FALKIRK COUNCIL PENSION FUND

Unaudited

Annual Report and Accounts

2011/12

Falkirk Council

CONTENTS

FOREWORD BY THE CHIEF FINANCE OFFICER

As prescribed by Regulations, this is the second Pension Fund annual report and accounts, audited in their own right, separate and removed from Falkirk Council's annual financial statements. This provides 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 (revised during 2011/12) 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.

Financial year 2011/12 proved to be both very dynamic and challenging. The triennial Valuation was completed as at 31 March 2011. This resulted in a welcome improvement in the Funding Level reflecting the net impact of a range of variables, including investment performance, the bond yield used to value liabilities, assumptions on life expectancy and the switch from RPI to CPI as the measure of inflation. It should be remembered that the valuation is a snapshot in time, particularly when assessed against the backcloth of volatile financial markets.

The Fund extended its diversity with the appointment of two new asset mandates. Credit Suisse were allocated an Infrastructure mandate and Baillie Gifford supplemented their bond mandate with their Diversified Growth Fund. The Council decided to establish a Community Trust for its leisure and related services and this new entity was admitted to the Fund in its own right, albeit with guarantee backing from the Council.

During the year, the two most senior staff dealing with investments retired. After evaluating options, it was decided that entering into a Service Level Agreement with the Lothian Fund offered the best way forward. This was supplemented by an integration of the investment and administration sections under one Pensions Manager. It is believed that this is the best configuration to meet the challenges ahead.

And there are indeed many challenges on the horizon. Reform of the Local Government Pension Scheme in England and Wales is now taking shape, based on a career average rather than final salary, but clarification is awaited of the way forward in Scotland. Auto Enrolment will commence for some of the Fund employers from April 2013. There is also the formation of the national Police & Fire Authorities from April 2013. New governance arrangements designed to improve engagement and communications with stakeholders are in place to be introduced during 2012/13. And, of course, the public sector faces a regime of austerity over the medium and quite possibly longer term, the gravity of which will be materially determined by the volatility of financial markets and the prospects for world-wide economic growth.

Bryan Smail, CPFA MBA
Chief Finance Officer
29 June 2012

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 pensions, lump sum benefits and other entitlements to scheme members and their dependants. Contributions to the Fund are made by employee members and by participating employers. The Fund also receives income from the assets it holds, which include equities, property and bonds.

Fund employers include Clackmannanshire, Falkirk and Stirling Councils, Central Scotland Police, Central Scotland Fire and Rescue Service, Central Scotland Valuation Board, the Scottish Environment Protection Agency (SEPA), the Scottish Children's Reporter Administration (SCRA), Forth Valley College, Falkirk Community Trust Ltd 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 able to join the scheme, you must be employed by a participating employer and not be eligible to join one of the other public sector pension schemes.

An actuarial valuation of the Fund every three years acts as an independent financial health check to determine 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 2011 and showed that the Fund was 86% funded, meaning that it had 86% of monies needed to pay all the future benefits of scheme members. Two important aspects highlighted by the actuary were the risks posed to the Fund from future improvements in mortality rates and the challenges to the Fund from a maturing membership.

Whilst the impact of an ageing workforce on future cashflows should not be under-estimated, 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 their deficit position over 20 years. A stability mechanism within the strategy also helps employers budget for their contributions in the short term.

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

Administration of the Fund is undertaken in-house by the Pensions Section.

Governance Overview

Falkirk Council has delegated all its pension scheme business to its Investment Committee.

During 2011/12, the Committee met quarterly and comprised six Elected Members from Falkirk Council:

- 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 were to:-

- establish and review investment strategy;
- ensure the suitability and adequate diversification of investments;
- set strategic asset allocation benchmarks and individual manager benchmarks and targets;
- review on a regular basis the investment managers' performance; and
- select and appoint investment managers and custodians as required.

(Councillors Patrick, Black, Blackwood and McNeill were all active members of the Scheme during 2011/12).

Communications

Communications with stakeholder groups was achieved by way of a Pensions Forum held in September 2011 and a Pensions and Investment Conference held in March 2012. These events were open to representatives from each of the employing bodies and trade unions. The issues discussed included actuarial matters, benefits and regulatory changes, investment performance and investment manager/adviser presentations.

Statement of Investment Principles

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

The Council's approach to funding 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

Following the publication in April 2011 of statutory guidance relating to the governance of local authority pension funds, the Fund undertook a wide ranging consultation with stakeholders to determine the nature of a revised governance structure. A revised governance framework, taking account of the results of the consultation, was approved by Falkirk Council on 14 March 2012 and will result in future pension fund business being conducted by a Pensions Committee, with the support of an advisory Pensions Panel. The Panel will consist of Trade Union, Employer and Pensioner representatives with three members of the Panel being co-opted to sit on the Committee where they will have full access to papers and voting rights.

The new governance arrangements will enable the Fund to be compliant with best practice guidelines from 2012/13 onwards.

In accordance with the requirements of the Pension Regulations, the Governance Compliance Statement in operation during 2011/12 is reproduced in the following section. Details of the new governance arrangements have also been provided.

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 sets out the compliance arrangements in place during 2011/12 and the arrangements which have been approved for 2012/13.

Principle A – Structure

	Requirement	Level of Compliance in 2011/12	Arrangements in Place 2011/12	Arrangements in Place 2012/13
(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 Compliance	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".	Falkirk Council, as Administering Authority of the Falkirk Council Pension Fund, has established a Pensions Committee to which it has delegated the administration of benefits and strategic management of fund assets.
(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 Compliance	The Investment Committee comprises six Elected Members from the Administering Authority. The Investment Committee has established an Investment Forum comprising representatives from Fund employers and Trades Union representatives.	The Pensions Committee includes three members co-opted from the Pensions Panel representing the interests of members, pensioners and employers.
(c)	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Partial Compliance	The Investment Forum is convened twice 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.	The main channel of communication between the Pensions Committee and the Pensions Panel lies with the three Committee members who are also Panel members. Communication is also assisted by synchronising Panel meetings with the corresponding Committee meeting.

Requirement		Level of Compliance in 2011/12	Arrangements in Place 2011/12	Arrangements in Place 2012/13
(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.	Not Compliant	See (b)	Three places on the Pensions Committee are reserved for members of the Pensions Panel.

Principle A – Structure

Reason for non-compliance

Revised arrangements have been put in place to ensure that from 2012/13 adequate stakeholder representation exists for scheme members, employers and pensioners.

Principle B – Representation

Requirement		Level of Compliance in 2011/12	Arrangements in Place 2011/12	Arrangements in Place 2012/13
(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 Compliance	The Investment Committee comprises six Elected Members from the administering authority. All Fund employers are invited to meetings of the Investment Forum.	Representatives of major fund employers, including one admission body, sit on the Pensions Panel. A nominee from the Panel's employer representatives sits on the Pensions Committee.
	(ii) Scheme members (including deferred and pensioner scheme members);	Partial Compliance	Trades Union representatives are invited to meetings of the Investment Forum	Non-pensioners are represented by the Trade Union Panel members and by the Union representative who sits on the Pensions Committee. Pensioners are represented by the pensioner members who sit on the Panel and the member who sits on the Committee.
	(iii) Where appropriate, independent professional observers; and	Not Compliant	None	There are no independent professional observers of Committee or Panel business. It is considered that: • the diversity of representation; (employers, pensioner and Unions) • the training arrangements; • the annual audit process; and • access to existing professional advisors provide robust and adequate scrutiny of pension fund business.

