

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.

2007/08 £'000	CONTRIBUTIONS AND BENEFITS	2008/09 £'000	Note
	Contributions receivable:		
40,074	From Employers	45,254	12
14,878	From Employees	15,514	12
7,207	Transfers from Other Schemes	5,519	
	Benefits Payable:		
(25,134)	Pensions	(26,880)	12
(7,893)	Lump Sums	(7,563)	12
	Payments to and on account of leavers:		
(189)	Refunds of contributions	(226)	
(5,000)	Transfers Out	(3,296)	
(351)	Administrative and Other Expenses	(455)	
23,592	Net Additions from dealing with Members	27,867	
	RETURNS ON INVESTMENTS		
29,120	Investment Income	26,137	7
(451)	Taxation (Irrecoverable withholding tax)	(414)	
	Change in Market Value of Investments:		
51,299	Realised	(121,196)	
(111,936)	Unrealised	(92,915)	
(3,429)	Investment Management Expenses	(3,136)	6
(35,397)	Net Return on Investments	(191,524)	
(11,805)	Net Increase/(Decrease) in the Fund during the year	(163,657)	
958,975	Opening Net Assets as at 1 April 2008	947,170	
947,170	Closing Net Assets as at 31 March 2009	783,513	

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.

2007/08 £'000		2008/09 £'000
	INVESTMENT ASSETS	
337,934	U.K. Equities	119,417
8,400	U.K. Managed Funds – Others	2,394
21,035	U.K. Managed Funds – Unlisted	31,725
85,732	U.K. Managed Funds – Property	47,687
133,754	U.K. Managed Funds – Life Fund	375,703
280,672	Overseas Equities	121,432
13,884	Overseas Managed Funds – Others	-
10,374	Overseas Managed Funds – Unlisted	19,044
7,573	Overseas Managed Funds – Property	12,408
2,550	UK Property	2,550
9	Derivatives – Forward Foreign Exchange	1,340
16,937	Cash Deposits	24,977
19,266	Other Investment Balances	10,093
938,120	TOTAL INVESTMENT ASSETS	768,770
	INVESTMENT LIABILITIES	
(357)	Derivatives – Forward Foreign Exchange	(936)
937,763	NET INVESTMENT ASSETS	767,834
	CURRENT ASSETS	
3,712	Contributions due from Employers	3,524
435	Other Current Assets	425
7,316	Cash Balances	13,593
	CURRENT LIABILITIES	
(864)	Unpaid Benefits	(573)
(1,192)	Other Current Liabilities	(1,290)
947,170	NET ASSETS	783,513

The financial statements summarise the transactions of the Fund during the year and the net assets at the year end. They do not take account of the obligations to pay pensions and other benefits which fall due after the end of the year. The actuarial position of the scheme, which does take account of such obligations, is discussed further in the Notes to the Pension Fund Accounts and these financial statements should be read in conjunction with that information.

A. Jannetta

A Jannetta, CPFA
 Director of Finance
 26 June 2009

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)

Admission Bodies

Active Stirling
Alsorts
Amey (Clackmannanshire Schools Project)
Association of Scottish Colleges
Ballikinrain School
Central Scotland Council for Racial Equality
Central Carers Association
Ceteris
Community Training and Development Unit
Cowane's Hospital
Dollar Academy Trust
Forth & Oban Ltd (Falkirk Schools Project)
Forth & Oban Ltd (Stirling Schools Project)
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
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) **Basis of Preparation**

The financial statements have been prepared in accordance with the guidelines set out in a Statement of Recommended Practice (SORP) : Financial Reports of Pension Schemes (Revised May 2007). A key change to the revised Pensions SORP is the requirement to value all investments at their fair value – where there is an active market, bid price is usually the appropriate quoted market price. The revised SORP does not require the valuation basis for the previous year to be changed and as such there is no change in the Net Asset totals as at 31 March 2008.

3) **Accounting Policies**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been consistently applied, is set out below.

NOTES TO THE PENSION FUND ACCOUNTS

Basis

The financial statements are generally prepared on an accruals basis except transfers of benefits to and from the scheme which are treated on a cash basis.

Valuation of Investments

Quoted investments are valued at closing prices. These prices may be the last trade prices or bid prices depending on the convention of the stock exchange or other market on which they are quoted. Overseas investments and cash are stated in Sterling using exchange rates as at the close of business. The direct property portfolio was valued at 31 March 2008 by DM Hall LLP, Chartered Surveyor in accordance with the requirements of the RICS Valuation Standards 6th edition. Unquoted holdings in private equity funds have been included at the fund managers' valuation adjusted for cash movements since the last valuation date.

Investment Income

Investment income is taken into account where dividends have been declared at the end of the financial year. Investment income also includes withholding tax where this cannot be recovered. The amount of irrecoverable withholding tax is disclosed as a separate line item on the face of the Fund Account. Interest is included in the accounts on an accruals basis.

