

FALKIRK COUNCIL PENSION FUND

Annual Report and Accounts
2010/11



Falkirk Council

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FOREWORD BY THE CHIEF FINANCE OFFICER

As prescribed by Regulations, this is the first Pension Fund annual report and accounts, audited in their own right, separate and removed from Falkirk Council's annual financial statements. This will provide the reader with a wide range of information, notably including governance and performance, on both the Administration and Investment sides of the Pension Fund.

Pension Funds by their very nature have long-term time horizons. The Falkirk Council Pension Fund as part of the Local Government Pension Scheme with its underpinning statutory framework is well placed to recognise this. In consequence, a Funding Strategy Statement allows employers to recover a deficit position over 20 years and a stability mechanism allows employers to budget for their contributions over the medium term. This is particularly important given the financial pressures prevalent across the public sector.

It is evident that pension schemes, and most particularly those in the public sector, are very much in the public eye. This is due to a range of inter-connected factors and not least the steady demise of final salary schemes in the private sector and the perceived inequality when compared with the public sector. The apparent unfair distribution of costs between scheme members, employers, taxpayers and future generations is an important dimension. We are also living longer, which is a positive state of affairs, but one that brings with it potentially crippling financial implications, and this against a backdrop of pressures on the public finances not experienced for many decades.

Flowing from this there has inevitably been a range of reviews from which change has resulted and with much more to come. Indeed this new annual report and accounts is in itself an example. The following evidence the point further:-

- Lord Hutton's final report on public sector pension schemes was released in March 2011. His 27 recommendations include gravitating to a career average rather final salary mode of pension provision. Definitive change will happen once the government has completed its consultation process.
- Audit Scotland's report on "The Cost of Public Sector Pensions in Scotland" was issued in February 2011.
- A Scottish Government, Improvement Service and COSLA sponsored project, the Pensions Pathfinder, has concluded that there is no strong evidence to suggest significant cost-savings or benefits from structural change or fund mergers in either the investment management or administration arrangements.
- New statutory guidance sets out principles and practices of corporate governance which Funds such as Falkirk will be required to follow. The Governance Compliance Statement later in this report shows the current state of compliance of the Falkirk Fund, accepting that it will be a journey towards full compliance.

These changes allied to ongoing work generated by the various employers relating to staff severances will create challenges and increased workload for the Council's officers involved in Fund administration and investment.



Bryan Smail, CPFA MBA
Chief Finance Officer
30 June 2011

FUND AND GOVERNANCE OVERVIEW

Fund Overview

Under the terms of the Local Government Pension Scheme, Falkirk Council is designated as an “*Administering Authority*” and is required to operate and maintain a pension fund - the Falkirk Council Pension Fund (“the Fund”).

The Fund is used to pay pension, lump sum benefits and other entitlements to scheme members and their dependants. Contributions to the Fund are made by active (i.e. employee) members and by participating employers. The Fund also receives income from the assets it holds, which include equities, property and bonds.

Participating employers include Clackmannanshire, Falkirk and Stirling Councils, Central Scotland Police, Central Scotland Fire and Rescue, Central Scotland Valuation Joint Boards, the Scottish Environment Protection Agency (SEPA), the Scottish Children’s Reporter Administration (SCRA), Forth Valley College and a number of non-profit making charitable bodies in Central Scotland.

Scheme membership is made up of active members, deferred members and pensioner members. To be eligible for fund membership, you must be an employee of a participating employer and not eligible to join one of the other public sector pension schemes.

An actuarial valuation of the Fund is held every three years as an independent financial health check and determines how much money has to be paid into the Fund to keep it in a position to pay benefits both now and in the future. The last valuation was held in March 2008 and showed that the Fund was 79% funded, meaning that it had 79% of monies needed to pay all the future benefits of scheme members. A valuation at 31 March 2011 is currently taking place and the results are expected in early 2012. It is important to note that the time horizon of the Fund is long term. Consistent with this, there is a Funding Strategy Statement which allows employers with strong financial covenants to recover a deficit position over 20 years. Moreover, there is a stability mechanism used to help employers budget for their contributions.

Administration of the Fund is undertaken in-house by the Pensions Section who also administer the Police Pension Scheme for Central Scotland Police and the Firefighters Pension Scheme for Central Scotland Fire and Rescue Service.

Investment Management of the Fund is undertaken by external fund managers and overseen by the Council’s Treasury and Investment Section.

Governance Overview

Falkirk Council acts as Administering Authority and delegates all pension scheme business to its Investment Committee which meets quarterly.

The Committee comprises six Elected Members:

- Councillor John Patrick (Convener)
- Depute Provost Allyson Black
- Councillor Jim Blackwood
- Councillor Thomas Coleman
- Councillor Angus MacDonald [replaced by Councillor Lynda Kenna with effect from 22/06/11]
- Councillor Alistair McNeill

The Committee’s key responsibilities are:-

- establishing and reviewing investment strategy
- ensuring the suitability and adequate diversification of investments
- setting strategic asset allocation benchmarks and individual manager’s benchmarks and targets
- reviewing on a regular basis the investment managers’ performance
- the selection and appointment of investment managers and custodians, as required.

Communication with stakeholder groups was achieved by way of a Forum held in September 2010 and, in March 2011, our annual Pensions and Investment Conference. These events were open to representatives from each of the employing bodies and trade unions. The issues discussed at these meetings included benefits and regulatory changes, investment performance and investment manager/adviser presentations.

Compliance with new statutory Guidance relating to governance arrangements for involving stakeholders is currently under review. The outcome of consultations with interested parties and any subsequent changes to existing practices will be reported in next year's annual report. In the meantime a current compliance statement relative to the Guidance has been produced and is set out under "Governance Compliance Statement".

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 Chief Finance Officer, Falkirk Council, Municipal Buildings, West Bridge Street, Falkirk FK1 5RS or at www.falkirk.gov.uk/pensions.

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 Chief Finance Officer, Falkirk Council, Municipal Buildings, West Bridge Street, Falkirk FK1 5RS or at www.falkirk.gov.uk/pensions.

GOVERNANCE COMPLIANCE STATEMENT

Regulation 27 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (SSI 2008/228) requires Administering Authorities to prepare and publish a written statement setting out the terms of their current governance arrangements. The undernoted Statement tests the Falkirk Fund's compliance with the best practice principles set out by the Scottish Ministers and identifies the areas which will be the subject of further review in the year ahead.

