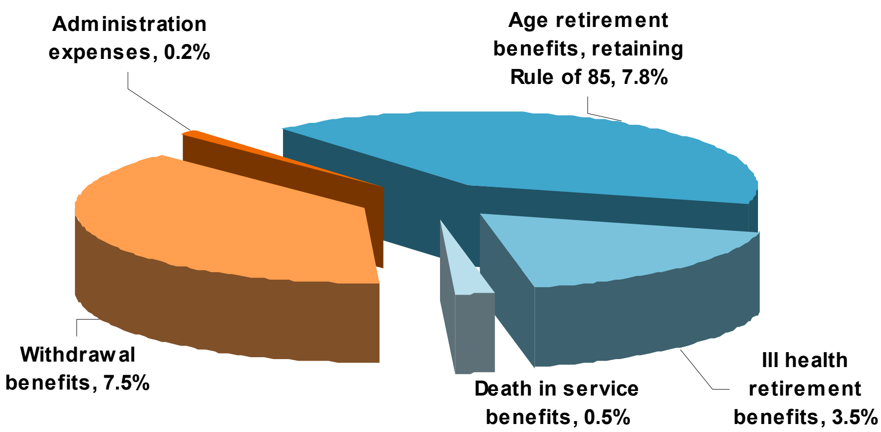
Future service

5.5 We have calculated the combined employers' long-term future service contribution rate to be 13.5% of pensionable pay (230% of employees' contributions). This represents the contributions required, in excess of members' contributions, to provide for benefits accruing to existing members over the year following the valuation date. It includes an allowance for expenses and lump sum death in service benefits. It is the rate that would, if our assumptions were borne out, apply to service following the valuation date if there were no past service surplus or shortfall in the Fund.

5.6 This rate has been calculated using the Projected Unit Method. Contributions for employers who no longer admit new entrants are calculated using the Attained Age Method, which would generally produce a higher contribution rate.

5.7 A split of the cost of future service benefits, *including members' contributions*, is shown in the chart below.

Breakdown of Cost of Accruing Benefits (% of pay)



5.8 The employers' future service contributions rate of pensionable pay may be compared with the rate revealed by the previous valuation of 12.4% of pensionable pay. The slightly higher rate revealed by this valuation is due to the net effect of:

- the reduction in real gilt yields;
- the increased allowance for future longevity improvements;
- the higher average age of employee members;

This has however, been partially off set by

- changes to the pre-retirement demographic assumptions; and
- a higher allowance for asset out-performance relative to gilts.

Contributions payable

5.9 The common contribution rate payable is the cost of future benefit accrual, increased by an amount to bring the funding level back to 100% over a period of 20 years as set out in the Funding Strategy Statement. In order to achieve some stability of contributions, the required contribution increases may be phased in over a period of three years.

5.10 The employer common contribution rate based on the funding position as at 31 March 2005 is as follows:

Employer Contribution Rates	% of payroll	% of Employee Contributions
Future Service Funding Rate	13.5%	230.0%
Past Service Adjustment - 20 years spread	3.3%	55.0%
Total Common Contribution Rate	**16.8%**	**285.0%**

Rule of 85

5.11 We have not anticipated any savings from the abolition of the Rule of 85, which may occur for service after October 2006. There would be no effect on the past service position. The future service rate could fall by around 2% of pay for the typical employer allowing for transitional protection in line with that originally proposed in England and Wales. If the future service of staff close to retirement is unaffected (staff aged 60 by 2013 may be protected) then the savings would be smaller initially. Given the uncertainty as to whether the benefit changes will be implemented, and the current funding level being below 100%, it does not appear appropriate to anticipate such savings.

Individual Employer Rates

5.12 At the 2002 valuation individual adjustments to the common contribution rate were applied in limited circumstances. At this valuation we have extended the number of employers that have been given their own individually tailored contribution rate. The individual rates reflect the maximum deficit recovery period set out in the FSS for each category of employer. Employers may pay contributions above the certified minimum rate if they wish. Any additional contributions will be credited to them at the next valuation.

HMRC Surplus Test

5.13 We have investigated the position of the Fund as at 31 March 2005 on the method and assumptions prescribed under legislation for controlling pension scheme surpluses. Our calculations reveal that the Fund did not have any “excessive” surplus as at 31 March 2005.

5.14 The Government has indicated its intention to remove the requirement for the Surplus Test with effect from 6 April 2006.

6. Influences on Future Funding

6.1 The Funding Strategy Statement provides a framework for the Administering Authority to assess its funding risks. The figures and comments in this section are intended to help put the valuation results shown in Section 5, which are critically dependent on the actuarial assumptions (described in Section 3), into context. Results of future valuations will also depend on the assumptions made at those times. Over time, the funding position and the contributions required will vary depending on actual future experience and whether this matches the assumptions made. This section discusses the potential implications of the actuarial assumptions not being borne out in the future.

6.2 Whilst the objective of targeting a funding level of 100% over a twenty year period and the decision to allow employers to phase in contribution rates over a period of up to three years help to achieve a degree of stability of employer contributions in the short-term, the deferral of the deficit repayment could lead to less stable (higher) employer contributions in the future.

6.3 In addition, the results of future valuations will depend on the assumptions made at those times. Over time, the funding position and the contributions required will vary depending on actual future experience and whether this matches the assumptions made. This section discusses the potential implications of the actuarial assumptions not being borne out in the future.

6.4 The assumption to which the valuation results are most sensitive is that relating to future investment returns (the discount rate), particularly if the Fund's investment strategy is not a close match for the liabilities. Another key assumption to which the valuation results are particularly sensitive is that relating to future mortality, or longevity. The effects of future unexpected changes in mortality, and of other risks and sensitivities, are discussed later in this section.

Investment strategy

6.5 A defined benefit pension promise, being a promise to pay an income to a member in retirement, is analogous to a bond, which is an obligation to pay an income to the investor (plus repayment of capital).

6.6 Thus for the LGPS the investments that most closely match the liabilities are long-dated index-linked bonds. By "matched" we mean that the financial influences that affect the asset value have a similar effect on the liabilities.

6.7 The Administering Authority has adopted an investment strategy that includes broadly 75% invested in equities, 15% invested in bonds and 10% invested in property.

6.8 The financial assumptions used in the valuation are set by reference to the redemption yield available on gilts of appropriate term, having regard to the Fund liabilities. In addition, we have made an allowance for the excess return that may be expected to be earned on a diversified portfolio of investments, which includes equities and property. However, no explicit account is taken of the additional risks involved in investing in assets that are not a close match to the ongoing liabilities.

