

## PENSION FUND ACCOUNT

This statement shows the revenue account of the Pension Fund and separates those transactions which are related to dealings with members as opposed to those transactions which are a consequence of investment.

2005/06 £'000		2006/07 £'000	Note
<b>CONTRIBUTIONS AND BENEFITS</b>			
	Contributions receivable:		
28,539	From Employers	35,506	9
13,127	From Employees	14,079	9
6,823	Transfers from Other Schemes	6,870	
	Benefits Payable:		
(22,010)	Pensions	(23,454)	9
(4,088)	Lump Sums	(6,863)	9
	Payments to and on account of leavers:		
(229)	Refunds of contributions	(190)	
(5,128)	Transfers Out	(4,123)	
(396)	Administrative and Other Expenses	(319)	
16,638	<b>Net Additions from dealing with Members</b>	21,506	
<b>RETURNS ON INVESTMENTS</b>			
22,588	Investment Income	26,591	7
(255)	Taxation (Irrecoverable withholding tax)	(427)	
	Change in Market Value of Investments:		
90,756	Realised	22,654	
54,824	Unrealised	9,114	
(2,145)	Investment Management Expenses	(2,838)	5
165,768	<b>Net Return on Investments</b>	55,094	
182,406	<b>Net Increase/(Decrease) in the Fund during the year</b>	76,600	
699,969	<b>Opening Net Assets as at 1<sup>st</sup> April 2006</b>	882,375	
882,375	<b>Closing Net Assets as at 31 March 2007</b>	958,975	

## PENSION FUND NET ASSETS STATEMENT

This statement discloses the size and type of the net assets of the scheme at the end of the financial year.

2005/06 £'000		2006/07 £'000
	<b>INVESTMENTS AT MARKET VALUE:-</b>	
329,427	U.K. Equities	377,145
178,062	U.K. Managed Funds – Others	11,110
2,612	U.K. Managed Funds – Unlisted	9,473
86,653	U.K. Managed Funds – Property	100,135
-	U.K. Managed Funds – Life Fund	130,631
107,184	Overseas Equities	266,412
145,910	Overseas Managed Funds – Others	23,933
1,412	Overseas Managed Funds – Unlisted	4,851
-	Overseas Managed Funds – Property	2,960
2,500	UK Property	2,500
15,296	FUNDS HELD BY INVESTMENT MANAGERS	18,160
	<b>OTHER NET ASSETS/(LIABILITIES)</b>	
(488)	Sundry Creditors	(1,519)
4,846	Sundry Debtors	7,016
8,961	Temporary Advance to Loans Fund	6,168
882,375	<b>NET ASSETS</b>	<b>958,975</b>

With the exception of Property and Unlisted Managed Funds, all of the above investments are listed on the London and International Stock Exchanges.

A Jannetta, CPFA  
 Director of Finance  
 29 June 2007

## NOTES TO THE PENSION FUND ACCOUNTS

### 1) Fund Operations and Membership

In terms of the Local Government Pension Scheme (Scotland) Regulations 1998, Falkirk Council is responsible for the administration of the Pension Fund, which provides pensions and lump sums to pensioners, deferred pensioners and active members. Eligible employees of the following employers can be members of the Fund:

#### Scheduled Bodies

Central Scotland Joint Fire and Rescue Service  
Central Scotland Joint Valuation Board  
Central Scotland Police  
Clackmannanshire Council  
Ex-Argyll, The Isles, Stirling, Loch Lomond and Trossachs Tourist Board (now Visit Scotland)  
Falkirk Council  
Forth Valley College  
Scottish Children's Reporter Administration (SCRA)  
Scottish Environment Protection Agency (SEPA)  
Stirling Council

#### Admitted Bodies

Active Stirling  
Alsorts  
Association of Scottish Colleges  
Ballikinrain School  
BOSS  
Central Scotland Council for Racial Equality  
Central Carers Association  
Ceteris  
Community Training and Development Unit  
Cowane's Hospital  
Dollar Academy Trust  
Falkirk Women's Technology Centre  
Forth and Oban Ltd (Stirling Schools)  
McLaren Community Leisure Centre  
Open Secret  
Playplus  
Scottish Society for Autism  
Seamab School  
Smith Art Gallery  
Snowdon School Ltd  
Stirling District Tourism Ltd  
Stirling Enterprise Park Limited  
Stirling University  
Stirling University Innovation Park Ltd  
Strathcarron Hospice  
Tourist Board Training  
Water Industry Commission for Scotland

Administration of the Fund is managed in-house. The investments of the Fund are managed by external Fund Managers within the overall policy direction of the Council's Investment Committee. The Fund is a separate entity from Falkirk Council, and its Accounts are not included in the Balance Sheet.