Principle A – Structure

Requirement	Not Compliant	Fully Compliant	Arrangements in Place
(a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council		√ Partial	Falkirk Council, as Administering Authority of the Falkirk Council Pension Fund, has established an Investment Committee to which it has delegated the function of "The management and investment of the Superannuation Fund".
(b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee		√ Partial	The Investment Committee comprises six Elected Members from the Administering Authority. The Investment Committee has established an Investment Forum comprising representatives from participating Fund scheduled and admitted bodies along with Trades Union representatives.
(c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels		√ Partial	The Investment Forum is convened two times per year, with a meeting held in September of each year followed by an annual Pensions & Investment Conference held in March. The Investment Forum provides a means of communicating pension fund business to and from a number of stakeholder groups.
(d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	X		See (b)

Principle A – Structure

Reason for non-compliance

An assessment of the current compliance status recognises a number of areas which require further review. A report was submitted to the Investment Committee on 16 June 2011 seeking approval to undertake a wide ranging review of governance arrangements consistent with the Scottish Public Pensions Agency (SPPA) guidance issued 7 April 2011. Areas for review will include:

- Delegated powers and terms of reference for the Investment Committee
- Representation of stakeholder groups
- Effective communication between Investment Committee and Investment Forum
- Representation of stakeholder groups on Investment Committee

Principle B – Representation

Requirement		Not Compliant	Fully Compliant	Arrangements in Place
(a)	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:			
	(i) Employing authorities (including e.g. admission bodies);		√ Partial	The Investment Committee comprises six Elected Members from the administering authority. All Fund employers are invited to meetings of the Investment Forum.
	(ii) Scheme members (including deferred and pensioner scheme members);		√ Partial	Trades Union representatives are invited to meetings of the Investment Forum
	(iii) Where appropriate, independent professional observers; and	X		-
	(iv) Expert advisors (on an ad-hoc basis).		√	Support for the Investment Committee and Investment Forum is provided by the undernoted advisors: <ul style="list-style-type: none"> • actuary and investments, Hymans Robertson • corporate governance, Pensions and Investment Research Consultants Ltd • investment managers and custodian, as required.
(b)	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	X		

Principle B – Representation

Reason for non-compliance

Areas of partial or non-compliance will be addressed as part of overall review of governance arrangements referred to under Principle A.

Principle C – Selection and role of lay members

Requirement		Not Compliant	Fully Compliant	Arrangements in Place
(a)	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee		√	Elected Members of the Investment Committee are subject to the code of conduct of Falkirk Council. Induction training is delivered to Committee and Forum members.
(b)	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.		√	Declaration of interests is a standard procedure at the start of all Committee meetings. Declarations are noted in the minutes.

Principle D – Voting

Requirement		Not Compliant	Fully Compliant	Arrangements in Place
(a)	The policy of individual Administering Authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.		√ Partial	All members of the Investment Committee have voting rights on the basis that they have executive responsibility for pension fund decision making.

Principle D – Voting

Reason for non-compliance

The question of extended voting rights will be addressed as part of overall review of governance arrangements referred to under Principle A.

Principle E – Training/Facility Time/Expenses

Requirement		Not Compliant	Fully Compliant	Arrangements in Place
(a)	That in relation to the way in which statutory and related decisions are taken by the Administering Authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.		√ Partial	Training is delivered in large part by addressing specific items at Investment Committee but complemented by visits to Fund Managers and attendance at industry seminar/conferences. Expenses incurred by Members of the Investment Committee are met either by the Fund or the Falkirk Council scheme for payment of Members' expenses.
(b)	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	X		-
(c)	That the Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	X		-

Principle E – Training/Facility Time/Expenses

Reasons for non-compliance

All aspects of training will be addressed as part of overall review of governance arrangements referred to under Principle A.

Principle F – Meetings (Frequency/Quorum)

	Requirement	Not Compliant	Fully Compliant	Arrangements in Place
(a)	That an Administering Authority’s main committee or committees meet at least quarterly.		√	The Investment Committee has a regular quarterly meeting covering investment and pensions administration matters. Additional meetings are called as required.
(b)	That an Administering Authority’s secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.		√ Partial	The Investment Forum is held in September of each year followed by an annual Pensions & Investment Conference held in March.
(c)	That an Administering Authority that does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.		√ Partial	The Investment Forum provides access for the majority of the stakeholder groups.

Principle F – Meetings (Frequency/Quorum)

Reasons for non-compliance

The question of synchronising meetings and increasing access rights to all stakeholder groups will be addressed as part of overall review of governance arrangements referred to under Principle A.

Principle G – Access

	Requirement	Not Compliant	Fully Compliant	Arrangements in Place
(a)	That subject to any rules in the Council’s constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	X		-

Principle G – Access

Reasons for non-compliance

The provision of meeting papers to stakeholder groups will be addressed as part of overall review of governance arrangements referred to under Principle A.

Principle H – Scope

Requirement		Not Compliant	Fully Compliant	Arrangements in Place
(a)	That Administering Authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.		√	The Investment Committee agenda includes reports pertaining to both pensions and investments matters such as regulatory changes, actuarial valuation and funding level updates, admission agreements, investment strategy and Fund/Investment Manager performance.

Principle I – Publicity

Requirement		Not Compliant	Fully Compliant	Arrangements in Place
(a)	That Administering Authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.		√ Partial	-

Principle I – Publicity

Reasons for non-compliance

The Governance Policy Statement, following approval by the Investment Committee, has been circulated to all scheme employers and may be viewed on the Falkirk Council web-site at www.falkirk.gov.uk

Other aspects of stakeholder participation in the pension fund will be addressed as part of overall review of governance arrangements referred to under Principle A.

REVIEW OF THE YEAR – ADMINISTRATION

Introduction

This section provides an update on the arrangements made during 2010/11 for the administration of the Falkirk Council Pension Fund.

Staffing

Administration of the Fund is undertaken in house by the Pensions Section. The section consists of 10 employees (9.8 full time equivalent staff) and is headed up by the Pensions Manager, who reports to the Head of Treasury and Investment. During 2010/11, the post of Head of Payroll and Pensions was deleted as part of a wider efficiency restructuring within the Council's Finance Services and the responsibilities assumed by the Head of Treasury and Investment.

The composition of the Pensions Section is as follows:

Role	Nos.	Average Years of Service	Pensions Qualification
Pensions Manager	1	28 years	Yes
Pension Project Officer	1	40 years	Yes
Pensions Officers	2	25 years	Yes (1 post)
Pensions Support Assistant	1	20 years	No
Pensions Assistants	4.8	9 years	No
Total	9.8		

Section Goals and Values

The key objectives of the Pensions Section are:

- to provide an efficient and cost effective service
- to provide a good quality service that meets members' needs
- to ensure good governance of the Fund and compliance with statutory requirements
- to support the corporate activities of Falkirk Council and constituent Fund employers

Systems

Member data is maintained using the computerised in-house Pensions Administration System. The system contains records of members' service and contributions and is used to generate benefit calculations and annual statements. Active member records are supported by correspondence files in paper format. Archive records of all leaver members since 1986 are held as electronic images.