6.9 If the assets of the Fund were invested wholly in gilts selected such that the cashflows closely match the pattern of benefits expected to be paid from the Fund, ("the Minimum Risk" portfolio), then the valuation results would be broadly[4] as follows.

Accrued (Past Service) Liabilities	**£m**
Value on minimum risk rate of return:	
Employee Members	631.2
Deferred Pensioners	98.6
Pensioners	353.3
Total	**1,083.1**
Total Value of Assets	700.2
Surplus (Deficit)	**(382.9)**
Funding Level	65%
Employer Contribution Rates	**% of payroll**
Future Service Funding Rate	22.5%
Past Service Adjustment - 20 years spread	10.3%
Total Common Contribution Rate	**32.8%**

6.10 The main differences between these results and those on the ongoing basis as reported in Section 5 are as follows:

- it is necessary to hold more money in the Fund now to meet the past service benefits as a result of the lower discount rate (which in turn reflects the lower expected investment return on the "Minimum Risk" portfolio); and

- an increase in the employers' contribution rate is needed to meet the cost of the accruing benefits as it is assumed that lower returns will be achieved in the future.

6.11 Note that material residual risks would remain even if the investment policy followed the "Minimum Risk" portfolio. For example, it may not be possible to buy bonds of long enough duration, meaning that there would be uncertainty associated with the returns available on future investments. Our valuation above does not include any explicit contingency reserves in respect of these risks.

Appropriateness of investment strategy

6.12 The degree of mismatch between the actual investment strategy, which include significant investments in equities and property, and the minimum risk strategy is significant. As a result the funding level in the Fund will vary considerably if the returns achieved on equities and bonds diverge.

[4] We discounted the liabilities falling due at all future durations at the minimum risk rate of return of 4.7% a year. In practice, the returns available on different bonds vary with the term of the bond.

Sensitivity Analysis

6.13 The valuation results are particularly sensitive to the assumed rates of future investment return. If future investment returns are less than expected, for example due to falls in equity markets or falls in long term rates of interest, the funding level will deteriorate. To illustrate the sensitivity of the funding level to changes in equity and bond markets, we have considered the impact of the following events occurring soon after 31 March 2005:

a) Equity-type investments (UK and international equities) fall by 25%, with no change in gilt (or property) values or yields; or

b) The price of bonds rise such that there is a 1% fall in the nominal annual redemption yields available on fixed interest gilts and a 0.5% fall in the real annual yield available on index-linked gilts, with no change in equity prices or dividend yields, or property values or yields.

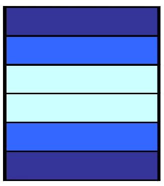
6.14 The table below shows the results that would arise for the whole fund if those events occurred soon after 31 March 2005.

Past Service Funding Levels (FL) (% of Liabilities)	Stable markets change	(a) Equities fall		(b) Bonds rise	
		New FL	Change	New FL	Change
	(i)	(ii)	(iii)=(ii)-(i)	(iv)	(v)=(iv)-(i)
Ongoing valuation (2% ERP)	86%	70%	(16%)	82%	(11%)
Minimum Risk Bond Returns	65%	53%	(12%)	62%	(9%)

6.15 The scenarios illustrated are by no means exhaustive and should not be taken as the limit of how extreme future experience could be. The impact on individual employers could be different to the Fund as a whole, for example the funding level for less mature employers would be more greatly affected by changes in bond yields than for more mature employers.

6.16 We have also considered the inter-dependency of equity and gilt asset classes within our stochastic asset model to illustrate the spread of potential returns. There are no margins for prudence taken in setting the parameters of the model. The mean additional return from equities relative to gilts is assumed to be 3% a year.

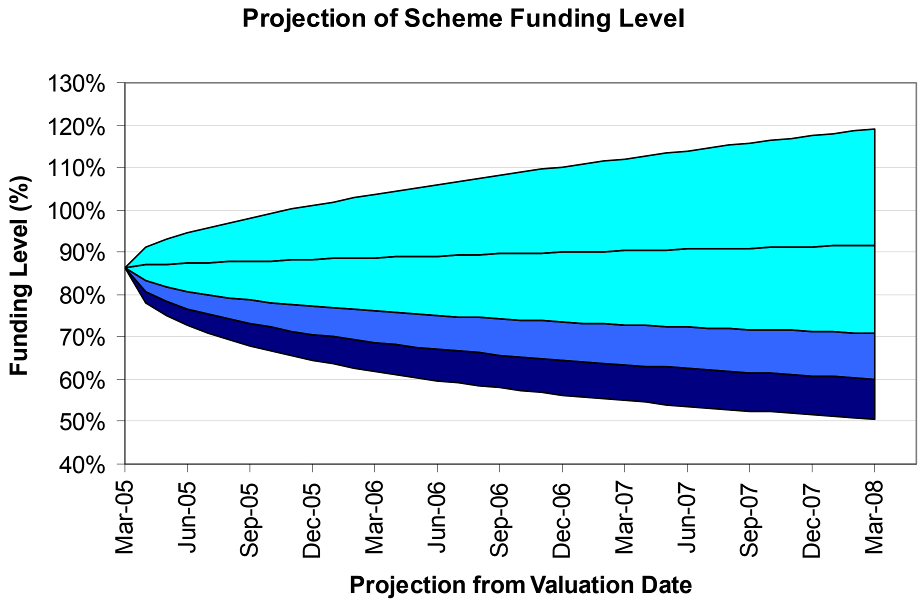
6.17 The charts below use the following colour scheme[5]:



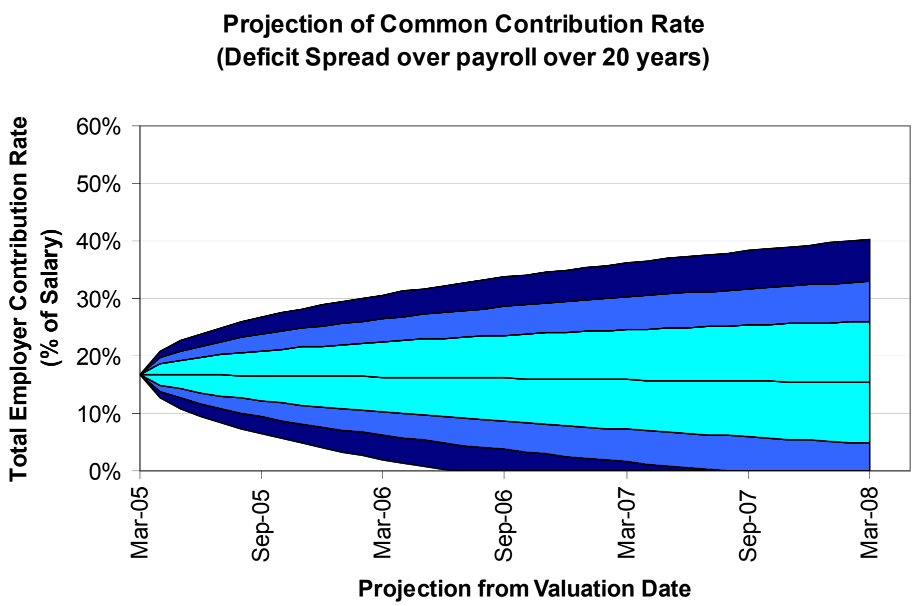
Top Percentile
Top 5th Percentile
Top 16th Percentile
Median
Bottom 16th Percentile
Bottom 5th Percentile
Bottom Percentile

