

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.

2008/09 £'000	CONTRIBUTIONS AND BENEFITS	2009/10 £'000	Note
	Contributions receivable:		
45,254	From Employers	49,880	12
15,514	From Employees	17,194	12
5,519	Transfers from Other Schemes	5,333	
	Benefits Payable:		
(26,880)	Pensions	(29,305)	12
(7,563)	Lump Sums	(14,066)	12
	Payments to and on account of leavers:		
(226)	Refunds of contributions	(176)	
(3,296)	Transfers Out	(4,931)	
(455)	Administrative and Other Expenses	(430)	
27,867	Net Additions from dealing with Members	23,499	
	RETURNS ON INVESTMENTS		
26,137	Investment Income	14,131	7
(414)	Taxation (Irrecoverable withholding tax)	(144)	
	Change in Market Value of Investments:		
(121,196)	Realised	21,958	
(92,915)	Unrealised	232,838	
(3,136)	Investment Management Expenses	(2,425)	6
(191,524)	Net Return on Investments	266,358	
(163,657)	Net Increase/(Decrease) in the Fund during the year	289,857	
947,170	Opening Net Assets as at 1 April 2009	783,513	
783,513	Closing Net Assets as at 31 March 2010	1,073,370	

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.

Restated 2008/09 £'000		2009/10 £'000
	INVESTMENT ASSETS	
119,417	U.K. Equities - Quoted	191,331
2,394	U.K. Managed Funds – Others	3,896
31,725	U.K. Managed Funds – Unquoted	24,555
47,687	U.K. Managed Funds – Property	73,700
375,703	U.K. Managed Funds – Life Fund	530,242
121,432	Overseas Equities - Quoted	186,732
19,044	Overseas Managed Funds – Unquoted	21,520
12,408	Overseas Managed Funds – Property	10,837
2,550	UK Property	2,550
1,340	Derivatives – Forward Foreign Exchange	59
24,977	Cash Deposits	8,351
10,093	Other Investment Balances	8,446
768,770	TOTAL INVESTMENT ASSETS	1,062,219
	INVESTMENT LIABILITIES	
(936)	Derivatives – Forward Foreign Exchange	-
767,834	NET INVESTMENT ASSETS	1,062,219
	CURRENT ASSETS	
2,585	Contributions due from Employers	2,551
1,364	Other Current Assets	1,440
13,593	Cash Balances	9,103
	CURRENT LIABILITIES	
(573)	Unpaid Benefits	(1,061)
(1,290)	Other Current Liabilities	(882)
783,513	NET ASSETS	1,073,370

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
 30 September 2010

NOTES TO THE PENSION FUND ACCOUNTS

1. **Fund Operations and Membership**

In terms of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008, Falkirk Council is responsible for the maintenance and administration of the Pension Fund, which provides pension and lump sum benefits in respect of 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 Joint Police Board
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 and Oban Ltd (Falkirk Schools Project)
Forth and 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 Council's 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).

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.(a) Actuarial Valuation

As required by statute, the most recent actuarial valuation of the Fund was undertaken at 31 March 2008. The key results were as follows:

- the market value of the Fund was £947.2 million;
- the funding level was 79%;
- the funding requirement needed to meet future service liabilities was 17.7% of pensionable pay;
- the theoretical funding requirement was 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 authorised an employer contribution rate that was less than the theoretical funding requirement, on the basis that employers would, if necessary, pay a contribution rate that increased by at least 0.5% per year for the following six years;
- for fund employers with a less secure covenant, the actuary authorised an employer contribution rate that was 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;

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 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.

The next formal valuation of the Fund does not take place until 31 March 2011, however, in accordance with the Council's commitment to monitor the ongoing performance of the Fund, the actuary has estimated that the funding level at March 2010 was 76%. This represents a significant improvement in the estimated funding level at March 2009, when market falls had reduced the funding level to around 65%.

Although the estimated funding level at March 2010 is below that of the 2008 valuation, the actuary remains satisfied with the current funding strategy and cautions against amending long term plans on the basis of short term market volatility.

It should be noted that the projection of the funding level in March 2010 was undertaken prior to the instability experienced in financial markets in Spring 2010 as a result of the European debt crisis.

NOTES TO THE PENSION FUND ACCOUNTS

(b) The main assumptions highlighted by the Actuary as underlying the 2008 valuation were 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
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 valuation at 31 March 2005		
*	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

2008/09			2009/10	
Contributors	Pensioners		Contributors	Pensioners
13,094	6,530	Scheduled Bodies	12,338	6,820
977	240	Admission Bodies	967	270
14,071	6,770	TOTAL	13,305	7,090

6. Investment Management Expenses

2008/09			2009/10	
£'000			£'000	
3,063		External Investment Management Services	2,358	
73		Internal Administration	67	
3,136		TOTAL	2,425	

7. Investment Income

2008/09			2009/10	
£'000			£'000	
15,517		UK Equities	6,480	
145		UK Managed Funds – Others	127	
2,977		UK Managed Funds – Property	2,748	
6,131		Overseas Equities	4,059	
12		Overseas Managed Funds – Unlisted	48	
173		Overseas Managed Funds – Property	231	
203		UK Property	206	
979		Other Income	232	
26,137		TOTAL	14,131	