The system used to deliver the Fund's payroll requirement (including the payment of monthly pensions) is Resourcelink, licensed from NorthgateArinso.

The system used to deliver the Fund's accounting system requirements is Integra, licensed from Capita IB Solutions.

All systems are supported by the Council's ICT Division and by software suppliers.

Risk Management

The activities of the Pensions Section are not immune from risk. Risk may range from a failure of information systems to the physical damage of business premises. Whilst it is not possible to completely eliminate the risk of disruption to the day to day administration of the Fund, the nature of risk has been evaluated and strategies put in place to minimise its adverse effects. These strategies are set out in the following documents:

- the Operational Risk Management Action Plan
- the Finance Business Continuity Plan
- the Payroll and Pensions Contingency Plan
- Staff and Employer Online Administration Manual

2010/11 Activity Review

General

The Section successfully completed all of its statutory functions e.g. the payment of pensions and lump sum benefits and the issuing of annual statements in the required timescale.

Public Sector Pension Reform

A number of high level announcements affecting pensions were made during 2010/11. These were reported to Fund stakeholders and include the decision to increase public sector pensions according to the Consumer Price Index, the recommendations in the interim and final reports of Lord Hutton and the report on public sector pensions from Audit Scotland.

Severance

The severe budgetary constraints placed on the public sector resulted in a continuing high level of severance requests from both scheme members and employers. During 2010/11, the section completed around 1,800 estimates. Most estimates were completed within 3 days of being requested. This has fed through to the actual retirements where numbers increased from 610 in 2009/10 to 817 in 2010/11.

Pathfinder

2010/11 saw the continuation of the Pathfinder initiative, a project sponsored by the Convention of Scottish Local Authorities (COSLA) and the Improvement Service to evaluate whether efficiency savings and improved service standards could be achieved by reducing the number of Local Government Pension Scheme funds in Scotland. Phase 2 of the project has recently ended and has concluded that there is no business case for fund mergers. The remaining phase of the project will concentrate on an improvement rather than restructuring agenda for the funds.

Falkirk Community Trust

In December 2010, Falkirk Council approved the setting up of a Community Trust to deliver a range of Sport, Leisure and Cultural Services. The Pensions Section has had significant involvement in the project in terms of agreeing an appropriate employer contribution rate and putting in place an admission agreement. The Trust was formally admitted to the Fund on 1 July 2011 and around 500 employees were transferred from Council to Trust employment.

Appointment of Pension Fund Actuary

A tender for the provision of actuarial services was prepared in conjunction with the Council's procurement specialists. The contract, which is for a period of 4 years, requires the provision of triennial valuations, annual IAS19 calculations and inter-valuation monitoring. The four leading UK firms who provide actuarial services to Local Authority Funds were all invited to tender and were subsequently interviewed. The contract was awarded to Hymans Robertson and as such they have been appointed as actuaries to the pension fund.

Submission of 2010 National Fraud initiative data

Participation in the 2010 National Fraud Initiative saw the Pensions Section notify around 10,000 pensioners that their details would be forwarded to Audit Scotland for checking against the records of other public bodies. The data matching exercise resulted in two cases being referred to Police as potential frauds. The outcome of the judicial process is awaited.

Introduction of a Separate Pension Fund Bank Account

In accordance with the Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 2010, all pension fund monies transacted from 1st April, 2011 must be processed through a dedicated bank account. Accordingly, a pension fund bank account was opened in February, 2011 and has been operational since 1st April, 2011.

Communications

Stakeholder communication during 2010/11 was undertaken through

- Benefit Statements for Active and Deferred members
- Newsletters for Active Members and e-newsletter for registered deferred members
- Messaging facility on monthly pension advice slip
- “What’s New” section at www.falkirk.gov.uk/pensions

Performance

Performance information is supplied to CIPFA and the Scottish Government as part of an annual review of performance across all Councils. A range of service standards have also been developed by the Pensions Section and are monitored on a regular basis.

Key performance standards for the Section for the past 3 years are set out in the table below:-

	2008/09	2009/10	2010/11
Payment deadlines met	100%	100%	100%
Annual Member Admin. Cost	£18.34	£17.02	£16.12
Staff / Member ratio	1 to 2,983	1 to 3,060	1 to 3,042
Number of complaints	2	2	4
Lump Sums paid within 7 days	95%	91%	92%
Queries responded to in 14 days	68%	67%	71%

To ensure the Pensions Section staff remain abreast of current scheme developments, the Fund subscribes to an administration advisory service hosted by the Local Government Employers’ Organisation.

Administration Outlook

The landscape for 2011/12 and beyond is likely to be distinguished by continuing reform in the Local Government Pension Scheme and the wider public sector arena. Government proposals, such as increased employee contributions, the matching of scheme retirement age to state pension age, and auto enrolment in workplace pensions are all awaited with interest. Comment is also awaited from the Scottish Government regarding its approach to the Hutton recommendations which are scheduled for implementation in England and Wales in 2015.

The cost of scheme membership for employers will be revealed later this year when the results of the March 2011 actuarial valuation become available. Despite the potential savings from the Government’s decision to link future pension increases to the Consumer Price Index (as opposed to the Retail Price Index), many factors, including improved longevity and ill health experience, mean that there will continue to be an upward pressure on contribution rates.

Good quality data is fundamental to effective scheme administration. The Pensions Regulator has issued guidance on data quality and has set compliance targets for December 2012. It is intended to undertake work on the Regulator’s guidance in the coming year.

Given the Government’s agenda for change, the 2011 valuation, the requirements for a separate pension fund annual report, new tax rules on excess pension growth and the formation of the Community Trust to name but a few, 2011/12 promises to be another challenging year for the Pensions Section.

MEMBERSHIP UPDATE

Membership numbers are most commonly affected by persons joining or leaving the Scheme as part of normal staff turnover. From time to time, however, there can be more significant membership movements resulting from factors such as economic circumstances or changes in scheme rules.

Factors affecting recent membership numbers are as follows:

- i) the challenging financial environment of the past two years has led to more employees than normal being granted early retirement (and not being replaced) thus reducing the number of active members but increasing pensioner members' numbers;
- ii) recruitment freezes and vacancy management strategies have led to a further deceleration in the rate of enrolling new members
- iii) the number of deferred members continues to grow reflecting the fact that some employers have been offering severance packages to younger members who do not qualify for pension release, but instead are entitled to deferred benefits
- iv) the change of scheme rules in April 2009 led to around 300 active members with short term contracts (i.e. casual employees) being excluded from the scheme; and
- v) It is expected that in 2011/12, there will be a switching of around 500 members from Scheduled Body status to Admission Body status as staff are transferred from Falkirk Council employment to the newly created Falkirk Community Trust.