Requirement		Level of Compliance in 2011/12	Arrangements in Place 2011/12	Arrangements in Place 2012/13
	(iv) Expert advisors (on an ad-hoc basis).	Full Compliance	Support for the Investment Committee and Investment Forum is provided by the undernoted advisors: • actuary and investments, Hymans Robertson • corporate governance, Pensions and Investment Research Consultants Ltd (PIRC) • investment managers and custodian, as required.	Support for the Pensions Committee and Pensions Panel is provided by the undernoted advisors: • actuary and investments, Hymans Robertson • corporate governance, PIRC 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.	Not Compliant	None	Panel members who are co-opted onto the Pensions Committee have equality of access to papers, meetings and training and have full opportunity to contribute to the decision making process, including the right to vote.

Principle B – Representation <u>Reason for non-compliance</u> Areas of partial or non-compliance have been addressed as part of the overall review of governance arrangements referred to under Principle A.

Principle C – Selection and role of lay members

	Requirement	Level of Compliance in 2011/12	Arrangements in Place 2011/12	Arrangements in Place 2012/13
(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	Full Compliance	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.	Members of the Pensions Committee will be subject to the Falkirk Council Councillors' Code of Conduct. Members of the Pensions Panel will be appointed on the understanding that they will be subject to the Falkirk Council Councillors' Code of Conduct. Induction training will be delivered to Committee and Panel 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.	Full Compliance	Declaration of interests is a standard procedure at the start of all Committee meetings. Declarations are noted in the minutes.	Declaration of interests is a standard procedure at the start of all Committee and Panel meetings. Declarations are noted in the minutes.

Principle D – Voting

	Requirement	Level of Compliance in 2011/12	Arrangements in Place 2011/12	Arrangements in Place 2012/13
(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 Compliance	All members of the Investment Committee have voting rights on the basis that they have executive responsibility for pension fund decision making.	All members of the Pensions Committee including co-opted members will 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 has been addressed as part of the overall review of governance arrangements referred to under Principle A.

Principle E – Training/Facility Time/Expenses

Requirement		Level of Compliance in 2011/12	Arrangements in Place 2011/12	Arrangements in Place 2012/13
(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 Compliance	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.	The administering authority's approach to training is set out in its training policy for the Pensions Committee and Pensions Panel members. Training is delivered in large part by addressing specific items at Committee and Panel meetings and complemented by visits to Fund Managers, bespoke training events and attendance at industry seminars and conferences. Expenses incurred by Committee and Panel members 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.	Not Compliant	None	The Training Policy for the Pensions Committee and Pensions Panel applies uniformly to all members.
(c)	That the Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Not Compliant	None	The Training Policy for the Pensions Committee and Pensions Panel includes the requirement for members to undergo training needs analysis and the development of commensurate training plans. A register of training undertaken will be maintained.

Principle E – Training/Facility Time/Expenses

Reason for non-compliance

Various aspects of training have been addressed as part of the overall review of governance arrangements referred to under Principle A.

Principle F – Meetings (Frequency/Quorum)

Requirement		Level of Compliance in 2011/12	Arrangements in Place 2011/12	Arrangements in Place 2012/13
(a)	That an Administering Authority's main committee or committees meet at least quarterly.	Full Compliance	The Investment Committee has a regular quarterly meeting covering investment and pensions administration matters. Additional meetings are called as required.	The Pensions Committee hold quarterly meetings. 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 Compliance	The Investment Forum is held in September of each year followed by an annual Pensions & Investment Conference held in March.	The Pensions Panel hold quarterly meetings and meets roughly two weeks in advance of the Pension Committee. Additional meetings are called as required.
(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 Compliance	The Investment Forum provides access for the majority of the stakeholder groups.	The Council does include lay members on its Pensions Committee. However, in order to ensure that the interests of wider fund stakeholders can be represented, the Fund holds a Pensions & Investment Conference each year.

Principle F – Meetings (Frequency/Quorum)

Reason for non-compliance

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

Principle G – Access

Requirement		Level of Compliance in 2011/12	Arrangements in Place 2011/12	Arrangements in Place 2012/13
(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.	Not Compliant	None	Members of Pensions Committee and Pensions Panel have equal access to any committee papers, documents and advice that falls to be considered at meetings of the Pensions Committee.

Principle G – Access

Reason for non-compliance

The provision of Committee papers to stakeholder groups has been addressed as part of the overall review of governance arrangements referred to under Principle A.

Principle H – Scope

Requirement		Level of Compliance in 2011/12	Arrangements in Place 2011/12	Arrangements in Place 2012/13
(a)	That Administering Authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full Compliance	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.	The Pensions Committee and Panel agendas include reports pertaining to both administration and investment matters such as regulatory changes, actuarial valuation and funding level updates, admission agreements, investment strategy and Fund/ Investment Manager performance.

Principle I – Publicity

Requirement		Level of Compliance in 2011/12	Arrangements in Place 2011/12	Arrangements in Place 2012/13
(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 Compliance	Consultation into new governance arrangements progressed during 2011/12.	Employers, Unions and Pensioners have been consulted regarding the governance arrangements and invited to participate. Full details of the Governance arrangements are published on the Fund's website.

Principle I – Publicity

Reason for non-compliance

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

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

REVIEW OF THE YEAR – ADMINISTRATION

Introduction
This section provides an overview of the arrangements made during 2011/12 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 by the Pensions Manager, who reports to the Depute Chief Finance Officer.

The composition of the Pensions Section is as follows:

Role	Nos.	Average Years of Service	Pensions Qualification
Pensions Manager	1	29 years	Yes
Pensions Project Officer	1	41 years	Yes
Pensions Officers	2	26 years	Yes (1 post)
Pensions Support Assistant	1	21 years	No
Pensions Assistants	4.8	10 years	No
Total	9.8		

The appointment during 2011/12 of a new management team within Finance saw renewed impetus being given to the retention of Investor in People (IIP) accreditation and to the introduction of the Achievement and Personal Development System (APDS) to better measure and manage staff needs and aspirations.

Main Activities
The principle activities of the Section are to:

- maintain records of scheme membership;
- calculate and pay retirement and death benefits;
- provide information and guidance to scheme stakeholders;
- ensure the Council meets its statutory obligations in relation to scheme administration;
- produce an Annual Report and Accounts for publication;
- contribute to the development of public sector pensions policy; and
- support the governance arrangements of the Pension Fund.

Section Goals and Values
The Pensions Section contributes towards the Council's goals and values through discharging the Council's pensions administration obligation. The Section recognises the need to provide a quality service and fully embraces the mission statement of Finance Services to:

- meet targets;
- invest in people;
- adopt new and more efficient methods of service delivery;
- be responsive to our customers;
- monitor and report performance; and
- achieve the goals we have set ourselves

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 Pensions Contingency Plan
- Staff and Employer Online Administration Manual

2011/12 Activity Review

General
The Section successfully completed all its statutory functions in the required timescale and to a high degree of accuracy. A recurring theme of 2011/12 has been the demands from stakeholders for information about the UK Government's pension reform agenda and how it impacts on the Local Government Pension Scheme in Scotland.

Public Sector Pension Reform
Whilst an outline framework for new career average schemes has been tentatively agreed in England and Wales, no decisions about the future of public sector schemes in Scotland has been taken by the Scottish Government, save for the implementation of higher employee contribution rates from April, 2012 in respect of Police, Fire and Teachers' Schemes.