NOTES TO THE PENSION FUND ACCOUNTS

8. Investments

	Market Value at 01/04/09 £'000	Purchases at Cost and Derivative Payments £'000	Sale Proceeds and Derivative Receipts £'000	Change in Market Value £'000	Market Value At 31/03/10 £'000
Investment Assets					
UK Equities – Quoted .	119,417	26,447	(23,338)	68,805	191,331
UK Managed Funds – Others	2,394	-	-	1,502	3,896
UK Managed Funds – Unquoted	31,725	3,354	(465)	(10,059)	24,555
UK Managed Funds – Property	47,687	22,865	(2,324)	5,472	73,700
UK Managed Funds – Life Fund	375,703	108,666	(107,862)	153,735	530,242
Overseas Equities – Quoted	121,432	114,159	(97,928)	49,069	186,732
Overseas Managed Funds – Others	-	-	-	-	-
Overseas Managed Funds – Unquoted	19,044	4,966	(556)	(1,934)	21,520
Overseas Managed Funds – Property	12,408	997	-	(2,568)	10,837
UK Property	2,550	-	-	-	2,550
Derivatives – Forward Foreign Exchange	404	1,788	(2,037)	(96)	59
	732,764	283,242	(234,510)	263,926	1,045,422
Cash Deposits	24,977	-	(10,432)	(6,194)	8,351
Other Investment Balances	10,093	679	(436)	(1,890)	8,446
Net Investment Assets	767,834	283,921	(245,378)	255,842	1,062,219

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 £515,256. 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.

2008/09		Investment Manager	Pooled Funds	2009/10	
£'000	%			£'000	%
92,401	11.8	Legal & General Investment Management Ltd.	UK Equity Index	140,458	13.1
87,085	11.1	Legal & General Investment Management Ltd.	North America Equity Index	133,219	12.4
90,635	11.6	Baillie Gifford Life Ltd	Sterling Aggregate Bond	65,032	6.1

9. Derivatives

Derivatives – Forward Foreign Exchange Summary of Contracts held at 31 March 2010

Contract	Settlement Date	Value of Currency Bought		Liability £'000	Net £'000
		£'000	Asset £'000		
Various Currency Forwards	Within 1 month	19	-	-	-
Various Currency Forwards	2 months	-	-	-	-
Various Currency Forwards	3 months	-	-	-	-
Various Currency Forwards	4 months	-	-	-	-
Various Currency Forwards	5 months	2,443	59	-	59
		2,462	59	-	59

The above table summarises the contracts held by maturity date, three 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 2008/09			MARKET VALUE 2009/10		
£ million	(%)		£ million	(%)	
117.4	15.3	Baillie Gifford Life Ltd.	143.4	13.5	
258.4	33.8	Legal and General Investment Management Ltd.	386.8	36.5	
139.1	18.2	Newton Investment Management Ltd.	211.2	19.9	
112.5	14.7	Schroder Investment Management Ltd.	178.3	16.8	
71.6	9.4	Schroder Investment Management Ltd. (Property)	85.4	8.1	
39.0	5.1	SL Capital Partners LLP	28.7	2.7	
27.3	3.5	Wilshire Private Markets Group	25.9	2.5	
<u>765.3</u>	<u>100.0</u>		<u>1,059.7</u>	<u>100.0</u>	

11. Related Party Transactions

During the year transactions with related parties arose as follows:

	Receipts £'000
REVENUE ACCOUNT	
Employers pension contributions received from other parties.	1,845
NET ASSETS STATEMENT	
Sums due from Scheduled and Admission Bodies to the Fund as at 31 March 2010	4,860

12. Contributions Receivable and Benefits Payable

	CONTRIBUTIONS RECEIVABLE		BENEFITS PAYABLE	
	Employees £'000	Employers £'000	Pensions £'000	Lump Sum* £'000
Administering Authority	5,801	17,158	10,380	4,120
Other Scheduled Bodies	10,087	29,131	17,757	9,269
Admission Bodies	1,306	3,591	1,168	677
Totals	<u>17,194</u>	<u>49,880</u>	<u>29,305</u>	<u>14,066</u>

* Includes "Death Benefits" of £0.92m

13. Employers Contributions

	Administering Authority £'000	Other Scheduled Bodies £'000	Admission Bodies £'000	Total £'000
Normal Employers	16,847	26,620	3,511	46,978
Deficit Contributions	-	5	-	5
	<u>16,847</u>	<u>26,625</u>	<u>3,511</u>	<u>46,983</u>
Strain on Fund Contribution	311	2,483	80	2,874
Augmentation Contribution	-	23	-	23
	<u>17,158</u>	<u>29,131</u>	<u>3,591</u>	<u>49,880</u>

The level of normal and deficit contributions for 2009/10 were set as a result of the Fund Valuation at 31 March 2008.

NOTES TO THE PENSION FUND ACCOUNTS

14. Securities Lending

The Fund did not participate in any stock lending programme managed by its global custodian, Northern Trust.

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 2010 was £2.60 million (£2.24 million at 5 April 2009). Contributions made by members during the year to 5 April 2010 were £0.31 million. Expenditure from the policy during the same period (including the purchase of member annuities) amounted to £0.33 million. 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

As at 31 March 2010, the Fund had contractual commitments of £116m within its private equity and credit markets portfolio of which £63.8m remains outstanding.

19. Contingent Assets/Liabilities

The Fund has no material contingent assets or liabilities at the period end and there were no material non-adjusting events occurring subsequent to the period end.

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 2010 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 Part VII of 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 2009 - A Statement of Recommended Practice (the 2009 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 for Scotland.

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 2009 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

In addition, I report to you if, in my opinion, the Council 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

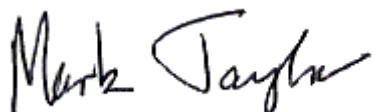
I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on 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 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 2009 SORP, of the financial position of Falkirk Council and its group as at 31 March 2010 and the income and expenditure of Falkirk Council and its group for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

A handwritten signature in black ink that reads "Mark Taylor". The signature is written in a cursive, flowing style.

Mark Taylor CPFA, Assistant Director
Audit Scotland – Audit Services
Osborne House, 1/5 Osborne Terrace
Edinburgh, EH12 5HG

30 September 2010