Serious concerns have been expressed that the government's proposal to increase employee contribution rates may result in significant member withdrawals.

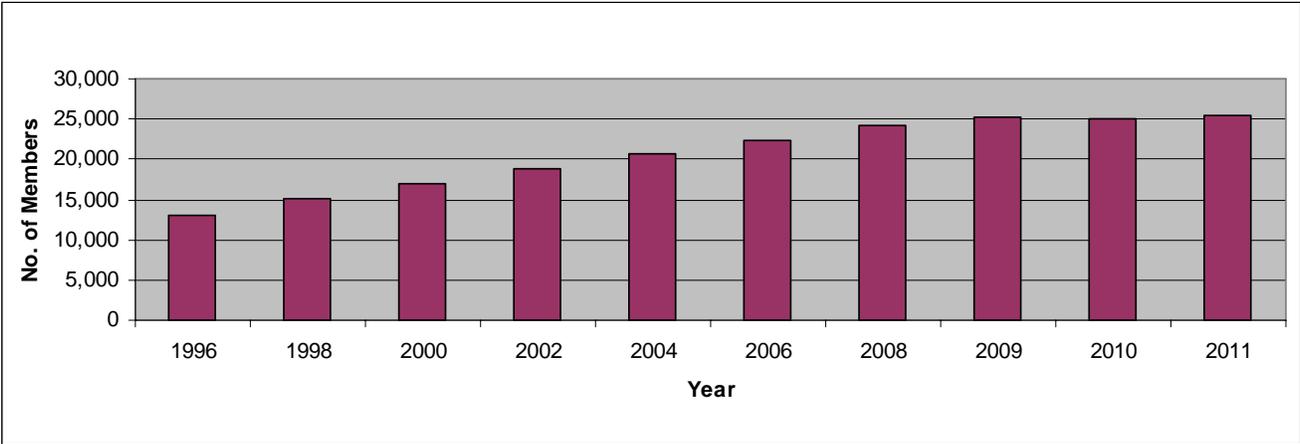
Number of Scheme Members

	Membership 31/03/09	Membership 31/03/10	Membership 31/03/11
All Fund Employers			
Actives	14,071	13,305	12,939
Deferreds	4,441	4,551	4,869
Pensioners	6,770	7,090	7,600
	25,282	24,946	25,408
Scheduled Bodies			
Actives	13,094	12,338	11,948
Deferreds	4,005	4,094	4,358
Pensioners	6,530	6,820	7,301
	23,629	23,252	23,607
Admission Bodies			
Actives	977	967	991
Deferreds	436	457	511
Pensioners	240	270	299
	1,653	1,694	1,801

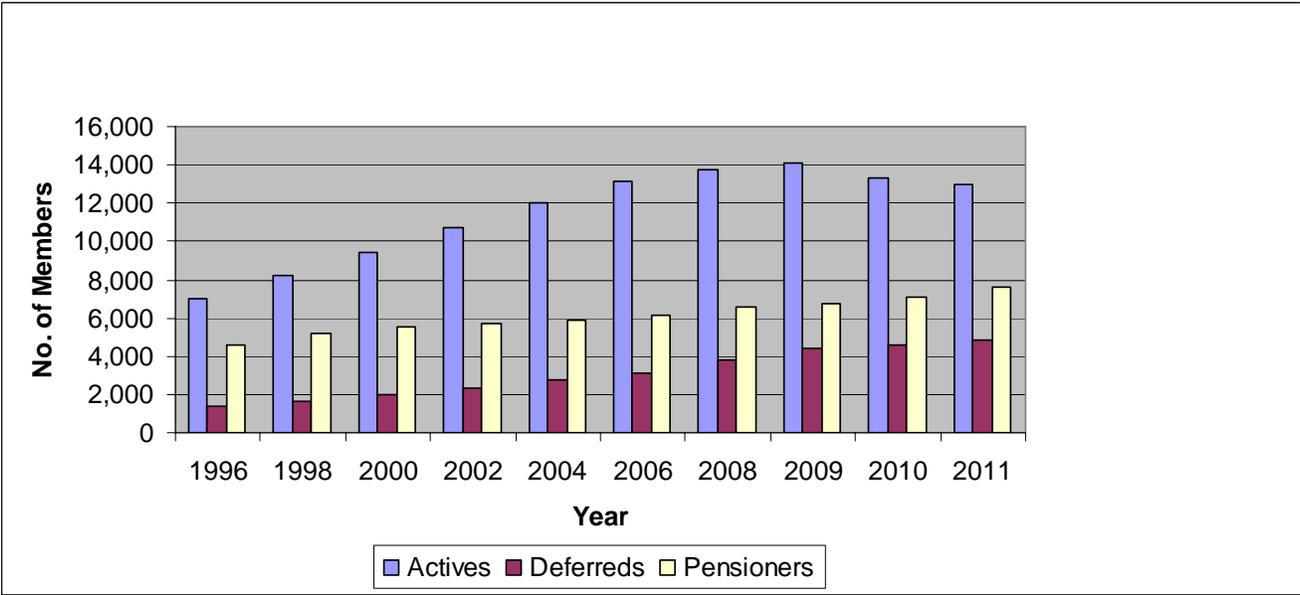
In general terms, total Fund membership (i.e. active, deferred and pensioner members) has reached something of a plateau in recent years. This is apparent from the first graph below where the steady membership increases of the late 1990s have reached a levelling out point.

This is further analysed in the second graph which demonstrates the emerging trend of reduced active members and increased pensioners and deferred members. Such a trend could signify a maturing of the Fund, and, if maintained, will have implications for the Fund’s investment strategy, its cash flows and the contribution rates paid by employers.

Fund Membership from 1996 – 2011



Fund Membership from 1996 – 2011 by category



REVIEW OF THE YEAR – INVESTMENTS

Investment Markets

Economic and Market Background – 12 Months to 31 March 2011

Despite nervousness among investors over the strength of the global recovery, the impact of a devastating earthquake and tsunami in Japan, and ongoing unrest in North Africa and the Middle East, there was also much encouraging economic news over the period, and stock markets around the world delivered positive returns.

Many of the perceived economic threats failed to materialise. China avoided the hard landing predicted by many observers, while, neither the UK nor the US was hit by the feared double-dip recession although inflationary pressures continued to grow. Eurozone countries had mixed fortunes, with the economic woes of Greece, Ireland, Spain and Portugal in sharp contrast to the strength of Germany which, during the final three months of 2010, recorded its best quarterly economic performance since reunification two decades earlier.