Joint Working
The Pathfinder initiative into the delivery of the LGPS service in Scotland reached the conclusion that there was no business case for the merger of funds from either an investment or administration perspective. The consultant's final report did however make several suggested improvements for the manner in which Funds operate (e.g joint procurement). These are likely to be addressed as the public sector reform agenda moves forward.

Pension Fund Actuarial Valuation at 31/3/2011
The valuation of the pension fund as at 31/3/2011 was completed in accordance with the statutory timescale. Employers have been advised of the valuation results and have been given notice of the contribution rates that are payable for the three years from 2012/13. In order to improve engagement with employers in the valuation process, the actuary provided each employer with details of their own funding position and gave each employer the opportunity to have a one to one meeting.

The opportunity was also taken to update the Funding Strategy Statement to reflect the results of the valuation.

More information regarding the results of the valuation can be found in Note 15 of the financial statements and on Page 42 of this report in the Section "Actuarial Statement for 2011/12".

Pension Fund Governance Arrangements
The Pensions Section, in conjunction with the staff of the Chief Governance Officer, was heavily involved in the governance consultation exercise held with stakeholders during 2011/12. Consultees included Trade Unions, Fund Employers, Fund Pensioners, Investment Committee members and Elected members of Clackmannanshire and Stirling Councils who had been nominated by their respective Councils to attend the Investment Forum.

More information about the new governance arrangements can be found on Page 4 of this report in the Section "Governance Compliance Statement".

Transfer Values
The Treasury's 2010 review on the appropriate discount rate to use in relation to unfunded public sector pension schemes led to yet another change in the method of calculating cash equivalent transfer values and the underlying actuarial factors. This is the third change in as many years, the most recent previous change being due to the switch in indexation from RPI to CPI.

The amount of work involved in updating factors, re-specifying and testing systems, dealing with stockpiled cases and managing the expectations of members was considerable but has largely been concluded.

Other Key Initiatives
- Completion of unqualified audit of Pension Fund Annual Report and Accounts for 2010/11 – this being the first occasion on which the Fund was required to produce accounts separate to that of the Council
- Successful introduction of separate pension fund bank account
- Provision of pensions information to employers about Senior Managers and Councillors in compliance with the revised terms of the Local Authority Accounts (Scotland) Regulations 1985
- Completion of admission agreement for Falkirk Community Trust Ltd
- Meetings with Scottish Government over impact on pensions of Police and Fire Reform
- Pension records updated to reflect active members strike action in November, 2011
- Compliance with new Lifetime and Annual Allowance tax thresholds

Communications
Stakeholder communication during 2011/12 was undertaken through

- A Pensions Forum and an Annual Conference
- Global E-mail concerning pension reform prior to strike action
- Benefit Statements for active members
- Newsletters for active members
- Messaging facility on monthly pension advice slip
- "What's New" section at www.falkirk.gov.uk/pensions
- FRS17/IAS19 Briefing Session for employers

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:-

	2009/10	2010/11	2011/12
Payment deadlines met	100%	100%	100%
Annual Member Admin. Cost	£17.02	£16.12	£16.45
Staff / Member ratio	1 to 3,042	1 to 2,893	1 to 2,932
Number of complaints	2	4	1
Lump Sums paid within 7 days	91%	92%	99%
Queries responded to in 14 days	67%	71%	72%

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.

Business Outlook

The landscape for 2012/13 is likely to be dominated by the ongoing issue of public sector pension scheme reform. Falling asset values and low bond yields married to extreme volatility in financial markets are likely to produce negative media headlines and in the current climate of austerity, it is inevitable that the affordability of the Scheme will again come under the spotlight.

Whilst the proposed implementation date for the Hutton reforms in England and Wales is April, 2014, we are aware that COSLA have been seeking urgent discussions with the Scottish Government to ascertain their policy intentions. Further government initiatives, including workplace pensions reform (i.e. auto enrolment) and the creation of single Police and Fire Services are also likely to impact on operational processes during 2012/13.

Whilst auto-enrolment is fundamentally the responsibility of individual employers, we intend to play a positive role in terms of co-ordinating training and ensuring that employer practices properly blend with the scheme's own entry requirements. An employer's auto-enrolment training event has been scheduled for 21st September, 2012.

Training is also likely to be a common theme with the newly formed Pensions Panel and Pensions Committee. Various initiatives and codes of practice demand that pensions decisions are taken only by persons suitably qualified to do so and the formation of the new governance structure is an opportunity to put a training regime in place that meets this aspiration. Initial training days have been scheduled for 16 August and 24 October 2012.

Pressures on local government finance and the need to drive down costs are likely to result in the Pensions Section revisiting its strategy of issuing pensioners with a monthly pension advice slip. Whilst this remains a visible and tangible link to all our pensioners, the substantial cost of around £25,000 per year cannot be ignored.

During 2012/13, as a result of staff retirements and a re-structuring, the investment team is being subsumed within an enlarged Pensions Section and will come under the responsibility of the Pensions Manager. A Pensions Accountant has been recruited to assist with the Fund's financial reporting obligations.

With such a variety of pension themes being played out from government reform to governance reform, communications will continue to be vital to the partnerships which the Pensions Section has cultivated with stakeholders over the years. To provide even greater clarity, the Section will be embarking on delivering a new web portal for members which will focus exclusively on the Local Government Pension Scheme.

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.

The balance of membership between contributors and pensioners is an important indictor of the maturity of the Fund and is a major factor in determining investment strategy.

Factors affecting recent membership numbers are as follows:

i) the challenging financial environment of the past three 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 member numbers;

ii) recruitment freezes and vacancy management strategies have led to a deceleration in the rate of enrolling new members and it remains to be seen whether the Government's Auto Enrolment initiative (which will first impact on the Falkirk Fund in April 2013) will halt the decline in active membership numbers;

iii) in July 2011, around 400 active members with Falkirk Council were transferred to Falkirk Community Trust Ltd, thus increasing Admission Body numbers and reducing Scheduled Body numbers; and

iv) 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.

Number of Scheme Members

	Membership 31/03/10	Membership 31/03/11	Membership 31/03/12
All Fund Employers			
Actives	13,305	12,939	12,668
Deferreds	4,551	4,869	5,085
Pensioners	7,090	7,600	8,119
	24,946	25,408	25,872
Scheduled Bodies			
Actives	12,338	11,948	11,286
Deferreds	4,094	4,358	4,518
Pensioners	6,820	7,301	7,779
	23,252	23,607	23,583
Admission Bodies			
Actives	967	991	1,382
Deferreds	457	511	567
Pensioners	270	299	340
	1,694	1,801	2,289

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 Figure A below where the steady membership increases of the late 1990s have reached a levelling out point.

This is further analysed in Figure B which demonstrates the emerging trend of reduced active members and increased pensioners and deferred members. Such a trend signifies a maturing of the Fund, and, if maintained, will have implications for the Fund's cash flows, the contribution rates paid by employers, and ultimately the investment strategy.