[5] Please note that we have not shown the best 16% of the distribution of outcomes. This is because we have also not shown the bottom 1%. In broad terms, we estimate that you would have to give up the top 16% to protect yourself from the bottom 1% if you sought to purchase derivatives.

6.18 The first chart illustrates how the funding level for the whole Fund might vary from this valuation date to the next valuation in 2008, allowing for the volatility of different asset classes. No allowance is made for any change in the valuation basis. The turquoise area represents the outcomes that have a roughly 68% chance of occurring, so there is broadly a two in three chance of the funding level being between 70% and 120% at the 2008 valuation. There is a 16% chance of the funding level being less than 70%. The opportunity for investment growth comes with a potentially significant downside risk.



6.19 The second chart illustrates how the common contribution rate for the whole Fund might vary from this valuation date to the next valuation in 2008, (as a percentage of payroll). The dispersion of results for individual employers could be much greater depending on their maturity position.



6.20 Here the turquoise area again represents the outcomes that have a 68% chance of occurring, so there is a two in three chance of the common contribution rate being between 5% and around 26% of payroll in the 2008 valuation. There is also a non-trivial likelihood (around 16%) of the contribution rate being in excess of 26% of payroll. The reason for the wide spread is the volatility of the predominantly equity investments of the Fund.

Investment Returns Required to Maintain 2005 Deficit

6.21 The allowance for expected equity outperformance used for this valuation is more optimistic than in 2002. This raises the bar for the asset returns required in order to maintain the funding level at its current level. The value placed on liabilities anticipates a return on assets of 6.3% a year. However, as the funding level is 86%, the actual return required on the assets held by the Fund to ensure the deficit does not get any larger (in monetary terms) is 7.3% a year assuming no additional contributions are paid to recover the deficit.

6.22 It is noted that the Administering Authority has reviewed its investment strategy to take account of:

- the funding position revealed by this valuation;
- the reduced prudential margins built into the reserving for liabilities;
- the increased sensitivity of results to interest rate changes following a fall in funding levels and longer deficit spreading periods;
- the capacity of employers to be able to absorb further contribution rises if future experience is worse than assumed; and
- any differences in the profile of employers' liabilities or terms of participation for example the fact that Best Value Admission Bodies participate on different terms to other employers.

Asset-liability modelling may be helpful in understanding the investment risks.

Other risks and sensitivities

6.23 The valuation results do not include explicit contingency reserves for other unexpected non-investment related financial and demographic effects.

Longevity

6.24 The valuation results are very sensitive to unanticipated changes in future expected mortality of pensioners. Future life expectancy is uncertain. Recent medical advances, changes in lifestyles and generally greater awareness of health-related matters have resulted in longevity improving in recent years at a faster pace than most experts had foreseen. It is unknown whether such improvements will continue in the future. Certain factors, such as advancements in genetic medicine, would point towards even greater improvements in longevity in the future; conversely, the increase in childhood obesity may result in a decline in longevity in future generations.

6.25 The mortality basis adopted for this valuation has been calibrated against recent mortality experience of pensioners in similar local authority funds. Whilst allowance has been made for future improvements in life expectancy based on standard actuarial tables, no allowance has been made for the accelerated improvements which have been observed in life office annuitants born around 1926 (the so-called "cohort effect"). Insurance companies and many private sector pension schemes do include allowance for the cohort effect in reserving for their pension liabilities.

Changes to Profile of Liabilities

6.26 Future results could also be affected by changes to the profile of the liabilities. For example:

- a rise in average age of employees would lead to the future service rate rising under the Projected Unit Method;
- if deficits are recovered by contributions expressed as a percentage of payroll (or employee contributions), a fall in the payroll of an employer would lead to any deficit being recovered more slowly, and therefore a rise in future contributions. (Deficit contributions may be expressed as monetary amounts); and
- the insolvency of an employer whilst the funding of its liabilities is in deficit, or the departure of an employer without making good any funding shortfall, would lead to greater costs for one or more of the other employers.

Variations between Other Assumptions and Experience

6.27 The other main assumptions, to which the valuation results are sensitive, together with their associated risks, are described below.

- Pay increases: if increases in pensionable pay are higher than assumed, the funding position will deteriorate (this may be a particular risk for Council employers implementing single status pay regimes, particularly if the revised pay structure leads to higher rates of pensionable pay to employees with long service);
- Pension increases: if pension increases are higher than assumed, the funding position will deteriorate;
- Withdrawals: if fewer active members withdraw from pensionable service (with refunds of contributions or deferred pensions) than assumed, the funding position will deteriorate; and
- Ill-health retirements: if more members retire early on ill-health grounds, and/or retire at a younger age than assumed, the funding position will deteriorate unless the employer makes additional payments.

7. Post-Valuation Events

7.1 From 1 April 2005 to 28 February 2006, UK equity markets (as measured by the FTSE All Share Total Return Index) rose by around 23% and overseas equity markets (as measured by the FTSE All World Ex UK Total Return Index) rose by close to 30%. Other asset classes also performed well over the period. Assuming Fund returns of 22% over the period, compared to the 5.8% interest on the liabilities (6.3% p.a. for 11 months), would imply an improvement in the funding level of around 15 percentage points to 99%.

7.2 However, since the valuation date, real index-linked gilt yields have fallen considerably, from 1.7% p.a. to 0.9% p.a. as at 28 February 2006[6]. This will lead to a substantial rise in the assessed value of the past service liabilities, of around 15%.

7.3 Overall, the funding level is likely to be broadly unchanged. The fall in gilt yields will also have an effect on the assessed cost of future service benefits, and could add around 4% of payroll to the employer share of the cost.