Although emerging market economies continued to perform well, foreign investors became more cautious on prospects there and some began to withdraw funds from China, Brazil and India which had seen heavy investment for much of the period. However, despite these concerns, investment returns in these areas remained positive.

Over the 12 months to 31 March, the UK equity market rose 9% and overseas markets also performed well. Europe gained 7% for UK-based investors, while the US posted a 10% rise in sterling terms and the strength of Emerging Markets was reflected in a return of 11%. Meanwhile, Developed Asia (including Japan) lost some of its earlier gains after the earthquake and ended the period 4% higher.

Bond markets benefited at various points from moves into the asset class by some investors amid increasing concerns over economic uncertainty and confirmation that fears of record corporate bond defaults had now subsided.

In January, there was a successful issue of the first European Financial Stability Facility bond. It is guaranteed by various European states and is a vehicle for raising money to provide loans to troubled Eurozone countries. However, some government bond markets fell as investors became increasingly convinced of the global economic recovery and raised their exposure to equities. Against this backdrop, UK gilts rose 5% over the period and UK corporate bonds posted a rise of 5%, while overseas government bonds were up 2% in local currency terms.

Although monetary conditions remain loose around the world, pressure is growing for interest rates to rise in some developed economies. Meanwhile, the general economic uncertainty in the Eurozone also threatens to linger and this is likely to create further volatility for investors.

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Investment Strategy

During 2010/11, the Investment Committee approved a revised Investment Strategy which includes an increased allocation to alternative investments to improve diversification across the portfolio. Investments falling within the alternative investments portfolio comprise absolute return, credit markets, infrastructure and private equity. The table below sets out the previous and revised strategic allocation as approved by Committee.

ASSET CLASS	PREVIOUS ALLOCATION %	REVISED ALLOCATION %
Equities	70	60
Bonds	15	10
Property	10	10
Alternatives	5	20
• <i>Private Equity</i>	5	5
• <i>Infrastructure</i>	0	5
• <i>Absolute Return</i>	0	10

Manager changes during the year resulted in the appointment of Aberdeen Asset Management to manage a global equity portfolio accounting for 15% of total Fund Assets. The new account was funded from a reduction in the level of Legal and General Investment Management's passive equity mandate from 35% to 20%.

Appointments to manage the Absolute Return and Infrastructure mandates will be made during 2011/12.

Corporate Governance

As a responsible investor, the Fund seeks to promote corporate social responsibility, good practice and improved company performance amongst all companies in which it invests. To this end, the Fund monitors investee companies to ensure they meet standards of acceptable practice in relation to their key stakeholders. During the year, the monitoring role was achieved by engaging with companies through:

- the Fund's Investment Managers
- Pensions and Investment Research Consultants (PIRC) who provide advice and research services on all matters pertaining to shareholder voting responsibilities
- membership of the Local Authority Pension Fund Forum comprising 53 local government pension funds to promote and maximise their investment interests

Until July 2010, votes were cast at company meetings on a regular basis through each of the Fund's equity managers. This approach did have the potential for inconsistent voting decisions across managers. In August 2010, the fund engaged PIRC to cast Fund votes at company meetings covered by their Global Corporate Governance Research. The service applies to the Fund's direct equity holdings (circa 150) which ensures consistency of voting intentions across the multi-manager portfolios. In the eight months since the service was introduced, voting was undertaken at 28 company meetings at which 279 votes were cast in favour of resolutions, 34 opposed and 39 cases of abstentions. It is worth noting that the vast majority of company meetings are held in the months April to July which falls outwith the period reported here. It is to be expected that the number of company meetings at which the Fund will cast its votes will significantly increase in the next financial year.

During the year, the Financial Reporting Council published its UK Stewardship Code. The Code, which comprises seven principles, seeks to improve the quality of engagement between institutional investors and investee companies. Consistent with Code requirements, asset managers must produce a statement of their commitment or explain their alternative approach to company engagement. It is pleasing to note that each of the Fund's investment managers has expressed their commitment to the Code.

Investment Performance

Short Term (1 year)

The Fund earned a return of 8.7% over the financial year against a benchmark return of 7.9%. Main contributions to the outperformance came from the Bonds and Global Equities mandates.

Medium Term (3 years)

The Fund's return of 5.5% p.a. slightly lags its benchmark return by 0.2% p.a. It is worth noting that these returns have been impacted by the sharp decline in equity and property markets during 2008/09. The Fund benefited, in particular, from strong performance by its UK equities manager.

Longer Term (10 years)

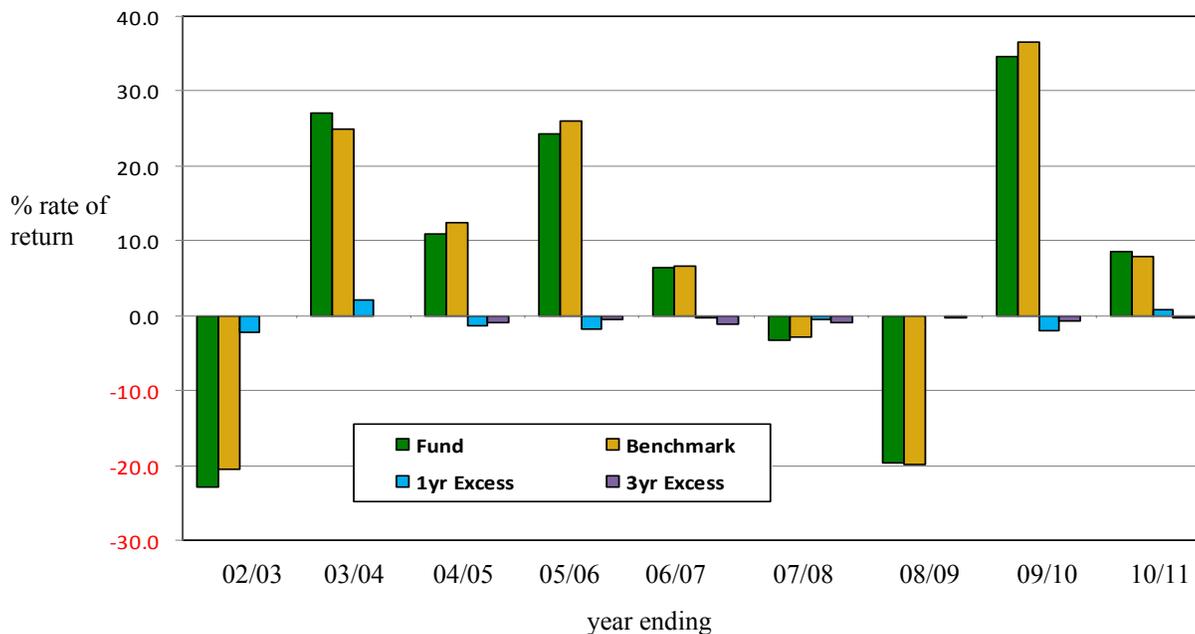
The Fund's longer term performance of 5.2% slightly lags its benchmark return by 0.4% p.a. over the period. However, it remains comfortably ahead of price and wage inflation to which the pension fund liabilities are linked.