Figure A - Fund Membership from 1996 – 2012 in aggregate

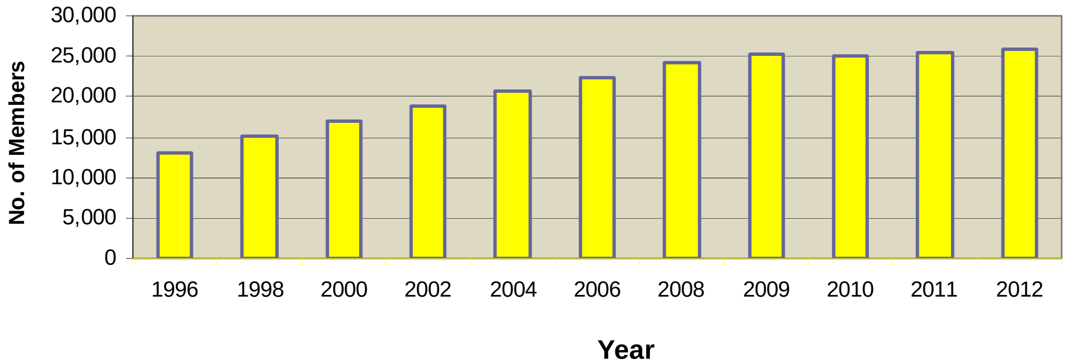
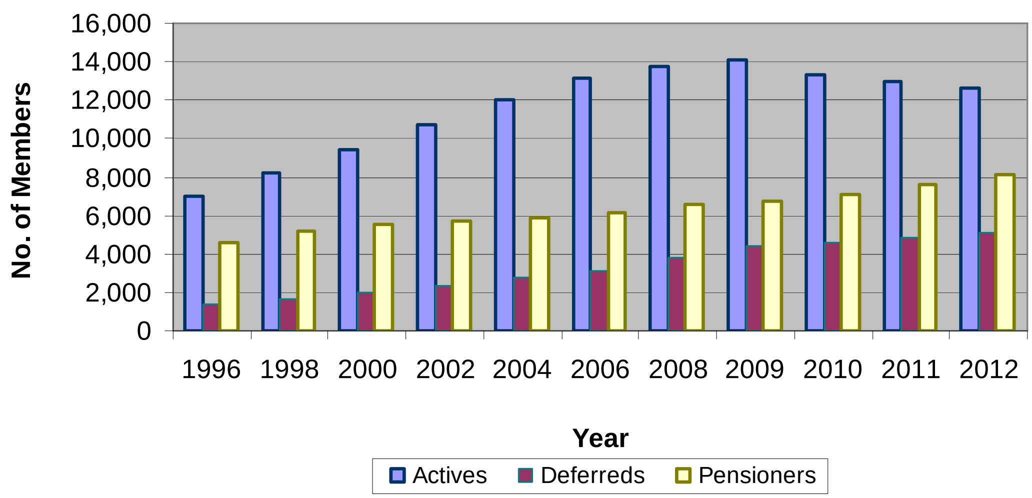


Figure B - Fund Membership from 1996 – 2012 by category



REVIEW OF THE YEAR – INVESTMENTS

Statement by Baillie Gifford & Co, Fund Managers

Economic and Market Background – 12 Months to 31 March 2012

During much of the 12 month period to 31 March, the overriding sentiment among investors was uncertainty, as a solution to problems in the Eurozone remained elusive and concerns persisted over the possibility of further weakness in the global economy. Meanwhile, confidence among consumers remained muted. This was reflected in poor retail sales and further weakness in house prices, especially in the UK, where several retailers closed for business.

However, during the early part of 2012, the European Central Bank made its latest attempt to stabilise the situation in the single currency area, and improving economic data began to emerge from the United States. Both of these factors had a generally positive impact on investment markets. Elsewhere, the outlook for China remained positive overall and spending by wealthy consumers in parts of Asia and the Middle East was buoyant.

Given the mixed backdrop, it is unsurprising that stock markets around the world enjoyed mixed fortunes. The UK ended the period around 1% higher, and the US posted a rise of 7%, but Emerging Markets lost 9% in sterling terms, Europe's woes were reflected in a decline of 11%, and Developed Asia (including Japan) ended the period 2% lower.

UK Government bond markets benefited from their perceived status as a safe haven in times of extreme turbulence and were up 14% over the period, while overseas government bonds advanced 5% in local currency terms. Corporate bond returns were more diverse but, taken as a whole, finished the period substantially higher, with UK corporate bonds performing particularly well to post a rise of 9%,

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Edinburgh EH1 3AN

Investment Strategy

In 2010/11 the Investment committee approved a revised Investment Strategy in which the Fund would decrease its allocation in traditional investments such as Equities and Bonds and increase its holding in Alternative Assets. Investments falling within the Alternative Asset class include Diversified Growth, Credit Markets, Infrastructure and Private Equity.

The revised allocation targets a 10% decrease in equities and 5% in bonds. This would fund the purchase of a Diversified Growth fund and the commitment to Infrastructure investments.

During 2011/12 the reallocation process commenced with the successful tender for new Infrastructure and Diversified Growth mandates.

Credit Suisse were appointed to the Infrastructure mandate with an $80m commitment being made by the Fund. The initial investment was funded from the reduction in the Baillie Gifford Bonds mandate.

Baillie Gifford was awarded the mandate for the Diversified Growth fund with the transition successfully completed in March 2012. The new account was funded by reductions in the Baillie Gifford Bonds, Schroder UK Equity and Newton Global Equity mandates and currently accounts for 9% of the Fund.

Asset Class	**Strategic Allocation %**	**Allocation as at 31/03/12 %**
Equities	60	64
Bonds	10	10
Property	10	8
Alternatives	20	17
• *Private Equity*	*5*	*7*
• *Infrastructure*	*5*	*1*
• *Diversified Growth*	*10*	*9*
Cash	-	1

As the revised investment strategy has just been actioned, the Fund has no immediate plans to further review its strategy. However, in conjunction with its investment advisors, the Fund is constantly monitoring global market conditions and will respond to potential opportunities/threats as they occur.

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 (see note 8 to the financial statements, p32)
- 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 (LAPFF) comprising 53 local government pension funds to promote and maximise their investment interests

Since August 2010, the Fund has engaged with PIRC to cast votes at company meetings covered by its Global Corporate Governance Research. The service applies to the Fund's direct equity holdings (circa 125) which ensures consistency of voting intentions across the multi-manager portfolios. Previously the Fund allowed its equity managers to cast their own votes at company meetings. This position was reviewed as it had the potential for inconsistent voting across manager. During 2011/12, voting was undertaken at 150 company meetings at which 1,550 votes were cast in favour of resolutions, 352 opposed and 187 cases of abstentions.

Engagement should also be considered within the context of the UK Stewardship Code. The Code comprises of seven principles which seek 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 3.9% over the financial year against a benchmark return of 2.6%. Main contributions to the outperformance came from the UK and Global Equities mandates.