7.4 The common contribution rate, based on market conditions as at 28 February 2006, on the basis set out in the FSS, would be approximately 4% of payroll higher than the results of the 2005 valuation. If market conditions do not improve (in particular if there is not an increase in real bond yields), then further contribution rises seems likely following the 2008 valuation.

7.5 If the Rule of 85 is abolished as anticipated for service from October 2006 this would reduce the assessed cost of future service benefits by around 2% of pay (with transitional protection as originally implemented in England and Wales).

7.6 On balance, we do not consider that events since the valuation date warrant any adjustment to the contribution rates recommended based on data and conditions as at 31 March 2005.

Ongoing Risk Management

7.7 The FSS sets out the Administering Authority’s risk management programme as it relates to the funding of the Fund.

[6] As measured by the FTSE Actuaries Index-Linked Gilts (3% Inflation) Over 15 Year Index

8. Conclusions and Recommendations

8.1 We have carried out this valuation in accordance with the Administering Authority's Funding Strategy Statement.

Whole Fund Position

8.2 The valuation reveals that the ongoing funding level of the Fund on 31 March 2005 was 86%. The shortfall of assets compared to the past service liabilities was £110m.

8.3 The average cost of accruing benefits payable by the employers, including administration expenses and lump sum death in service benefits, is 13.5% of pensionable pay (230% of employees' contributions).

8.4 The shortfall of assets over the past service liabilities requires the employers' contribution rate to be increased by 3.3% of pensionable pay (55% of employees' contributions) if recovery of the deficit is targeted over a period of 20 years. This results in a Common Contribution Rate of 16.8% of pensionable pay (285% of employees' contributions).

Employer Contribution Rates

8.5 Individual adjustments to the Common Contribution Rate, specific to each employer, or group of employers, shall be paid by the employers with effect from 1 April 2006. These allow for the phasing in of contribution rises for some employers over up to three years, in accordance with the FSS.

8.6 To formally confirm these contribution rates, a Rates and Adjustment Certificate is included as Appendix F, detailing the minimum contribution rates and amounts for each employer after allowing for any individual adjustments. The Certificate details the contributions due in each of the three financial years from 2006/07.

8.7 Employers should pay additional sums to meet the capital costs of any early retirements using the methods and factors issued by us from time to time.

8.8 In addition, the Administering Authority may monitor ill-health experience and may ask employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions. The budget in respect of ill-health early retirements for each employer over the period of the Rates & Adjustments Certificate is shown in Appendix G.

Risk Management

8.9 The valuation results are dependent on the valuation method and the actuarial assumptions (described in section 4). Section 6 discusses the key risks underlying the results and the assumptions to which the results are particularly sensitive and provides some illustration of how the Fund's funding position may change if the assumptions are not borne out in the future.

8.10 The valuation of liabilities anticipates returns of 6.3% p.a. assuming that the liabilities are fully funded. The shortfall of assets means that in order to ensure the deficit does not get any larger (in monetary terms and ignoring the effect of future accruals and contributions), it would be necessary to achieve average annual returns of 7.3%.

8.11 Under the provisions of the Regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2008. In light of the uncertainty of future financial conditions we recommend that the financial position of the Fund and for individual employers is monitored by means of interim funding reviews in the period up to the next triennial valuation. This will give early warning of changes to funding positions and possible contribution rate changes.

8.12 We recommend that the Administering Authority continues to keep its investment strategy and ongoing risk management programme under review.

New Employers Joining the Fund

8.13 Any new employers or admission bodies joining the Fund should be referred to us for individual calculation as to the required level of contribution. They should also agree to pay the capital costs (as a one-off lump sum payment) of any early retirements based on our advice and using methods and factors issued by us from time to time, together with any additional contributions that may be required if their ill-health early retirement experience is worse than assumed.

Other Matters

8.14 Any employer who ceases to participate in the Fund should be referred to us in accordance with Regulation 77 of the Regulations.

8.15 Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund, or
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement

should be referred to us to consider the impact on the Fund.

8.16 We would be pleased to answer any questions arising from our report.

Alison Murray FFA **W Douglas B Anderson FIA**
For and on behalf of Hymans Robertson LLP

23 March 2006

Appendix A - Benefit Structure

Summary of Non Discretionary Benefits Applicable to All Employers

Normal Retirement Age (NRA)	Age 65 or if earlier and a member immediately before 1 April 1998, age 60 or after age 60 on attaining 25 years of scheme membership.
Earliest Retirement Age	NRA or, if earlier, the rule of 85 date (when years of age plus years of scheme membership total to 85). Limitations on payment of benefits prior to age 60.
Members' Contributions	Officers - 6% of pensionable pay Manual Workers – 5% of pensionable pay (6% for post 31 March 1998 entrants with no continuing rights).
Pensionable Pay	All salary, wages, fees and other payments in respect of the employment, excluding non-contractual overtime and some other specified amounts. Some scheme members may be covered by special agreements.
Final Pay	The pensionable pay in the year up to the date of leaving the scheme. Alternative methods used in some cases, e.g. where there has been a break in service or a drop in pensionable pay.
Period of Scheme Membership	Total years and days of service during which a member of the Fund. Additional periods may be granted (e.g. transfers from other pension arrangements, augmentation).
Normal Retirement Benefits	Pension - 1/80th of final pay for each year of scheme membership. Lump Sum - 3/80th of final pay for each year of scheme membership.
Early Retirement Benefits	On retirement after age 50 with employer's consent a pension and lump sum based on actual scheme membership completed may be paid, subject to reduction on account of early payment in some circumstances.

Ill-Health Benefits	In the event of premature retirement due to permanent ill-health or incapacity, an immediate pension and lump sum are paid based on actual scheme membership plus an enhancement period of scheme membership. The enhancement period is dependent on scheme membership at date of leaving. No reduction is applied due to early payment.
Pension Increases	All pensions in payment, deferred pensions and dependant's pensions other than benefits arising from the payment of additional voluntary contributions are increased annually. Pensions are increased partially under the Pensions (Increases) Act and partially in accordance with statutory requirements (depending on the proportions relating to pre 88 GMP, post 88 GMP and excess over GMP).
Death after Retirement	A spouse's pension of one half of the member's pension (generally post 1st April 1972 service for widowers' pension) is payable; plus If the member dies within five years of retiring the balance of five years' pension payments will be paid in the form of a lump sum, plus Children's pensions may also be payable.
Death in Service	A lump sum of two times final pay, plus A spouse's pension of one half of the ill-health retirement pension that would have been paid to the scheme member if he had retired on the day of death, plus Children's pensions may also be payable.
Leaving Service Options	A deferred pension payable from Earliest Retirement Age (minimum of age 60); or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than two years' pensionable service, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.