### 2) Accounting Policies

- (a) The accounting policies followed in the preparation of the Pension Fund Accounts are the same as those adopted in the preparation of the Accounts for Falkirk Council. In particular, the Pension Fund Accounts have been prepared in accordance with the provisions of Chapter 2 Recommended Accounting Practice of the Pensions SORP. The Fund is built up by contributions from both employees and employing bodies, together with interest and dividends from investments, out of which pensions and other benefits are paid. The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.
- (b) Employees' contributions to the Fund are fixed by statute and contributions payable by employing bodies are fixed every 3 years following a report by an independent Actuary who determines the level of contribution necessary from each employing body to ensure that the Fund will be able to meet future benefits.
- (c) The Fund's investments are valued on the basis of market convention which is either last traded or middle market price. Where representative prices are unavailable, investments are valued on the most appropriate basis in the opinion of the Fund's Global Custodian.

## NOTES TO THE PENSION FUND ACCOUNTS

### 3) Actuarial Valuation

(a) The most recent actuarial valuation of the Fund was undertaken at 31 March 2005. The key results were as follows:

- the market value of the Fund at 31 March 2005 was £700.2 million;
- in respect of past-service liabilities, the funding level was 86%;
- the reduction in the funding level from 100% to 86% was mainly the result of lower than anticipated investment returns and the reduction in bond yields;
- the funding requirement needed to meet future service liabilities was assessed at 230% of employee contributions;
- the future service funding requirement had increased from 210% to 230% due to improvements in mortality rates, a reduction in bond yields and a higher average age of scheme members;
- the employers' contribution rate for Clackmannanshire, Falkirk and Stirling Councils (and the 3 Joint Boards) is being implemented in stages by paying 240%, 270% and 295% of employee contributions in 2006/07, 2007/08 and 2008/09 respectively; and
- separate funding arrangements have been made for other employers in accordance with the Funding Strategy Statement.

The funding policy of the Scheme is to pursue a funding level of 100%. For the majority of employers, the current funding deficit is being recovered over a period of 20 years. In determining future service liabilities, the actuary has used the *projected unit method* for employers who are still admitting new members and the *attained age method* for employers who have closed the scheme to new members.

(b) The main assumptions which have been highlighted by the Actuary as underlying the 2005 valuation are as follows:-

a)	Economic	Annual Rate	
		Absolute %	Real %
*	Anticipated Long Term Return on Equities	6.7	3.8
*	Anticipated Long Term Return on Bonds	5.0	2.1
*	Future escalation of pensionable remuneration arising as a result of general economic conditions	4.4	1.5
*	Allowance for future pension increases – such increases are in line with price inflation	2.9	-
*	Discount Rate used to value Fund Liabilities	6.3	3.4
b)	Statistical		
*	Pensioners will live a little longer than was assumed in the 2002 valuation		
*	A varying proportion of members will be married and entitled to a spouse's pension		
*	Husbands are assumed to be 3 years older than their wives		
*	Members to retire at age 60 or on later satisfaction of the 85-year rule but not later than age 65		
*	Administration Expenses will be 0.2% of payroll		

## NOTES TO THE PENSION FUND ACCOUNTS

### 4. Contributors and Pensioners

2005/06			2006/07	
Contributors	Pensioners		Contributors	Pensioners
12,458	5,987	Scheduled Bodies	12,764	6,180
803	178	Admitted Bodies	816	198
13,261	6,165	TOTAL	13,580	6,378

### 5. Investment Management Expenses

2005/06			2006/07
£'000			£'000
2,085		External Investment Management Services	2,735
60		Internal Administration	103
2,145		TOTAL	2,838

### 6. Funds Under External Management

MARKET VALUE 2005/06			MARKET VALUE 2006/07		
£ million	(%)		£ million	(%)	
-	-	Baillie Gifford Life Limited	130.6	13.8	
231.0	26.6	Barclays Global Investors	0.1	0.0	
260.8	30.0	Capital International Limited	280.6	29.6	
-	-	Newton Investment Management Limited	166.6	17.6	
373.5	42.9	Schroder Investment Management Ltd.	252.4	26.6	
-	-	Schroder Investment Management Ltd (Property)	103.8	10.9	
1.4	0.2	Standard Life Investments (Private Equity) Limited	9.4	1.0	
2.7	0.3	Wilshire Private Markets Group	4.9	0.5	
505.1		Purchases	847.3		
727.7		Sales	1,369.6		