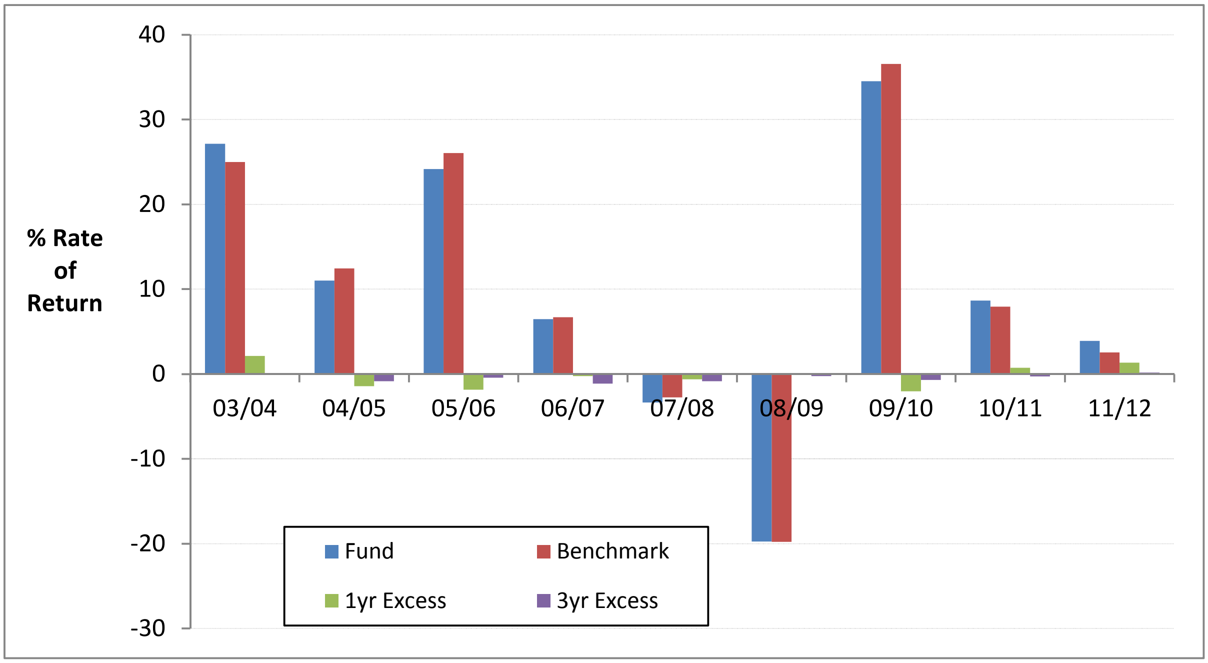
Medium Term (3 years)
The Fund's return of 15% has outperformed its benchmark return by 0.2%. The Fund benefited, in particular, from strong performance by its Bonds and UK Equities managers.

Longer Term (10 years)
The Fund's longer term performance of 5.5% 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 2012

	1 Year %	**3 Years %**	**10 Years %**
Falkirk Council Pension Fund	3.9	15.0	5.5
Benchmark	2.6	14.8	5.9
Retail Prices Index	3.6	4.5	3.3
National Average Earnings	0.2	2.6	3.2

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



	Mar-04 %	Mar-05 %	Mar-06 %	Mar-07 %	Mar-08 %	Mar-09 %	Mar-10 %	Mar-11 %	Mar-12 %
Fund	27.13	11.02	24.18	6.46	-3.36	-19.75	34.53	8.65	3.91
Benchmark	24.99	12.47	26.03	6.7	-2.76	-19.77	36.57	7.92	2.55
1yr Excess	2.14	-1.45	-1.85	-0.23	-0.6	0.02	-2.04	0.73	1.36
3yr Excess	-	-0.84	-0.44	-1.14	-0.84	-0.25	-0.71	-0.28	0.19

STATEMENT OF ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRS) as stipulated in the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

The following accounting statements summarise the transactions of the Fund for the financial year 2011/12 and their year-end position as at the 31st March 2012. As allowed under International Accounting Standard (IAS) 19, the actuarial present value of promised retirement benefit has been disclosed as a note to the accounts.

Basis

The Fund's financial statements are generally prepared on an accruals basis. However, the net assets statement does not include liabilities to pay pensions and benefits after the end of the fund year. Receipts and payments in respect of the transfer of benefits from and to other schemes are treated on a cash basis.

During the year 2011/12 there has been a review of accounting policy with regards to the treatment of employers' strain on fund contributions which has led to the restatement of previous year figures. To ensure compliance with the 2011/12 Code these payments are now recognised on an accrual basis whereas in previous years they had been accounted for on a cash basis.

(i) **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. This valuation is completed every 3 years, with the next one due 31 March 2014.

Unquoted holdings in private equity and infrastructure funds have been included at the fund managers' valuation adjusted for cash movements since the last valuation date.

(ii) **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.

(iii) **Investment Management Fees**

Investment management fees are recognised on an accruals basis at a fee agreed in their respective mandates. Many of these fees are based on the market value of their particular holdings in the fund which can lead to fluctuations in the fee paid. The Fund does not contain any mandates with performance related fees.

Critical Judgement in Applying Accounting Policies

In applying these accounting policies, the Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the statement of accounts are:

(i) **Change in Treatment of Employers' Strain on Fund Contributions**

To ensure compliance with the 2011/12 Code, the Fund has been required to change its treatment of employers' strain on fund contributions from being recognised on a cash basis to an accrual basis. This impacts on all strain payments made by employers in instalments.

Due to the complex nature and volume of these payments, the Fund has had to make assumptions based on the best available information when restating previous year balances. Under Section 3.3.2.3 of the Code of Practice on Local Authority Accounting, it is recognised that in some cases it may be impracticable for an entity to change an accounting policy retrospectively even after making every reasonable effort to do so.

Despite this allowance the Chief Finance Officer is comfortable with the assumptions made and the reasonableness of its end results.

(ii) **Unquoted Investments**

It should be recognised that determining the fair value of private equity and infrastructure investments is highly subjective. Inherently their valuations are based on forward-looking estimates and judgements are made on a variety of factors. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of IFRS.

At 31 March 2012 the Fund had a value of £97.2m (2011 £66m) in unquoted private equity and infrastructure investments.

(iii) **Actuarial present value of promised retirement benefits**

Each Fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Fund's Actuary. These values are calculated in line with IAS19 assumptions and comply with the requirements of IAS26. However, the results are subject to significant variances based on changes to the underlying assumptions.

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 Council, private equity and infrastructure managers, the Fund Actuary and other financial information providers 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.

The table below highlights the approximate impact that small changes in the assumptions used by the Fund Actuary, would have on the liability of the Fund.

Change in assumptions at year ended 31 March 2012	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% decrease in Real Discount Rate	9%	152
1 year increase in member life expectancy	3%	51
0.5% increase in the Salary Increase Rate	3%	51
0.5% increase in the Pension Increase Rate	7%	118

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.

Restated 2010/11 £'000	CONTRIBUTIONS AND BENEFITS	2011/12 £'000	Note
	Contributions receivable:		
57,383	From Employers	58,207	3/4
17,197	From Employees	16,538	3
3,899	Transfers from Other Schemes	2,455	
	Benefits Payable:		
(32,107)	Pensions	(36,326)	3
(19,504)	Lump Sums	(15,593)	3
	Payments to and on account of leavers:		
(224)	Refunds of contributions	(191)	
(3,697)	Transfers Out	(2,825)	
(408)	Administrative and Other Expenses	(421)	
22,539	**Net Additions from dealing with Members**	21,844	
	RETURNS ON INVESTMENTS		
19,769	Investment Income	21,830	5
(328)	Taxation (Irrecoverable withholding tax)	(258)	
	Change in Market Value of Investments:		
75,648	Realised	24,424	
(3,396)	Unrealised	4,600	
(3,453)	Investment Management Expenses	(3,777)	6
88,240	**Net Return on Investments**	46,819	
110,779	**Net Increase/(Decrease) in the Fund during the year**	68,663	
1,075,943	**Opening Net Assets as at 1 April 2011**	1,186,722	
1,186,722	**Closing Net Assets as at 31 March 2012**	1,255,385	