State Pension Scheme	The Fund is contracted-out of the State Second Pension (S2P), previously the State Earnings Related Pension Scheme (SERPS) and the benefits payable to each member are guaranteed to be not less than those required to enable the Fund to be contracted-out.

Notes:

All benefits under the Fund are subject to limits laid down from time to time by the Inland Revenue.

Certain categories of members of the Fund are entitled to benefits that differ from those summarised above.

Discretionary Benefits

A1 The Regulations give employers a number of discretionary powers, including:

(a) the awards of periods of augmentation under Regulation 51;

(b) the payment of benefits on employer's consent prior to age 60 under Regulation 30;

(c) the reduction or suspension of scheme member contributions on attaining 40 years' scheme membership under Regulation 14;

(d) not applying the suspension of spouses' pensions on remarriage or cohabitation for members who retired before 1 April 1998.

A2 The effect on benefits or contributions as a result of the use of (a) to (c) above prior to 1 April 2005 has been allowed for in this valuation to the extent that this is reflected in the membership data provided. No allowance has been made for the future use of discretionary powers. Our assumptions do not anticipate any saving from the suspension of spouses' pension; to the extent that this continues, there will be a saving.

Appendix B - Membership Data

B1. A summary of the membership records on which this valuation is based, and on which the previous valuation was based, is as follows:

Employee Members

Class of Member	Number		Pensionable Pay £(000)		Average Salary	
			PTE	PTE	FTE	PTE
	2005	2002	2005	2002	2005	2002
Male Officers (F/T)	1,248	1,514	35,340	40,101	28,317	26,487
Female Officers (F/T)	1,675	2,189	36,039	42,256	21,516	19,304
Male Manuals (F/T)	734	938	12,270	14,529	16,716	15,489
Female Manuals (F/T)	72	120	987	1,438	13,714	11,985
Male Officers (P/T)	17	15	260	174	15,275	11,593
Female Officers (P/T)	681	669	8,036	6,998	11,800	10,461
Male Manuals (P/T)	12	19	101	134	8,431	7,028
Female Manuals (P/T)	462	697	3,298	4,669	7,139	6,699
Post 98 Males (F/T)	1,884	1,097	37,022	19,564	19,651	17,834
Post 98 Females (F/T)	2,253	1,423	41,356	22,868	18,356.1	16,070
Post 98 Males (P/T)	255	151	1,864	1,018	7,308.0	6,740
Post 98 Females (P/T)	3,150	1,841	20,641	11,086	6,552.8	6,022
Total	**12,443**	**10,673**	**197,213**	**164,834**	**15,849**	**15,444**

Pensioners

B2. The table below shows the distribution of pensioners, split by type of pensioner.

	Number		Annual Pensions £ (000)		Average £	
	2005	**2002**	**2005**	**2002**	**2005**	**2002**
Male Officer - Ill Health	201	209	1,439	1,176	7,159	5,626
Female Officer - Ill Health	399	373	1,743	1,342	4,367	3,597
Male Manual - Ill Health	549	633	1,914	1,886	3,486	2,979
Female Manual - Ill Heath	415	430	633	551	1,524	1,280
Male Officer - Age	849	789	7,239	6,023	8,526	7,634
Female Officer - Age	1,085	967	3,872	3,197	3,568	3,306
Male Manual - Age	761	729	1,988	1,815	2,613	2,490
Female Manual - Age	797	678	766	622	962	917
Widows	854	820	1,852	1,604	2,168	1,956
Widowers	84	61	90	55	1,073	907
Male-Children	51	22	60	23	1,178	1,026
Female-Children	-	22	-	22	-	979
Total	**6,045**	**5,733**	**21,595**	**18,314**	**3,572**	**3,195**

Deferred Pensioners

B3. The table below shows the distribution of deferred pensioners.

	Number		Annual Pensions £ (000)		Average £	
	2005	**2002**	**2005**	**2002**	**2005**	**2002**
Male Officers	689	534	1,802	1,408	2,616	2,638
Female Officers	1,591	1,619	2,407	2,394	1,513	1,479
Male Manuals	441	304	743	155	1,685	511
Female Manuals	342	1	205	1	600	1,205
Total	**3,063**	**2,458**	**5,158**	**3,960**	**1,684**	**1,611**

Notes
1 - The numbers relate to the number of records and so will include members in receipt of or potentially in receipt of more than one benefit.
2 - Annual pensions are funded items only include pension increases up to and including the 2005 PI Order.

Membership Split by Employer

Employer Code	Employer Name	Numbers of Members at 2005 Actives	Deferreds	Pensioners	Actual Pensionable Salary (£000')
53	Falkirk Council	5,103	1,190	2,802	69,338
52	Clackmannan Council	1,639	461	1,036	24,944
54	Stirling Council	2,833	814	1,696	44,804
5	Dollar Academy Trust	39	16	27	584
6	Falkirk College	164	39	33	2,804
7	Stirling University	2	4	17	36
8	Clackmannan College	46	15	13	753
9	Snowdon School for Girls (Old)			2	
10	St Ninians School		1	5	
11	Ballikinrain School	47	6	19	901
13	Strathcarron Hospice	104	27	30	1,876
14	Stirling Enterprise Park Limited	15	9		284
15	Scottish Society for Autism	326	119	40	4,922
16	CESU		3		
18	Snowdon School Ltd	11	2	1	203
19	Ceteris	35	24	3	457
22	Association of Scottish Colleges	8	5		242
23	Stirling University Innovation Park Ltd	3	3		60
24	Cowane's Hospital	2	3		40
25	Community Training and Development Unit	3	1		54
26	Falkirk Women's Technology Centre	7	2		83
27	Bo'ness Development Trust		2	1	
28	Smith Art Gallery	7	1		114
29	Argyll, The Isles, Stirling Tourist Bd	52	14	4	774
31	Alsorts	3	1		40
32	Langlees Community Dev. Project		1		
33	Careers Central Ltd.		8	11	
34	Scottish Children's Reporter Admin.	438	60	82	8,986
35	BOSS		1		
36	Central Carers Association	7	2		104
37	Cent Scotland Coun. for Racial Equality	5	1		75
38	Scottish Environment Protection Agency	1,053	156	56	25,400
39	Scottish Water and Sewerage Customers Council				
55	Central Scotland Police	323	42	109	5,971
56	Central Scotland Fire & Rescue Service	48	6	25	894
57	Central Scotland Joint Valuation Board	56	12	26	1,270
58	St Mary's Episcopal P.S.				
59	Open Secret	5	1		60
60	Tourist Board Training	5			135
61	Water Industry Commissioner for Scotland	15	9	1	447
63	Playplus	4	1		63
64	Seamab School	24	2		380
65	McLaren Community Leisure Centre	11			113
90	Aberlour Trust				
91	East Dunbartonshire Council				
92	North Lanarkshire Council			4	
93	Ex Stirling County (NHS Recharge)			2	
Totals		12,443	3,063	6,045	197,213

Appendix C - Accounts and Asset Data

Assets at 31 March 2005

C1. We were supplied with audited accounts for the years ended 31 March 2003, 31 March 2004 and 31 March 2005. The accounts for the year ended 31 March 2005 indicated that the market value for the Fund's assets as at the valuation date amounted to £700m Members' Additional Voluntary Contributions are excluded from this total and from the value placed on the Fund's liabilities.