### 7. Analysis of Investment Income

2005/06			2006/07	
£'000			£'000	
634		UK Fixed Interest	-	
14		UK Index Linked	-	
24		Overseas Bonds	-	
10,971		UK Equities	14,248	
1,915		UK Managed Funds – Others	1,465	
4,127		UK Managed Funds – Property	3,370	
2,104		Overseas Equities	6,135	
1,491		Overseas Managed Funds – Others	73	
111		UK Property	193	
1,197		Other Income	1,107	
22,588			26,591	

### 8. Related Party Transactions

During the year transactions with related parties arose as follows:

	Receipts £'000
<b>REVENUE ACCOUNT</b>	
Employers pension contributions received from other parties.	1,413
<b>NET ASSETS STATEMENT</b>	
Sundry Debtors	
Sums due from Scheduled and Admitted Bodies to the Fund as at 31/03/07	3,292

## NOTES TO THE PENSION FUND ACCOUNTS

### 9. Analysis of Contributions Receivable and Benefits Payable

SUMMARY	CONTRIBUTIONS RECEIVABLE		BENEFITS PAYABLE	
	Employees £'000	Employers * £'000	Pensions £'000	Lump Sum** £'000
Administering Authority	4,848	11,952	7,569	2,786
Other Scheduled Bodies	8,313	21,224	15,166	3,490
Admitted Bodies	918	2,330	719	587
Totals	14,079	35,506	23,454	6,863

\* Includes "Additional Contributions from Employers" of £2.42m in respect of strain payments

\*\* Includes "Death Benefits" of £0.61m

### 10. Securities Lending

The Fund participates in a stocklending programme managed by its global custodian, Northern Trust. As at 31 March 2007, the total amount of stock released by the Fund under this arrangement was £60.2 million. Stock on loan is secured via a pooled collateralisation arrangement. Initial collateral levels are not less than 102% of the market value of the borrowed securities for loans of fixed income and not less than 105% of the market value of the borrowed securities for loans of equity securities. Marking to market is performed every business day.

### 11. Statement of Investment Principles

In accordance with Pension Regulations, the Fund has published a Statement of Investment Principles governing their decisions about Fund investments. A copy of the document is available from the Director of Finance, Falkirk Council, Municipal Buildings, West Bridge Street, Falkirk FK1 5RS.

### 12. Additional Voluntary Contributions

The Fund is required to offer an Additional Voluntary Contributions (AVC) facility to its Scheme Members. The arrangement operates on a money purchase basis with members' contributions being invested by Standard Life who are the Council's chosen AVC provider.

The AVC contributions are sent directly to Standard Life by employers and as a result, they do not form part of the contribution income of the Fund.

The net asset value of the AVC policy at 5 April 2007 was £2.45 million (£2.07 million at 5 April 2006). Contributions made by members during the year to 5 April 2007 were £335,000. Expenditure from the policy during the same period (including the purchase of member annuities) amounted to £166,000. These amounts are not included in the Pension Fund Accounts in accordance with regulation 5 of the Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 1998 (SI 1998 No. 2888).

### 13. Contractual Commitments

There are no contractual commitments.

## **INDEPENDENT AUDITOR'S REPORT**

### **Independent auditor's report to the members of Falkirk Council and the Accounts Commission for Scotland**

I certify that I have audited the financial statements of Falkirk Council and its group for the year ended 31 March 2007 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash-Flow Statement, Housing Revenue Income and Expenditure Account, Statement of Movement on the Housing Revenue Balance, Council Tax Income Account, Non-Domestic Rate Income Account, the Group Accounts, the Pension Funds Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Director of Finance and auditor**

The Director of Finance's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2006 - A Statement of Recommended Practice (the 2006 SORP) are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

I report my opinion as to whether the financial statements present fairly the financial position of the local authority and its group in accordance with applicable laws and regulations and the 2006 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the local authority has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control reflects the authority's compliance with the SORP. I report if, in my opinion, it does not comply with the SORP or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement covers all risk and controls. Neither am I required to form an opinion on the effectiveness of the local authority's corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Introduction and Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## **Basis of audit opinion**

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Director of Finance in the preparation of the financial statements, and of whether the accounting policies are appropriate to the local authority's and its group's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In my opinion

- the financial statements present fairly, in accordance with applicable laws and regulations and the 2006 SORP, the financial position of the local authority and its group as at 31 March 2007 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

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**28 September 2007**