Annualised returns to 31 March 2011

	1 Year	3 Years	10 Years
	%	%	%
Falkirk Council Pension Fund	8.7	5.5	5.2
Benchmark	7.9	5.7	5.6
Retail Prices Index	5.3	3.1	3.0
National Average Earnings	1.7	1.7	3.8

Rolling 3 Years Performance

Annual periods ending 31st March including 1 year and rolling 3 years % excess returns



%	Mar-03	Mar-04	Mar-05	Mar-06	Mar-07	Mar-08	Mar-09	Mar-10	Mar-11
Fund	-22.79	27.13	11.02	24.18	6.46	-3.36	-19.75	34.53	8.65
Benchmark	-20.56	24.99	12.47	26.03	6.70	-2.76	-19.77	36.57	7.92
1yr Excess	-2.22	2.14	-1.45	-1.85	-0.23	-0.60	0.03	-2.04	0.73
3yr Excess	-	-	-0.84	-0.44	-1.14	-0.84	-0.25	-0.71	-0.28

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.

2009/10 £'000	CONTRIBUTIONS AND BENEFITS	2010/11 £'000	Note
	Contributions receivable:		
49,880	From Employers	52,306	13/14
17,194	From Employees	17,197	13
5,333	Transfers from Other Schemes	3,899	
	Benefits Payable:		
(29,305)	Pensions	(32,107)	13
(14,066)	Lump Sums	(19,504)	13
	Payments to and on account of leavers:		
(176)	Refunds of contributions	(224)	
(4,931)	Transfers Out	(3,697)	
(430)	Administrative and Other Expenses	(408)	
23,499	Net Additions from dealing with Members	17,462	
	RETURNS ON INVESTMENTS		
14,131	Investment Income	19,769	8
(144)	Taxation (Irrecoverable withholding tax)	(328)	
	Change in Market Value of Investments:		
21,958	Realised	75,648	
232,838	Unrealised	(1,283)	
(2,425)	Investment Management Expenses	(3,453)	7
266,358	Net Return on Investments	90,353	
289,857	Net Increase/(Decrease) in the Fund during the year	107,815	
783,513	Opening Net Assets as at 1 April 2010	1,073,370	
1,073,370	Closing Net Assets as at 31 March 2011	1,181,185	

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.

2008/09 £'000	2009/10 £'000		2010/11 £'000	Note
INVESTMENT ASSETS				
Listed Investments				
119,417	191,331	U.K. Equities – Quoted	225,585	
2,394	3,896	U.K. Managed Funds – Unit Trusts	4,678	
47,687	73,700	U.K. Managed Funds – Property	74,951	
121,432	186,732	Overseas Equities	339,476	
12,408	10,837	Overseas Managed Funds – Property	10,531	
Unlisted Investments				
31,725	24,555	UK Managed Funds	40,322	
375,703	530,242	UK Managed Funds – Unitised Insurance	409,491	
19,044	21,520	Overseas Managed Funds	25,690	
2,550	2,550	UK Property	2,300	
10,093	8,446	Other Investment Balances	29,883	
24,977	8,351	Cash Deposits	7,823	
1,340	59	Derivatives – Forward Foreign Exchange	-	
INVESTMENT LIABILITIES				
(936)	-	Derivatives – Forward Foreign Exchange	(6)	10
767,834	1,062,219	NET INVESTMENT ASSETS	1,170,724	9
CURRENT ASSETS				
2,585	2,551	Contributions due from Employers	2,839	
1,364	1,440	Other Current Assets	2,962	
13,593	9,103	Cash Balances	7,299	
CURRENT LIABILITIES				
(573)	(1,061)	Unpaid Benefits	(1,119)	
(1,290)	(882)	Other Current Liabilities	(1,520)	
783,513	1,073,370	NET ASSETS	1,181,185	

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 in the separate Actuarial Statement included in this report and the financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the Notes to the Pension Fund Accounts.

The unaudited accounts were issued on 30 June 2011 and the audited accounts were authorised for issue on 30 November 2011.



Bryan Smail, CPFA MBA
Chief Finance Officer

NOTES TO THE ACCOUNTS

1. **Fund Operations and Membership**

Falkirk Council is required to maintain a pension fund (The Falkirk Council Pension Fund) under the terms of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

The scheme to which the pension fund relates is the Local Government Pension Scheme (LGPS). The LGPS, established under the Superannuation Act 1972, is a public sector scheme which provides defined benefits on a final salary basis. The scheme is contracted out of the State Second Pension and is fully registered with HM Revenue and Customs as a UK pension scheme.

The scheme rules are made by the Scottish Ministers through the office of the Scottish Public Pensions Agency and are set out in the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 and the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008. (The rights of some members are governed by previous versions of the scheme rules).

Administration of the Fund is undertaken in-house. The investments of the Fund are managed by external Fund Managers within the overall policy direction of the Council's Investment Committee.

Contributions to the pension fund are made by active members and participating employers. The Fund is used to pay pension and lump sum benefits to eligible beneficiaries. A list of participating employers is included in this report.

2. **Basis of Preparation**

Regulation 31A of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 as inserted by Scottish Statutory Instrument 2010/234 requires an Administering Authority, in relation to each year starting on 1 April 2010, to publish a pension fund annual report before 1st December following the year end. Regulation 31A(1)(f) requires that the pension fund annual report includes a fund account and net assets statement with supporting notes and disclosures prepared in accordance with proper practices.

In relation to the preparation of Fund Accounts, the Scottish Government has also issued statutory guidance in Finance Circular 1/2011. This requires Local Government Pension Scheme (LGPS) financial statements for 2010/11, and each year thereafter, to be published separately from an Administering Authority's own financial statements and to be the subject of a separate audit report. For 2010/11, the Fund Accounts require to be published before 1 December 2011 (this will be 30 September in future years).

3. **Accounting Policies**

The financial statements have been prepared in accordance with the Local Government (Scotland) Act 1973, the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code) and the Pensions Statement of Recommended Practice (the 2007 Pensions SORP). A summary of the more important accounting policies, which have been consistently applied, is set out below.

Basis

The financial statements are generally prepared on an accruals basis. Employers' augmentation and strain on fund contributions are accounted for either in accordance with the agreement under which they are being paid, or in the absence of an agreement, on a receipts basis. Receipts and payments in respect of the transfer of benefits to and from the scheme 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 ruling at the financial year end. The direct property portfolio was valued at 31 March 2011 by DM Hall LLP, Chartered Surveyors 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.