C2. A summary of the Fund's assets as at 31 March 2005 is as follows:

Market Value of Assets	**as at 31 March 2005**	
	£(000)	**%**
UK Equities	321,217	46%
UK Fixed Interest Gilts	21,907	3%
UK Corporate Bonds	28,749	4%
UK Index Linked Gilts	12,353	2%
Overseas Equities	197,497	28%
Overseas Bonds	17,924	3%
Property	78,243	11%
Cash	18,727	3%
Net Current Assets	3,353	0%
TOTAL (excluding AVCs)	**699,969**	**100%**

This excludes the assets in respect of money purchase AVCs.

Revenue Accounts for the Inter-valuation Period

Revenue Accounts	Year to	31 Mar 05 £ (000)	31 Mar 04 £ (000)	31 Mar 03 £ (000)	TOTAL £ (000)
EXPENDITURE	Retirement Pensions	20,527	19,574	18,706	58,806
	Retirement Lump Sums	3,943	2,214	3,218	9,375
	Death Benefits	613	642	549	1,804
	Transfer Values	6,828	7,094	3,717	17,638
	Refunds/CEPs	188	196	179	563
	Admin Expenses	376	368	386	1,131
	Investment Expenses	1,979	1,622	1,770	5,371
	Other Expenditure	-	-	-	-
TOTAL		**34,454**	**31,710**	**28,524**	**94,688**
INCOME	Employee Contributions	12,479	11,413	10,721	34,613
	Employer Contributions	27,265	20,036	16,542	63,842
	Transfer Values	7,071	6,275	5,667	19,014
	Investment Income	19,581	17,995	16,720	54,296
	Other Income	-	-	-	-
TOTAL		**66,396**	**55,719**	**49,649**	**171,765**
Fund Value					
Assets at Start of Year		618,221	481,453	615,736	615,736
Net Cashflow		31,943	24,009	21,125	77,076
Change in value		49,806	112,760	(155,409)	7,157
Assets at End of Year		**699,969**	**618,221**	**481,453**	**699,969**
Annual Returns					
Approx Rate of Return		10.8%	26.6%	-22.7%	2.7%
WM LA Median		11.7%	23.4%	-19.5%	3.5%

Fund Insurance Arrangements

C3. There are no insurance arrangements in place to provide benefits under the Regulations.

Appendix D - Valuation Method

D1. Using our assumptions we estimate the payments that will be made from the Fund throughout the future lifetimes of existing employee members, deferred pensioners, pensioners and their dependants. We then calculate the amount of money that, if invested now, would be sufficient to make these payments in future, assuming that future investment returns are in line the discount rate. This amount is called "the present value" (or, more simply, "the value") of members' benefits. Separate calculations have been made in respect of benefits arising from service before the valuation date ("past service") and from service after the valuation date ("future service").

D2. This process is carried out separately for each employer. Where differences between participant employers are not considered material, we may agree with the administering Authority to pool together their results.

Past service funding position

D3. A comparison is made of the value of the assets held with the value of benefits for past service (but allowing for future pay and pension increases). If there is an excess then there is a past service surplus. If the converse applies there is a past service shortfall.

Future service contribution rate

Employers Admitting New Entrants

D4. For employers who continue to admit new entrants we have adopted the projected unit method of valuation. This is summarised below.

Projected Unit Method

D5. The first stage is to calculate the value of benefits (other than the lump sum death-in-service benefits) accruing to existing employee members over the year following the valuation date, by reference to projected pay as at the date of retirement or earlier exit. The value of members' ordinary contributions over the same period is then deducted and the net cost to the employer is calculated by expressing the value of the benefits accruing as a percentage of the members' pensionable pay over the year following the valuation date.

D6. The cost of the lump sum death in service benefit is separately assessed as amount that is likely to be paid out in an average year, based on the membership structure at the valuation date. Finally, an addition is made to cover the expenses of administration of the Fund.

D7. The method described above is applied only to the Fund membership at the valuation date, and results in an increasing contribution rate over time if the assumptions adopted are unchanged and the average age of membership increases (for example, if there are no new entrants to the Fund). This is due to the fact that the cost of benefits typically increases with age. The opposite would also be true assuming the age profile of the scheme membership decreased. If the admission of new entrants is such that the membership profile remains broadly unchanged and the assumptions adopted are unchanged, then the contribution rate brought out at future valuations should be reasonably stable.

Employers not Admitting New Entrants

D8. For employers who are no longer admitting new entrants we have adopted the *attained age* method of valuation. This is similar to the projected unit method described above, and produces the same past service position. The future service contribution rate calculation under the attained age method is summarised below.

Attained Age Method

D9. The first stage is to calculate the value of the benefits (other than the lump sum death-in-service benefits) accruing to existing employee members over their anticipated period of future membership, by reference to projected pay as at the date of retirement or earlier exit. The value of members' ordinary contributions over the same period is then deducted and the net cost to the employer is calculated by expressing the value of the benefits accruing as a percentage of the members' pensionable pay over their remaining service lives.

D10. The cost of the lump sum death in service benefit is separately assessed as amount that is likely to be paid out in an average year, based on the membership structure at the valuation date. Finally, an addition is made to cover the expenses of administration of the Fund.

D11. If the actuarial assumptions adopted are unchanged, this funding method will, for pension benefits, give rise to a stable contribution rate in future years in respect of the existing membership. But this will only be so if certain surpluses or deficiencies revealed at subsequent actuarial valuations (i.e. those arising due to the fact that the cost of a year's accrual of pension increases with each year of age) are reflected in the contribution rate payable.

Overall result

D12. Any past service surplus (or shortfall) that remains can be applied to reduce (or increase) the contribution rate actually payable by the employers over the period following the valuation date.