4) Actuarial Valuation

(a) The most recent actuarial valuation of the Fund was undertaken at 31 March 2008. The key results are as follows:

- the market value of the Fund has increased from £700.2 to £947.2 million due to increased employer contributions and better than expected investment returns;
- the funding level has reduced from 86% to 79% mainly as a result of the fall in bond yields;
- the funding requirement needed to meet future service liabilities has increased from 13.5% to 17.7% of pensionable pay mainly as a result of expectation about future price inflation;
- the theoretical funding requirement is 23.8% of pensionable pay made up of 17.7% in respect of future service liabilities and 6.1% in respect of the past service deficit;
- for fund employers with a strong covenant, the actuary has authorised an employer contribution rate that is less than the theoretical funding requirement, on the basis that employers will, if necessary, pay a contribution rate that increases by at least 0.5% per year for the next six years;
- for fund employers with a less secure covenant, the actuary has authorised an employer contribution rate that is equal to the funding requirements, with contributions increases generally being phased in over a 3 year period;
- the employers' contribution rate for Clackmannanshire, Falkirk and Stirling Councils (and the 3 Joint Boards) is being implemented in stages by paying 18%, 18.5% and 19% of pensionable pay in 2009/10, 2010/11 and 2011/12 respectively; and

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 2008 valuation are as follows:-

a)	Economic	Annual Rate	
		Absolute %	Real %
*	Anticipated outperformance of Fund's Assets over return available on Gilts	-	1.6
*	Future escalation of pensionable remuneration arising as a result of general economic conditions	5.1	1.5
*	Allowance for future pension increases – such increases are in line with price inflation	3.6	-
*	Discount Rate used to value Fund Liabilities	6.1	2.5

NOTES TO THE PENSION FUND ACCOUNTS

b) Statistical

- * Allowances have been made for ill health retirements and early withdrawals from service
- * Pensioners will live a little longer than was assumed in the 2005 valuation
- * A varying proportion of members will be married or in civil partnerships and entitled to a survivor'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
- * 50% of future retirements will exchange pension for maximum tax free cash
- * Administration Expenses will be 0.2% of payroll

5. Contributors and Pensioners

2007/08			2008/09	
Contributors	Pensioners		Contributors	Pensioners
12,950	6,363	Scheduled Bodies	13,094	6,530
919	221	Admitted Bodies	977	240
13,869	6,584	TOTAL	14,071	6,770

6. Investment Management Expenses

2007/08			2008/09
£'000			£'000
3,375		External Investment Management Services	3,063
54		Internal Administration	73
3,429		TOTAL	3,136

7. Investment Income

2007/08			2008/09
£'000			£'000
16,325		UK Equities	15,517
199		UK Managed Funds – Others	145
-		UK Managed Funds – Unlisted	-
3,224		UK Managed Funds – Property	2,977
7,188		Overseas Equities	6,131
-		Overseas Managed Funds – Others	-
-		Overseas Managed Funds – Unlisted	12
-		Overseas Managed Funds – Property	173
201		UK Property	203
1,983		Other Income	979
29,120		TOTAL	26,137

NOTES TO THE PENSION FUND ACCOUNTS

8. Investments

	Market Value at 01/04/08 £'000	Purchases at Cost and Derivative Payments £'000	Sale Proceeds and Derivative Receipts £'000	Change in Market Value £'000	Market Value At 31/03/09 £'000
Investment Assets					
UK Equities	337,934	149,174	(273,063)	(94,628)	119,417
UK Managed Funds – Others	8,400	-	(2,459)	(3,547)	2,394
UK Managed Funds – Unlisted	21,035	9,072	(301)	1,919	31,725
UK Managed Funds – Property	85,732	5,860	(9,171)	(34,734)	47,687
UK Managed Funds – Life Fund	133,754	323,437	(59,098)	(22,390)	375,703
Overseas Equities	280,673	270,029	(357,830)	(71,440)	121,432
Overseas Managed Funds – Others	13,884	14,942	(25,644)	(3,182)	-
Overseas Managed Funds – Unlisted	10,374	6,687	(1,369)	3,352	19,044
Overseas Managed Funds – Property	7,573	3,934	-	901	12,408
UK Property	2,550	-	-	-	2,550
Derivatives – Forward Foreign Exchange	(347)	6,112	(4,987)	(374)	404
	901,562	789,247	(733,922)	(224,123)	732,764
Cash Deposits	16,937			8,040	24,977
Other Investment Balances	19,266			(9,173)	10,093
Net Investment Assets	937,765			(225,256)	767,834

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £1,888,899. In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

The Fund holds the following investments in pooled funds, which are in excess of 5% of the value of the Fund.