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 2009/10 £'000	Restated 2010/11 £'000		2011/12 £'000	Note
		INVESTMENT ASSETS		7/8
		Listed Investments		
191,331	225,585	U.K. Equities – Quoted	219,502	
3,896	4,678	U.K. Managed Funds – Unit Trusts	4,718	
73,700	74,951	U.K. Managed Funds – Property	85,736	
186,732	339,476	Overseas Equities	278,730	
10,837	10,531	Overseas Managed Funds – Property	9,183	
		Unlisted Investments		
24,555	40,322	UK Managed Funds	51,189	
530,242	409,491	UK Managed Funds – Unitised Insurance	492,447	
21,520	25,690	Overseas Managed Funds	46,010	
2,550	2,300	UK Property	2,300	
		Cash Deposits		
6,608	26,846	Other Investment Balances	30,671	
8,351	7,823	Cash Deposits	8,836	
		Other Financial Assets		
1,838	3,037	Dividends & Other Income Due	2,931	
59	-	Derivatives – Forward Foreign Exchange	344	9
1,06,219	1,170,730	**Total Financial Assets**	1,232,597	
		Financial Liabilities		
-	(6)	Derivatives – Forward Foreign Exchange	(93)	9
1,062,219	1,170,724	**NET FINANCIAL ASSETS**	1,232,504	
		NON-CURRENT ASSETS		
1,922	3,965	Long Term Debtors	3,998	18
		CURRENT ASSETS		
9,103	7,299	Cash Balances	12,559	19
4,642	7,373	Debtors	7,918	20
		CURRENT LIABILITIES		
(1,943)	(2,639)	Creditors	(1,594)	21
1,075,943	1,186,722	**NET ASSETS**	1,255,385	

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.

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 under the terms of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008. It is therefore deemed an Administering Authority for pension purposes.

The pension scheme to which the 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 mainly 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.

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

Contributions to the Fund are made by active members and their employers. The Fund is then used to pay pension and lump sum benefits to members and their dependants. A list of employers who participate in the Fund is included in this report (p44).

2. Restatement of Previous Year Balances

The Pension Fund Accounts for 2011/12 have required a change in accounting practice in respect to the treatment of employers' strain on fund contributions to ensure compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Under the Code, the Fund should account for the income due on strain payments in full in the year in which the liability on the employer occurs, thereby meeting the revenue recognition criteria set down in paragraph 2.7.2.10. This has no effect on previous treatment where the employers paid their strain on fund contributions in one off lump sums, but has significant impact on those electing to pay by instalments. Previous treatment of instalment payments was done on a cash basis meaning that strain income was only recognised when cash was received.

This accounting treatment has been revised to comply with the Code. The entire strain revenue is recognised as it occurs with a corresponding debtor set up for the remaining payments. This change in practice has had the following effect on previous years balances.

Restatement	**Statements Restated £'000**	**Adjustments Made £'000**	**Restated Figures £'000**
Opening 1 April 2010 Net Asset Statement			
Long Term Debtor	-	1,922	1,922
Debtors	3,991	651	4,642
Net Assets	1,073,370	2,573	1,075,943
31 March 2011 Net Asset Statement			
Long Term Debtor	-	3,965	3,965
Debtors	5,801	1,572	7,373
Net Assets	1,181,185	5,537	1,186,722
2010/11 Fund Account			
Contributions received from employers	52,306	5,077	57,383

3. Contributions Receivable and Benefits Payable

	CONTRIBUTIONS RECEIVABLE		**BENEFITS PAYABLE**	
	Members £'000	**Employers £'000**	**Pensions £'000**	**Lump Sum* £'000**
Administering Authority	5,514	19,197	12,337	6,263
Other Scheduled Bodies	9,437	33,947	22,563	8,548
Admission Bodies	1,587	5,063	1,426	782
Totals	16,538	58,207	36,326	15,593

* Includes "Death Benefits" of £0.98m

4. Employers' Contributions

	Administering Authority £'000	**Other Scheduled Bodies £'000**	**Admission Bodies £'000**	**Total £'000**
Normal Contributions	15,596	28,330	4,231	48,157
Deficit Contributions	1,146	2,081	550	3,777
	16,742	30,411	4,781	51,934
Strain on Fund Contributions	2,455	3,536	282	6,273
Augmentation Contributions	-	-	-	-
TOTAL	19,197	33,947	5,063	58,207

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 an improved funding position (commonly referred to as "past service deficit"). The table shows an estimation of the split between normal and deficit contributions based on average contributions paid by employers in 2011/12. The level of normal and deficit contributions was set as a result of the Fund Valuation at 31st March, 2008. Contributions for 2012/13 will be determined according to the Fund Valuation as at 31st March, 2011.

The table also shows the pension strain contributions made by employers in order to fund the early release of scheme benefits.

5. Investment Income

2010/11 £'000		2011/12 £'000
8,077	UK Equities	9,956
108	UK Managed Funds – Others	142
2,984	UK Managed Funds – Property	2,690
7,800	Overseas Equities	8,990
323	Overseas Managed Funds – Property	123
-	UK Managed Funds – Unlisted	144
78	Overseas Managed Funds – Unlisted	(483)
208	UK Property	192
191	Cash & Other Income	76
19,769	TOTAL	21,830

6. Investment Management Expenses

2010/11 £'000		2011/12 £'000
3,347	External Investment Management Services	3,681
106	Internal Administration	96
3,453	TOTAL	3,777

7. Investments

	Market Value 01/04/11 £'000	Purchases at Cost £'000	Sale Proceeds £'000	Change in Market Value £'000	Market Value 31/03/12 £'000
Investment Assets					
UK Equities	225,585	42,285	(49,175)	807	219,502
UK Managed Funds – Unit Trusts	4,678	-	-	40	4,718
UK Managed Funds – Property	74,951	18,121	(8,983)	1,647	85,736
Overseas Equities	339,476	110,049	(163,865)	(6,930)	278,730
Overseas Managed Funds – Property	10,531	-	-	(1,348)	9,183
UK Managed Funds – Unlisted	40,322	12,212	(3,408)	2,063	51,189
UK Managed Funds – Unitised Insurance	409,491	120,461	(60,308)	22,803	492,447
Overseas Managed Funds – Unlisted	25,690	20,148	(2,249)	2,421	46,010
UK Property	2,300	-	-	-	2,300
Derivatives – Forward Foreign Exchange	(6)	1,152	(1,960)	1,065	251
	1,133,018	324,428	(289,948)	22,568	1,190,066
Other Investment Balances	29,883	51,221	(32,616)	(14,886)	33,602
Cash Deposits	7,823	-	-	1,013	8,836
NET INVESTMENT ASSETS	**1,170,724**	**375,649**	**(322,564)**	**8,695**	**1,232,504**

	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 Insurance	530,242	36,691	(121,227)	(36,215)	409,491
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 and stamp duty. Transaction costs incurred during 2011/12 amounted to £573,156. 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.