Appendix E - Valuation Assumptions

Financial assumptions

E1. The key assumptions adopted for this valuation and the previous valuation are summarised in the table below.

Financial Assumptions	Mar 2005 Unsmoothed % p.a. Nominal	Mar 2005 Unsmoothed % p.a. Real	Mar 2002 Smoothed % p.a. Nominal	Mar 2002 Smoothed % p.a. Real
Minimum Risk rate of return	4.7%	1.8%	5.0%	2.4%
Anticipated extra long-term return from:				
Equities	2.00%		1.60%	
Property	1.00%			
Bonds (50% gilt 50% corporates)	0.50%		0.50%	
Overall anticipated long term return from:				
Equities	6.70%	3.8%	6.60%	4.0%
Property	5.70%	2.8%		
Bonds (50% gilt 50% corporates)	5.00%	2.1%	5.20%	2.6%
Discount Rate: (75% Equities 15% Bonds 10% Property)	**6.3%**	**3.4%**	**6.2%**	**3.6%**
Pay Increases	**4.4%**	**1.5%**	**4.1%**	**1.5%**
Price Inflation/Pension Increases	**2.9%**	**-**	**2.6%**	**-**

Demographic assumptions

E2. The demographic assumptions represent our estimate of future experience in the Fund. They take account of expected future trends (for instance future improvements in life expectancy) as well past experience in the Fund and other Local Government client funds. Sample rates are shown in the following tables

Age	Incidence per 1000 active members per annum											
	Male Officers & Post 98 Males			Male Manuals			Female Officers & Post 98 Females			Female Manuals		
	Death	Ill Health Retirement		Death	Ill Health Retirement		Death	Ill Health Retirement		Death	Ill Health Retirement	
		F/T	P/T		F/T	P/T		F/T	P/T		F/T	P/T
20	0.30	-	-	0.30	-	-	0.16	-	-	0.16	-	-
25	0.30	-	-	0.30	3.2	2.6	0.16	0.6	0.5	0.16	2.6	2.1
30	0.36	0.6	0.5	0.36	5.2	4.2	0.24	1.0	0.8	0.24	3.6	2.9
35	0.42	0.8	0.6	0.42	7.8	6.2	0.40	2.0	1.6	0.40	5.2	4.2
40	0.72	1.4	1.1	0.72	10.8	8.6	0.64	2.6	2.1	0.64	7.2	5.8
45	1.20	3.2	2.6	1.20	15.6	12.5	1.04	4.2	3.4	1.04	9.2	7.4
50	1.92	8.8	7.0	1.92	22.8	18.2	1.52	8.2	6.6	1.52	13.6	10.9
55	3.00	18.0	14.4	3.00	36.8	29.4	2.00	21.6	17.3	2.00	25.6	20.5
60	5.40	36.0	28.8	5.40	70.0	56.0	2.56	-	-	2.56	-	-

Age	Incidence per 1000 active members per annum							
	Male Officers & Male Manuals		Post 98 Males		Female Officers & Female Manuals		Post 98 Females	
	Withdrawal		Withdrawal		Withdrawal		Withdrawal	
	F/T	P/T	F/T	P/T	F/T	P/T	F/T	P/T
20	196	245	294	490	186	232	279	464
25	129	162	194	323	125	156	187	312
30	92	115	138	230	105	131	157	262
35	72	90	108	180	90	113	136	226
40	58	72	87	144	75	94	113	188
45	47	59	71	118	62	77	93	155
50	37	46	55	91	47	59	71	118
55	32	40	48	79	36	45	55	91
60	19	24	29	48	17	21	25	42

Age	Promotional Salary Scales							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	FT	PT	FT	PT	FT	PT	FT	PT
20	100	100	100	100	100	100	100	100
25	100	100	100	100	100	100	100	100
30	123	113	100	100	115	105	100	100
35	138	123	100	100	126	110	100	100
40	148	128	100	100	136	115	100	100
45	158	128	100	100	136	115	100	100
50	168	128	100	100	136	115	100	100
55	168	128	100	100	136	115	100	100
60	168	128	100	100	136	115	100	100

Other Assumptions

Age Retirements	It is assumed that active members will retire at age 60 or when they would satisfy the *Rule of 85* if later subject to no later than age 65.
Pensioner Mortality	Current Pensioners - PXA92 c2015 Prospective Pensioners - PXA92 c2030 The following age ratings are applied in each case:

	Males	Females
Officers (& post-98 joiners)	-1 years	-1 years
Manuals	+2 years	+1 year

Ill Health Retirement - as above, except rated up by 5 years (6 years for male manuals)

Widows – one year older than female pensioners

Proportions Married (including a loading for dependants benefits)	A varying proportion of members will be married and entitled to a spouse's pension. Sample proportions are:

Age	Males	Females
40	62%	67%
60	80%	75%
80	72%	55%

Wife/Husband Age Difference	Husbands are assumed to be 3 years older than their wives
Administration Expenses	0.2% of payroll

Appendix F - Rates and Adjustments Certificate

In accordance with Regulation 76 of the Local Government Pension Scheme Regulations (Scotland) 1998, as amended, we have made an assessment of the contributions that should be paid to the Fund by the employing authorities as from 1 April 2006 in order to maintain the solvency of the Fund.

The required contribution rates are set out in the attached statement.

Signature	…………………………………………………………..
Date:	23 March 2006
Name:	Alison Murray
Qualification:	Fellow of the Faculty of Actuaries
Firm:	Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB

STATEMENT TO THE RATES AND ADJUSTMENTS CERTIFICATE

The Common Rate of Contribution payable by each employing authority under Regulation 76 for the period 1 April 2006 to 31 March 2009 is as set out below:-

For the Year Ending	Minimum Employer Contributions (% of employees' contributions)	Minimum Employer Contributions (% of employees' contributions)
31 March 2007	240%	14.1%
31 March 2008	265%	15.6%
31 March 2009	285%	16.8%

Individual adjustments are required under Regulation 76 for the period 1 April 2006 to 31 March 2009 resulting in Minimum Total Contributions expressed as a percentage of employee contributions and pensionable pay as set out below:-