NOTES TO THE ACCOUNTS

Investment Income

Investment income is taken into account where dividends have been declared at the end of the financial year. The amount of irrecoverable withholding tax is disclosed as a separate line on the face of the Fund Account. Interest is included in the accounts on an accruals basis.

4. Critical Judgements in Applying Accounting Policies

In applying the Accounting Policies in Note 3, the Pension Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events.

5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

6. Actuarial Valuation

The most recent actuarial valuation, carried out under Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008, was undertaken as at 31 March 2008. This disclosed that the Fund's assets were sufficient to meet 79% of its liabilities. Full details of the methods and assumptions used in the 2008 valuation are set out in the actuary's valuation report dated 27 February 2009.

In determining the employer contribution rates, the actuary took into account the funding policy as set out in the Funding Strategy Statement. The policy of the Administering Authority is to pursue a funding level of 100% and to generally allow employers to recover from their deficit position over a period of 20 years.

Copies of the Valuation report and Funding Strategy Statement can be found at www.falkirk.gov.uk/pensions.

More information about the 2008 valuation and funding arrangements can be found in the Actuarial Statement provided by Hymans Robertson, the pension fund actuary, later in this report.

7. Investment Management Expenses

2009/10 £'000		2010/11 £'000
2,358	External Investment Management Services	3,347
67	Internal Administration	106
2,425	TOTAL	3,453

8. Investment Income

2009/10 £'000		2010/11 £'000
6,480	UK Equities	8,077
127	UK Managed Funds – Others	108
2,748	UK Managed Funds – Property	2,984
4,059	Overseas Equities	7,800
231	Overseas Managed Funds – Property	323
48	Overseas Managed Funds – Unlisted	78
206	UK Property	208
232	Cash & Other Income	191
14,131	TOTAL	19,769

NOTES TO THE ACCOUNTS

9. Investments

	Market Value 01/04/10 £'000	Purchases at Cost £'000	Sale Proceeds £'000	Change in Market Value £'000	Market Value 31/03/11 £'000
Investment Assets					
UK Equities	191,331	34,095	(13,193)	13,352	225,585
UK Managed Funds – Unit Trusts	3,896	-	-	782	4,678
UK Managed Funds – Property	73,700	6,891	(6,858)	1,218	74,951
Overseas Equities	186,732	199,236	(131,395)	84,903	339,476
Overseas Managed Funds – Property	10,837	-	-	(306)	10,531
UK Managed Funds – Unlisted	24,555	12,436	(1,615)	4,946	40,322
UK Managed Funds – Unitised	530,242	36,691	(121,227)	(36,215)	409,491
Insurance					
Overseas Managed Funds – Unlisted	21,520	3,969	(913)	1,114	25,690
UK Property	2,550	-	-	(250)	2,300
Derivatives – Forward Foreign Exchange	59	832	(521)	(376)	(6)
	1,045,422	294,150	(275,722)	69,168	1,133,018
Other Investment Balances	8,446	1,946	(2,004)	21,495	29,883
Cash Deposits	8,351	-	-	(528)	7,823
NET INVESTMENT ASSETS	1,062,219	296,096	(277,726)	90,135	1,170,724

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 £614,916. 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.

2009/10		Investment Manager	Pooled Funds	2010/11	
£'000	%			£'000	%
140,458	13.1	Legal & General Investment Management Ltd.	UK Equity Index	91,792	7.8
133,219	12.4	Legal & General Investment Management Ltd.	North America Equity Index	90,051	7.6
65,032	6.1	Baillie Gifford Life Ltd	Sterling Aggregate Bond	69,524	5.9

10. Derivatives

Derivatives – Forward Foreign Exchange Summary of Contracts held at 31 March 2011

Contract	Settlement Date	Value of Currency Bought £'000	Asset £'000	Liability £'000	Net £'000
Various Currency Forwards	Within 1 month	595	-	(6)	(6)

Three foreign currencies are involved with all contracts traded on an over-the-counter basis. These contracts are used by Fund Managers to reduce the extent to which the Fund is exposed to currency movements.

NOTES TO THE ACCOUNTS

11. Funds Under External Management

MARKET VALUE 2009/10			MARKET VALUE 2010/11		
£ million	(%)		£ million	(%)	
-	-	Aberdeen Asset Management	166.5	14.3	
143.4	13.5	Baillie Gifford Life Ltd.	153.0	13.0	
386.8	36.5	Legal and General Investment Management Ltd.	256.5	22.0	
211.2	19.9	Newton Investment Management Ltd.	239.8	20.5	
178.3	16.8	Schroder Investment Management Ltd.	184.3	15.8	
85.4	8.1	Schroder Investment Management Ltd. (Property)	96.4	8.2	
28.7	2.7	SL Capital Partners LLP	38.3	3.3	
25.9	2.5	Wilshire Private Markets Group	28.7	2.5	
-	-	M&G UK Companies	4.9	0.4	
1,059.7	100.0		1,168.4	100.0	

12. Related Party Transactions

Pension receipts and payments are transacted using Falkirk Council's financial systems and banking arrangements. Throughout the year the Fund maintains a cash balance within the Council's loans fund for this purpose which is listed as 'cash balances' in the net assets statement.

There were no other material transactions with related parties during the year.

13. Contributions Receivable and Benefits Payable

	CONTRIBUTIONS RECEIVABLE		BENEFITS PAYABLE	
	Employees £'000	Employers £'000	Pensions £'000	Lump Sum* £'000
Administering Authority	5,875	17,732	11,261	5,050
Other Scheduled Bodies	9,969	30,666	19,635	13,836
Admission Bodies	1,353	3,908	1,211	618
Totals	17,197	52,306	32,107	19,504

* Includes "Death Benefits" of £0.99m

NOTES TO THE ACCOUNTS

14. Employers' Contributions

	Administering Authority £'000	Other Scheduled Bodies £'000	Admission Bodies £'000	Total £'000
Normal Contributions	17,078	26,497	3,404	46,979
Deficit Contributions	281	493	392	1,166
	17,359	26,990	3,796	48,145
Strain on Fund Contributions	373	3,676	112	4,161
Augmentation Contributions	-	-	-	-
TOTAL	17,732	30,666	3,908	52,306

Normal contributions in the above table are sums paid by employers to fund the cost of ongoing benefit accrual (commonly referred to as “future service costs”). Deficit contributions are the sums paid by employers in order to return the Fund to a fully funded position (commonly referred to as “past service costs”). The level of normal and deficit contributions were set as a result of the Fund Valuation at 31 March 2008. The table also shows the pension strain contributions made by employers in order to fund the early release of scheme benefits.