2010/11		Investment Manager	Pooled Funds	2011/12	
£'000	%			£'000	%
-	-	Baillie Gifford Life Ltd.	Diversified Growth	114,422	9.1
91,792	7.8	LGIM Ltd *	UK Equity Index	93,176	7.4
90,051	7.6	LGIM Ltd *	North America Equity Index	90,813	7.2
69,524	5.9	Baillie Gifford Life Ltd	Sterling Aggregate Bond	72,416	5.8

* LGIM Ltd – Legal & General Investment Management Ltd

8. Funds Under External Management

MARKET VALUE 2010/11 £ million	MARKET VALUE 2010/11 (%)		MARKET VALUE 2011/12 £ million	MARKET VALUE 2011/12 (%)
166.5	14.3	Aberdeen Asset Management	176.9	14.4
153.0	13.0	Baillie Gifford Life Ltd.	234.0	19.0
256.5	22.0	Legal and General Investment Management Ltd.	258.6	21.1
239.8	20.5	Newton Investment Management Ltd.	175.9	14.3
184.3	15.8	Schroder Investment Management Ltd.	181.1	14.7
96.4	8.2	Schroder Investment Management Ltd. (Property)	99.0	8.0
38.3	3.3	SL Capital Partners LLP	44.7	3.6
28.7	2.5	Wilshire Private Markets Group	31.9	2.6
4.9	0.4	M&G UK Companies	10.3	0.8
-	-	Credit Suisse Securities	17.8	1.5
1,168.4	100.0		1,230.2	100.0

9. Derivatives

Derivatives – Forward Foreign Exchange
Summary of Contracts held at 31 March 2012

Contract	Settlement Date	Value of Currency Bought £'000	Asset £'000	Liability £'000	Net £'000
Various Currency Forwards	Within 1 month	16,909	253	-	253
Various Currency Forwards	Within 2 months	15,043	91	-	91
Various Currency Forwards	Within 3 months	9,311	-	(93)	(93)

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.

10. Securities Lending

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

11. Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the Fund's accounting records hence there is no difference between the carrying value and fair value.

31 March 2011 Designated as fair value through net asset statement £'000	31 March 2011 Loans and receivables £'000	31 March 2011 Financial liabilities at amortised cost £'000		31 March 2012 Designated as fair value through net asset statement £'000	31 March 2012 Loans and receivables £'000	31 March 2012 Financial liabilities at amortised cost £'000
			Financial assets			
			Investment assets			
565,062	-	-	Equities	498,232	-	-
480,181	-	-	Pooled investments	594,364	-	-
85,481	-	-	Property	94,919	-	-
-	-	-	Derivative contracts	344	-	-
-	-	-	Margin balances	-	-	-
-	7,823	-	Cash	-	8,836	-
-	29,883	-	Other investment balances	-	33,602	-
1,130,724	37,706	-		1,187,859	42,438	-
			Other assets			
-	7,299	-	Cash Balances	-	12,559	-
-	11,338	-	Debtors	-	11,916	-
-	18,637	-		-	24,475	-
1,130,724	56,343	-	**Assets total**	1,187,859	66,913	-
			Financial liabilities			
			Investment liabilities			
(6)	-	-	Derivative contracts	(93)	-	-
			Other liabilities			
-	-	(2,639)	Creditors	-	-	(1,594)
(6)	-	(2,639)	**Liabilities total**	(93)	-	(1,594)
1,130,718	56,343	(2,639)		1,187,766	66,913	(1,594)
		1,184,422	Total net financial instruments			1,253,085
		2,300	Amounts not classified as financial instruments			2,300
		1,186,722	Total net assets			1,255,385

12. Net Gains and Losses on Financial Instruments

	2011 £'000	2012 £'000
Designated as fair value through net asset statement	69,418	22,567
Loans and receivables	20,967	(13,873)
Financial liabilities at amortised cost	-	-
Net gains and losses on financial instruments	90,385	8,694
Gains and losses on directly held freehold property	(250)	-
Change in market value of investments per fund account	90,135	8,694

13. Valuation of Financial Instruments Carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investments in private equity are based on valuations provided by the general partners to the private equity funds in which the Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of IFRS. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total at 31 March 2012 £'000
Financial Assets				
Designated as fair value through net asset statement	876,198	214,462	97,199	1,187,859
Loans and receivables	66,913	-	-	66,913
Total Financial Assets	943,111	214,462	97,199	1,254,772
Financial Liabilities				
Designated as fair value through net asset statement	(93)	-	-	(93)
Financial liabilities at amortised cost	(1,594)	-	-	(1,594)
Total Financial Liabilities	(1,687)	-	-	(1,687)
Net Financial Assets	941,424	214,462	97,199	1,253,085

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total at 31 March 2011 £'000
Financial Assets				
Designated as fair value through net asset statement	824,637	239,775	66,312	1,130,724
Loans and receivables	56,343	-	-	56,343
Total Financial Assets	880,980	239,775	66,312	1,187,067
Financial Liabilities				
Designated as fair value through net asset statement	(6)	-	-	(6)
Financial liabilities at amortised cost	(2,639)	-	-	(2,639)
Total Financial Liabilities	(2,645)	-	-	(2,645)
Net Financial Assets	878,335	239,775	66,312	1,184,422

14. Nature and Extent of Risks Arising from Financial Instruments

Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce market risk (as quantified below) and credit risk to an acceptable level. In addition the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cashflows.

Types of Investment Risk

Fluctuations in overall price can arise from a variety of sources including market risk, foreign exchange risk, interest rate risk and credit risk. Each of these vary in importance and will not by themselves account for the overall pricing risk faced. To some extent they may offset each other. The Fund's analysis combines these factors when looking at the total market price risk.

(i) **Market Risk**

Market risk is the risk of loss from fluctuations in equity and other asset prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- The exposure of the Fund to market risk is monitored by maintaining asset class exposures such that risk remains within tolerable levels.
- Specific risk exposure is limited by applying maximum exposures to individual investments.

(ii) **Interest Rate Risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is recognised by the Council and its investment advisors. The Fund monitors the interest rate risk faced and will adjust its strategy in accordance with its Statement of Investment Principles.

(iii) **Currency Risk**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The Fund's currency rate risk is recognised by the Council and its investment advisors. For the internally managed private equity and infrastructure funds it is the Fund's policy to convert all non GBP cash deposits to Sterling at the end of the month to reduce the currency risk faced. It is left to the external managers discretion if they wish to hedge their currency position within their respective mandate.

(iv) **Credit Risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's assets and liabilities (as outlined in Market Risk above).

In essence, the Fund's entire investment portfolio is exposed to some sort of credit risk. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash deposits are the major area of credit exposure where risk is not reflected in market price. At 31 March 2012 cash was 3.4% of total assets.

	Moody's Credit Rating	Balances at 31 March 2011 £'000	Balances at 31 March 2012 £'000
Held for Investment Purposes			
Northern Trust Global Investment Limited – Liquidity Funds	Aaa	8,014	9,761
Northern Trust Company – Cash Deposits	Aa3	26,293	23,072
Total Investment Cash		34,307	32,833
Held for Other Purposes			
Clydesdale Bank	C-	-	10,284
Total Cash		34,307	43,117

All of the Fund's cash deposits fall within the Council's minimum requirements of credit rating detailed in the Treasury Management Strategy.

(v) **Liquidity Risk**

Liquidity risk reflects the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore ensures that the Pension Fund has adequate cash and liquid resources to meet its commitments.

A majority of the Fund's investment assets (estimated to be over 85%) could be converted into cash within three months in normal market conditions.

(vi) **Refinancing Risk**

Refinancing risk is the risk that the Council will be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Council is not bound by any obligation to replenish its investments. As such, the Council does not have any financial instruments that have a refinancing risk as part of its Pension Fund management and investment strategies.

Sensitivity Analysis

By analysing past movement of asset prices it is possible to gain an indication of the likely volatility of an asset class. As market risk does not remain constant it is important that any analysis is completed over a sufficient long term period. In consultation with Goldman Sachs and Lothian Pension Fund it was determined that 10 years of data would be a suitable indicator of likely movements for the Fund.

This risk analysis incorporates volatility from market, interest rate, foreign exchange, credit, and all other sources of risk, and, more importantly, makes allowance for how these risks may offset each other.