Employer Codes	Employer Name	Minimum Contribution for year ending 31 March 2007	31 March 2008	31 March 2009
		% of employees' contributions	% of employees' contributions	% of employees' contributions
53	Falkirk Council	240%	270%	295%
52	Clackmannanshire Council	240%	270%	295%
54	Stirling Council	240%[1]	270%[1]	295%[1]
56	Central Scotland Fire & Rescue Service	240%	270%	295%
57	Central Scotland Joint Valuation Board	240%	270%	295%
55	Central Scotland Police	240%	270%	295%
11	Ballikinrain School	240%	270%	295%
5	Dollar Academy Trust	240%	270%	295%
29	Argyll, The Isles, Stirling Tourist Board	290%[2]	290%[2]	290%[2]
19	Ceteris	240%	255%	275%
6,8	Forth Valley College	230%	250%	260%
34	Scottish Children's Reporter Admin.	270%	270%	270%
38	Scottish Environment Protection Agency	215%	230%	245%
15	Scottish Society for Autism	210%	210%	210%
64	Seamab School	230%	230%	230%
14	Stirling Enterprise Park Limited	250%	290%	320%
7	Stirling University	330%[2]	330%[2]	330%[2]
13	Strathcarron Hospice	240%	265%	285%
	Small Admitted Bodies Pool			
31	Alsorts	220%	230%	230%
22	Association of Scottish Colleges	220%	230%	230%
37	Cent Scotland Coun. for Racial Equality	220%	230%	230%
36	Central Carers Association	220%	230%	230%
25	Community Training and Development Unit	220%	230%	230%
24	Cowane's Hospital	220%	230%	230%
26	Falkirk Women's Technology Centre	220%	230%	230%
65	McLaren Community Leisure Centre	220%	230%	230%
59	Open Secret	220%	230%	230%
63	Playplus	220%	230%	230%
28	Smith Art Gallery	220%	230%	230%
18	Snowdon School Ltd	220%	230%	230%
23	Stirling University Innovation Park Ltd	220%	230%	230%
60	Tourist Board Training	220%	230%	230%
61	Water Industry Commissioner for Scotland	220%	230%	230%

Employer Codes	Employer Name	Minimum Contribution for year ending 31 March 2007 % of employees' contributions	31 March 2008 % of employees' contributions	31 March 2009 % of employees' contributions
	Employers with no actives			
90	Aberlour Trust			
27	Bo'ness Development Trust			
35	BOSS			
33	Careers Central Ltd.			
16	CESU			
91	East Dunbartonshire Council			
93	Ex Stirling County (NHS Recharge)			
32	Langlees Community Dev. Project			
92	North Lanarkshire Council			
39	Scottish Water and Sewerage Customers Council			
9	Snowdon School for Girls (Old)			
58	St Mary's Episcopal P.S.			
10	St Ninians School			
1	Central Regional Council [3]			
2	Clackmannan District Council [3]			
3	Falkirk District Council [3]			
4	Stirling District Council [3]			

Notes:
[1] Stirling Council may be asked to make additional contributions to the Fund if it retains the deficit in respect of employees transferring to a new Admission Body (Active Stirling Trust)

[2] Annual lump sum contributions are payable in addition to the above rates, in line with figures in the table below.

Employer Code	Employer Name/Group	Lump Sum Payment (£000pa) for the Year Ending 31 March 2007	31 March 2008	31 March 3009
29	Argyll, The Isles, Stirling Tourist Board	53.4	55.7	58.2
7	Stirling University	54.8	57.2	59.7

[3] Contributions in respect of the deficit attributable to these employers have been shared amongst the Councils in agreed proportions

Notes

Contributions expressed as a percentage should be paid into the Fund at a frequency in accordance with the regulations.

Further sums should be paid to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those included within our assumptions, at the discretion of the Administering Authority.

The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by ourselves.

Future periodic contributions may be adjusted on a basis approved by ourselves.

Appendix G – Ill-health Early Retirements

Included in the valuation calculations is an assumption in relation to the expected incidence of retirements on the grounds of ill health for employee members for each year in the future. The allowance made varies by age and category and so will be different for each employer or pool of employers depending on the profile of their employee membership.

The following table sets out:

- the expected number per annum based on the employee membership at the valuation date;
- the expected number per annum per 1,000 employee members;
- the expected cost per annum as a monetary amount as at the valuation date; and
- the expected cost per annum expressed as a percentage of pensionable pay.

Employer Code	Employer	Expected Number per annum	Expected Number per 1000 p.a	Expected Cost p.a. £(000s)	Expected Cost p.a. % of payroll
5	Dollar Academy Trust	0.4	9.7	18.1	3.10%
6,8	Forth Valley College	1.7	8.2	77.2	2.17%
7	Stirling University	0.0	8.9	0.6	1.53%
11	Ballikinrain School	0.4	8.8	17.1	1.90%
13	Strathcarron Hospice	0.9	9.1	46.5	2.48%
14	Stirling Enterprise Park Limited	0.2	11.8	7.7	2.71%
15	Scottish Society for Autism	1.6	5.0	71.0	1.44%
18	Snowdon School Ltd	0.0	4.1	2.8	1.37%
19	Ceteris	0.3	7.2	12.3	2.68%
22	Association of Scottish Colleges	0.1	10.6	4.5	1.86%
23	Stirling University Innovation Park Ltd	0.1	23.5	3.3	5.48%
24	Cowane's Hospital	0.0	2.3	0.3	0.74%
25	Community Training and Development Unit	0.0	6.6	1.0	1.93%
26	Falkirk Women's Technology Centre	0.0	2.6	1.0	1.15%
28	Smith Art Gallery	0.1	12.8	4.9	4.33%
29	Argyll, The Isles, Stirling Tourist Bd	0.4	8.3	19.3	2.49%
31	Alsorts	0.0	8.2	1.3	3.23%
34	Scottish Children's Reporter Admin.	2.9	6.5	144.3	1.61%
36	Central Carers Association	0.1	10.1	4.0	3.90%
37	Cent Scotland Coun. for Racial Equality	0.0	1.0	0.1	0.14%
38	Scottish Environment Protection Agency	5.3	5.0	257.7	1.01%
52	Clackmannanshire Council	15.6	9.5	741.0	2.97%
53	Falkirk Council	43.7	8.6	2,026.3	2.92%
54	Stirling Council	22.7	8.0	1,068.7	2.39%
55	Central Scotland Police	2.4	7.3	109.8	1.84%
56	Central Scotland Fire & Rescue Service	0.4	7.9	16.6	1.85%
57	Central Scotland Joint Valuation Board	0.5	9.6	27.6	2.17%
59	Open Secret	0.1	10.5	3.0	5.01%
60	Tourist Board Training	0.0	8.3	2.2	1.61%
61	Water Industry Commissioner for Scotland	0.0	2.1	1.0	0.23%
63	Playplus	0.0	5.3	1.2	1.84%
64	Seamab School	0.1	6.2	8.0	2.10%
65	McLaren Community Leisure Centre	0.0	3.9	2.2	1.96%