2007/08		Investment Manager	Pooled Funds	2008/09	
£'000	%			£'000	%
-	-	Legal & General Investment Management Ltd.	UK Equity Index	92,401	11.8
-	-	Legal & General Investment Management Ltd.	North America Equity Index	87,085	11.1

9. Derivatives

Derivatives – Forward Foreign Exchange Summary of Contracts held at 31 March 2009

Contract	Settlement Date	Value of Currency Bought		Asset £'000	Liability £'000	Net £'000
		£'000				
Various Currency Forwards	Within 1 month	12,235		838	(433)	405
Various Currency Forwards	2 months	4,805		151	(11)	140
Various Currency Forwards	3 months	5,504		-	(82)	(82)
Various Currency Forwards	4 months	8,173		351	(406)	(55)
Various Currency Forwards	5 months	2,696		-	(4)	(4)
				1,340	(936)	404

The above table summarises the contracts held by maturity date, five foreign currencies being involved. All contracts are traded on an over the counter basis. These contracts are used by one of the Fund's Managers to reduce the extent to which the Fund is exposed to currency movements.

NOTES TO THE PENSION FUND ACCOUNTS

10. Funds Under External Management

MARKET VALUE 2007/08			MARKET VALUE 2008/09		
£ million	(%)		£ million	(%)	
133.8	14.3	Baillie Gifford Life Ltd.	117.4	15.3	
261.3	28.0	Capital International Ltd.	1.0	0.1	
-	-	Legal & General Investment Management Ltd.	258.4	33.8	
180.8	19.3	Newton Investment Management Ltd.	139.1	18.2	
225.5	24.1	Schroder Investment Management Ltd.	112.5	14.7	
95.3	10.2	Schroder Investment Management Ltd. (Property)	71.6	9.4	
24.6	2.6	SL Capital Partners LLP	39.0	5.1	
13.9	1.5	Wilshire Private Markets Group	26.3	3.4	
<u>935.2</u>	<u>100.0</u>		<u>765.3</u>	<u>100.0</u>	

11. Related Party Transactions

During the year transactions with related parties arose as follows:

	<u>Receipts</u> £'000
REVENUE ACCOUNT	
Employers pension contributions received from other parties.	1,645
NET ASSETS STATEMENT	
Sums due from Scheduled and Admitted Bodies to the Fund as at 31 March 2009	3,818

12. Contributions Receivable and Benefits Payable

	CONTRIBUTIONS RECEIVABLE		BENEFITS PAYABLE	
	Employees £'000	Employers £'000	Pensions £'000	Lump Sum* £'000
Administering Authority	5,373	16,035	9,167	3,038
Other Scheduled Bodies	8,999	25,946	16,719	3,976
Admitted Bodies	1,142	3,273	994	549
Totals	<u>15,514</u>	<u>45,254</u>	<u>26,880</u>	<u>7,563</u>

* Includes "Death Benefits" of £0.56m

13. Employers Contributions

	Falkirk Council	Other Scheduled Bodies	Admission Bodies	Total
	£'000	£'000	£'000	£'000
Normal Employers	12,186	20,734	3,068	35,988
Deficit Contributions	3,444	4,462	-	7,906
	<u>15,630</u>	<u>25,196</u>	<u>3,068</u>	<u>43,894</u>
Strain on Fund Contribution	405	750	115	1,270
Augmentation Contribution	-	-	90	90
	<u>16,035</u>	<u>25,946</u>	<u>3,273</u>	<u>45,254</u>

The level of normal and deficit contributions for 2008/09 were set as a result of the Fund Valuation at 31/03/2005.

NOTES TO THE PENSION FUND ACCOUNTS

14. Securities Lending

The Fund suspended its stock lending programme managed by its global custodian, Northern Trust, on 18 March 2008 and by 3 April 2008, all securities released within that programme had been returned to the Fund.

15. 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.

16. Funding Strategy Statement

As required by the Pension Regulations, the Council's approach to funding its scheme liabilities is set out in the Funding Strategy Statement. A copy of the document is available from the Director of Finance, Falkirk Council, Municipal Buildings, West Bridge Street, Falkirk FK1 5RS.

17. 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 2009 was £2.24 million (£2.56 million at 5 April 2008). Contributions made by members during the year to 5 April 2009 were £266,000. Expenditure from the policy during the same period (including the purchase of member annuities) amounted to £213,000. 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).

18. 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 2009 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, Common Good Funds account, 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 2008 - A Statement of Recommended Practice (the 2008 SORP) are set out in the Statement of Responsibilities for the Statement of Accounts.

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 give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of Falkirk Council 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 Annual Governance Statement 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 by the Director of Finance. 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

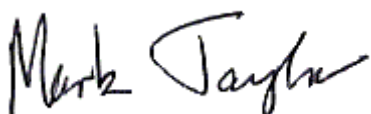
I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. My audit includes examination, on 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 Falkirk Council 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

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of Falkirk Council and its group as at 31 March 2009 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.



Mark Taylor CPFA, Assistant Director
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30 September 2009