

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.

2006/07 £'000	CONTRIBUTIONS AND BENEFITS	2007/08 £'000	Note
	Contributions receivable:		
35,506	From Employers	40,074	9
14,079	From Employees	14,878	9
6,870	Transfers from Other Schemes	7,207	
	Benefits Payable:		
(23,454)	Pensions	(25,134)	9
(6,863)	Lump Sums	(7,893)	9
	Payments to and on account of leavers:		
(190)	Refunds of contributions	(189)	
(4,123)	Transfers Out	(5,000)	
(319)	Administrative and Other Expenses	(351)	
21,506	Net Additions from dealing with Members	23,592	
	RETURNS ON INVESTMENTS		
26,591	Investment Income	29,120	7
(427)	Taxation (Irrecoverable withholding tax)	(451)	
	Change in Market Value of Investments:		
22,654	Realised	51,299	
9,114	Unrealised	(111,936)	
(2,838)	Investment Management Expenses	(3,429)	5
55,094	Net Return on Investments	(35,397)	
76,600	Net Increase/(Decrease) in the Fund during the year	(11,805)	
882,375	Opening Net Assets as at 1 April 2007	958,975	
958,975	Closing Net Assets as at 31 March 2008	947,170	

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.

2006/07 £'000	INVESTMENTS AT MARKET VALUE:-	2007/08 £'000
377,145	U.K. Equities	337,934
11,110	U.K. Managed Funds – Others	8,400
9,473	U.K. Managed Funds – Unlisted	21,035
100,135	U.K. Managed Funds – Property	85,732
130,631	U.K. Managed Funds – Life Fund	133,754
266,412	Overseas Equities	280,672
23,933	Overseas Managed Funds – Others	13,884
4,851	Overseas Managed Funds – Unlisted	10,374
2,960	Overseas Managed Funds – Property	7,573
2,500	UK Property	2,550
18,160	FUNDS HELD BY INVESTMENT MANAGERS	31,563
	OTHER NET ASSETS/(LIABILITIES)	
(1,519)	Sundry Creditors	(2,056)
7,016	Sundry Debtors	8,439
6,168	Temporary Advance to Loans Fund	7,316
958,975	NET ASSETS	947,170

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

A Jannetta, CPFA
Director of Finance
27 June 2008

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
Falkirk Council
Forth Valley College
Scottish Children's Reporter Administration (SCRA)
Scottish Environment Protection Agency (SEPA)
Scottish Police Services Authority (Ex-Central Scotland Police)
Stirling Council
Visit Scotland (Ex-Argyll, The Isles, Stirling, Loch Lomond and Trossachs Tourist Board)

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
Forth and Oban Ltd (Stirling Schools)
Forth Valley GIS Ltd
McLaren Community Leisure Centre
Open Secret
Playplus
Raploch URC
Scottish Society for Autism
Seamab School
Smith Art Gallery
Snowdon School Ltd
Stirling District Tourism Ltd
Stirling Enterprise Park Limited
Stirling University
Strathcarron Hospice
Tourist Board Training
Valad Management (UK) Ltd
Water Industry Commission for Scotland
Waterwatch 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.

NOTES TO THE PENSION FUND ACCOUNTS

- (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.

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		
c)	An actuarial valuation of the Fund as at 31 March 2008 is currently being undertaken. This will determine employer contribution rates for the three years starting 2009/10.		

NOTES TO THE PENSION FUND ACCOUNTS

4. Contributors and Pensioners

2006/07			2007/08	
Contributors	Pensioners		Contributors	Pensioners
12,764	6,180	Scheduled Bodies	12,950	6,363
816	198	Admitted Bodies	919	221
13,580	6,378	TOTAL	13,869	6,584

5. Investment Management Expenses

2006/07			2007/08	
£'000			£'000	
2,735		External Investment Management Services	3,375	
103		Internal Administration	54	
2,838		TOTAL	3,429	

6. Funds Under External Management

MARKET VALUE			MARKET VALUE		
2006/07			2007/08		
£ million	(%)		£ million	(%)	
130.6	13.8	Baillie Gifford Life Limited	133.8	14.3	
0.1	0.0	Barclays Global Investors	0.0	0.0	
280.6	29.6	Capital International Limited	261.3	28.0	
166.6	17.6	Newton Investment Management Limited	180.8	19.3	
252.4	26.6	Schroder Investment Management Ltd.	225.5	24.1	
103.8	10.9	Schroder Investment Management Ltd (Property)	95.3	10.2	
9.4	1.0	SL Capital Partners LLP	24.6	2.6	
4.9	0.5	Wilshire Private Markets Group	13.9	1.5	
948.4	100.0		935.2	100.0	
847.3		Purchases	408.6		
1,369.6		Sales	376.5		

7. Analysis of Investment Income

2006/07			2007/08	
£'000			£'000	
14,248		UK Equities	16,325	
1,465		UK Managed Funds – Others	199	
3,370		UK Managed Funds – Property	3,224	
6,135		Overseas Equities	7,188	
73		Overseas Managed Funds – Others	-	
193		UK Property	201	
1,107		Other Income	1,983	
26,591			29,120	

8. Related Party Transactions

During the year transactions with related parties arose as follows:

	Receipts
	£'000
REVENUE ACCOUNT	
Employers pension contributions received from other parties.	1,526
NET ASSETS STATEMENT	
Sums due from Scheduled and Admitted Bodies to the Fund as at 31 March 2008	4,133

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	5,151	14,037	8,254	2,875
Other Scheduled Bodies	8,710	23,519	15,997	4,581
Admitted Bodies	1,017	2,518	883	437
Totals	14,878	40,074	25,134	7,893

* Includes "Additional Contributions from Employers" of £1.63m in respect of strain payments

** Includes "Death Benefits" of £0.63m

10. Securities Lending

During the year, the Fund participated in a stock lending programme managed by its global custodian, Northern Trust. 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. Due to market volatility, a notice to suspend the programme and recall all loaned securities was issued on 18 March 2008. As at 31 March 2008, the total amount of stock released by the Fund under this arrangement was £9.4 million and by 3 April 2008 all remaining securities were returned to the Fund.

11. Statement of Investment Principles

In accordance with Pension Regulations, the Fund has published a Statement of Investment Principles governing its 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 2008 was £2.56 million (£2.45 million at 5 April 2007). Contributions made by members during the year to 5 April 2008 were £239,000. Expenditure from the policy during the same period (including the purchase of member annuities) amounted to £261,000. 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.

14. Post Balance Sheet Events

Since the end of the financial year, financial markets have experienced extreme volatility caused by the fall out from the US sub-prime mortgage crisis and the resultant "credit" crunch in the global banking system. While equity markets, in particular, have fallen by around 10%, the overall decline in fund assets will be less due to holding a proportion of assets in government bonds which have produced small positive returns over the same period.

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 2008 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the Housing Revenue Account Balance, the Council Tax Income Account, the Non-Domestic Rate Income Account, the Pension Fund Accounts and the related notes and the Statement of Accounting Policies, together with the Group Accounts. 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 relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2007 - A Statement of Recommended Practice (the 2007 SORP) are set out in the Statement of Responsibilities for the financial statements.

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, in accordance with relevant legal and regulatory requirements and the 2007 SORP the financial position of the local authority and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also report to you if, in my opinion, the local government body 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 compliance with the SORP, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the local government body'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 the Introduction to the Accounts and the 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. My 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 most appropriate to the local authority 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 relevant legal and regulatory requirements and the 2007 SORP, the financial position of Falkirk Council and its group as at 31 March 2008 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.



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30 September 2008