15. Securities Lending

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

16. 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 2011 was £2.60 million (£2.60 million at 5 April 2010). Contributions made by members during the year to 5 April 2011 were £0.26 million. Expenditure from the policy during the same period (including the purchase of member annuities) amounted to £0.45 million. These amounts are not included in the Pension Fund Accounts in accordance with regulation 4 of the Local Government Pension Scheme (Management and Investment of Funds)(Scotland) Regulations 1998 (SI 2010 No. 233).

17. Contractual Commitments

As at 31 March 2011, the Fund had contractual commitments of £141m within its private equity and credit markets portfolio of which £63m remained outstanding at 31 March 2011.

18. 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.

NOTES TO THE ACCOUNTS

19. Actuarial Present Value of Promised Retirement Benefits

The actuarial value of promised retirement benefits at the accounting date, based on a roll forward of 31 March 2008 valuation and assumptions consistent with IAS19 (International Accounting Standard), has been estimated by the Fund Actuary as £1,490m (£1,644m at 31 March 2010). This figure is used by the pension fund for statutory accounting purposes and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's FRS17/IAS19 reports at each year end. The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

20. Events After the Net Asset Statement Date

The unaudited Statement of Accounts was issued by the Chief Finance Officer on 30 June 2011 and the audited Statement of Accounts was authorised for issue on 30 November 2011. Events taking place after this date are not reflected in the financial statements or notes. There have been no material events since the date of the Net Asset Statement which have required the figures in the financial statements and notes to be adjusted.

Falkirk Council Pension Fund (“the Fund”) Actuarial Statement for 2010/11

This statement has been prepared in accordance with Regulation 31A of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2010/11.

Description of Funding Policy

The funding policy is set out in the Falkirk Council Funding Strategy Statement (“FSS”), dated January 2009. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. The funding objective is to pursue a funding level of 100% (i.e. fund assets are 100% of the liabilities). Where an employer is in a deficit position, the funding strategy is generally to allow the deficit to be recovered over a period of 20 years. However, for employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 32 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 2008 was as at 31 March 2008. This valuation revealed that the Fund’s assets, which at 31 March 2008 were valued at £947.2 million, were sufficient to meet 79% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2008 valuation was £255 million.

Individual employers’ contributions for the period 1 April 2009 to 31 March 2012 were set in accordance with the Fund’s funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 27 February 2009.

HYMANS ROBERTSON LLP

METHOD

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

ASSUMPTIONS

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2008 valuation were as follows:

Financial assumptions	31 March 2008	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.5%
Pay increases *	5.1%	1.5%
Price inflation/Pension increases	3.6%	-

* plus an allowance for promotional pay increases.

The key demographic assumption was the allowance made for longevity. The longevity assumptions adopted at this valuation were in line with standard PXA92 year of birth mortality tables. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.7 years	23.8 years
Future Pensioners	22.0 years	25.0 years

Copies of the 2008 valuation report and Funding Strategy Statement can be found at www.falkirk.gov.uk/pensions

Experience over the period since April 2008

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 January 2011 at which time the actuary estimated that the funding level (excluding the effect of any membership movements) was 83%. This represents an improvement from the reported funding level of 76% at March 2010 and is mainly attributable to the UK Government's announcement that public sector pensions will henceforth be increased in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI).

HYMANS ROBERTSON LLP

The next actuarial valuation will be carried out as at 31 March 2011. The Funding Strategy Statement will also be reviewed at that time.

Catherine McFadyen

Catherine McFadyen

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

23 June 2011

Hymans Robertson LLP

20 Waterloo Street

Glasgow

G2 6DB

SCHEDULED AND ADMISSION BODIES AS AT 31 MARCH 2011

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 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

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

THE ADMINISTERING AUTHORITY'S RESPONSIBILITIES

The Authority is required to:-

- Make arrangements for the proper administration of the financial affairs of the Pension Fund in its charge and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Finance Officer.
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.

THE CHIEF FINANCE OFFICER'S RESPONSIBILITIES

The Chief Finance Officer is responsible for the Statement of Accounts which have been properly prepared in accordance with the Local Government (Scotland) Act 1973, and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code) and the 2007 Pensions Statement of Recommended Practice (the 2007 Pensions SORP).

In preparing this Statement of Accounts, the Chief Finance Officer has:-

- selected suitable accounting policies and then applied them consistently;
- made judgements that were reasonable and prudent; and
- complied with the accounting code of practice.

The Chief Finance Officer has also:-

- kept proper accounting records which were up to date; and
- taken reasonable steps to prevent and detect fraud and other irregularities.

STATEMENT OF ACCOUNTS

The Statement of Accounts presents a true and fair view of the financial position of the Pension Funds as at 31 March 2011 and their income and expenditure for the year ended 31 March 2011.



Bryan Smail, CPFA MBA
Chief Finance Officer
30 June 2011

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Falkirk Council as administering body for Falkirk Council Pension Fund and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Falkirk Council Pension Fund for the year ended 31 March 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code).

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 Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the financial transactions of the fund during the year ended 31 March 2011, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

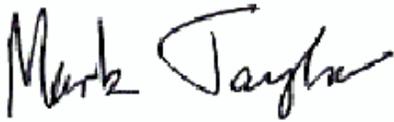
In my opinion the information given in the Foreword by the Chief Finance Officer for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

A handwritten signature in black ink, reading "Mark Taylor". The signature is written in a cursive style and is positioned to the left of a vertical line.

Mark Taylor
Assistant Director
Audit Scotland
Osborne House
1/5 Osborne Terrace
Edinburgh
EH12 5HG

30 November 2011

ADDITIONAL INFORMATION

Key Documents Online

You can find further information on what we do and how we do it, on our website www.falkirk.gov.uk/pensions. The following documents are on the website:

- Actuarial Valuation Reports
- Funding Strategy Statement
- Annual Report and Accounts
- Governance Policy Statement
- Statement of Investment Principles

Fund Key Contracts

Actuaries:	Hymans Robertson LLP
Bankers:	Clydesdale Bank
Investment Custodians:	The Northern Trust Company
Investment Managers:	Details can be found in the notes to the accounts
Additional Voluntary Contributions (AVC) Managers:	Standard Life
Solicitors:	Falkirk Council - Legal Services

Contact Details

If you would like further information about Falkirk Council Pension Fund, please contact us.

Address:	Falkirk Council Pension Fund
Telephone:	01324 506316
Fax	01324 506334
E-Mail	pensions@falkirk.gov.uk or investments@falkirk.gov.uk
Web	www.falkirk.gov.uk/pensions

Independent Auditor

The Auditor appointed for this purpose by the Accounts Commission for Scotland is:

Audit Scotland
Osborne House
1/5 Osborne Terrace
Edinburgh