The Goldman Sachs analysis predicts that the following annual movements in price are possible

Asset Type	**Potential price movement (+ or -)**
World Listed Equity	17.2%
Emerging Market Equity	30.5%
UK Gilts	4.6%
Emerging Market Debt	10.8%
UK Property	13.6%
Private Equity	32.9%
Hedge Fund	9.9%
Commodities	22.4%
Credit	7.2%
Infrastructure	16.1%

These price movements use standard deviation to determine what shifts are reasonably possible during the year. In short, for every two out of three years the movement would be expected to be lower while the remaining years percentage would be expected to be higher.

Had the market price of the fund investments increased/decreased in line with the standard deviation for each asset class above, the net assets available to pay benefits would have been as follows:

Asset Type	**Value at 31 March 2012 £'000**	**% of fund %**	**% change +/- %**	**Value on increase £'000**	**Value on decrease £'000**
World Listed Equity	714,041	57.9	17.2	836,857	591,226
Emerging Market Equity	61,619	5.0	30.5	80,413	42,825
UK Gilts	137,534	11.2	4.6	143,860	131,207
Emerging Market Debt	12,694	1.0	10.8	14,064	11,323
Property	100,686	8.2	13.6	114,379	86,992
Private Equity	104,629	8.5	32.9	139,052	70,206
Hedge Fund	21,074	1.7	9.9	23,160	18,987
Commodities	3,697	0.3	22.4	4,525	2,869
Corporate Credit	66,548	5.4	7.2	71,339	61,757
Infrastructure	9,982	0.8	16.1	11,589	8,375
Total [1]	**1,232,504**	**100.0**	**16.8**	**1,439,238**	**1,025,767**
Total [2]			**14.5**	**1,411,710**	**1,053,298**

It is important that we recognise the extent to which asset classes can move in correlation. 100% asset class correlation will move entirely in lock-step, while with 0% correlation they move independently. With negative correlation, they move in opposite directions. To the extent that correlation is less than 100%, the fund will benefit from diversification across asset classes and have a lower total volatility. Total [1] above does not take into account of how assets are correlated. The effect of correlation is shown in Total [2] and demonstrates the benefit of diversification reducing the volatility faced by 2.3%.

It should be noted that the above asset allocation for the fund differs to that stated earlier in the financial statements. This is the result of Goldman Sachs, in order to improve the accuracy of the risk assessment, breaking down the holdings of each Fund Manager and allocated investments to the asset type appropriate for the risk faced. Whilst the Fund has reported the asset allocation strictly by each Manager's mandate, Goldman Sachs have analysed the constituent elements of each mandate.

15. Actuarial Valuation as at 31 March 2011

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 2011. This disclosed that the Fund's assets were sufficient to meet 86% of its liabilities.

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 (notably the scheduled bodies) to recover from their deficit position over a period of 20 years.

Full details of the methods and assumptions used in the 2011 valuation are set out in the actuary's valuation report dated 30 March 2012.

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

16. Actuarial Statement as at 31 March 2012

The Actuary has provided a statement describing the funding arrangements of the Fund during 2011/12. This can be found in a separate section later in this report (p42).

17. Actuarial Present Value of Promised Retirement Benefits

The actuarial value of promised retirement benefits at the accounting date, based on a roll forward of the 31 March 2011 valuation and assumptions consistent with IAS19 (International Accounting Standard), has been estimated by the Fund Actuary as £1,684m (£1,490m at 31 March 2011). 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.

The key assumptions relied upon by the actuary in deriving the actuarial present value of promised retirement benefits are as follows:

Financial Assumptions	**31 March 2011 % p.a.**	**31 March 2012 %p.a.**
Inflation/pensions increase rate	2.8	2.5
Salary increase rate	5.1 **	4.8 *
Discount rate	5.5	4.8

* Salary increases are 1% p.a. nominal for 3 years to 31 March 2015 reverting to long term rate thereafter.

** Salary increases are 1% p.a. nominal for the period to 31 March 2013 reverting to the long term rate thereafter.

Longevity Assumptions

The life expectancy assumption is based on Fund specific statistical analysis with improvements from 2008 in line with the Medium Cohort and a 1% p.a. underpin. Based on these assumptions, the average future life expectancies, in years, at age 65 are summarised below:

	31 March 2011 % p.a.	31 March 2012 %p.a.
Current pensioners	23.0	25.8
Future pensioners (assumed to be currently 45)	24.9	27.7

Commutation Assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

18. Long Term Debtors

	2011 £'000	2012 £'000
Strain on Fund Contributions (Due in over 1 year)	3,965	3,998

19. Cash Balances

	2011 £'000	2012 £'000
Bank Account	-	10,284
Balance held by Falkirk Council	7,299	2,275
	7,299	12,559

As stipulated by The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (SSI 2010 No. 233), all Local Authority Pension Funds are required to operate their own bank account from the 1 April 2011. From the 1 April 2011 all payments made to the Fund are paid directly into the Fund's separate bank account. Previously the Fund maintained a cash balance through the Council's loans fund.

Due to the Fund using Falkirk Council's financial management system, there was a working balance at year end which has been subsequently reversed in 2012/13.

20. Debtors

	2011 £'000	2012 £'000
Contributions due – employers	2,840	4,053
Contributions due – members	1,032	1,371
Strain on Fund Contribution (Due within 1 year)	1,572	2,082
Benefits Paid in Advance	1,012	198
Sundry Debtors	917	214
	7,373	7,918

21. Creditors

	2011 £'000	2012 £'000
Benefits Payable	205	226
Miscellaneous Creditors and Accrued Expenses	2,434	1,368
	2,639	1,594

22. 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 2012 was £2.41 million (£2.60 million at 5 April 2011). Contributions made by members during the year to 5 April 2012 were £0.22 million. Expenditure from the policy during the same period (including the purchase of member annuities) amounted to £0.50 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 2010 (SSI 2010 No. 233).

23. Related Party Transactions

Falkirk Council Pension Fund is administered by Falkirk Council. Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £472k (2010/11: £519k) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £16.7m to the fund in 2011/12 (2010/11: £17.4m). All monies owing to and due from the fund were paid in year.

Transactions between the Council and the Fund are monitored by the Creditors section within Corporate Finance with the aim of any balances being settled as soon as reasonably practicable.

24. Contractual Commitments

As at 31 March 2012, the Fund had contractual commitments of £198m within its private equity and credit markets portfolio of which £93m remained outstanding at 31 March 2012.

25. 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.

26. Events After the Net Asset Statement Date

The unaudited Statement of Accounts was issued by the Chief Finance Officer on 29 June 2012 and the audited Statement of Accounts was authorised for issue on xx xxxxx 2012. 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.

ACTUARIAL STATEMENT FOR 2011/12

This statement has been prepared in accordance with Regulation 31A(1)(d) 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 2011/12.

Description of Funding Policy

The funding policy is set out in the Falkirk Council Funding Strategy Statement ("FSS"), dated December 2011. In summary, the key funding principles are as follows:

- To ensure the long term solvency of the Fund;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- To enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to the participating employers and to the taxpayers;
- To manage employers' liabilities effectively;
- To use reasonable measures to reduce the risk to scheme employers, and ultimately the taxpayers, from an employer defaulting on its pension obligations;
- To maximise the income from investments within reasonable risk parameters; and
- To address the different characteristics of the various employers to the extent that this is practical and cost effective.

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 2011. This valuation revealed that the Fund's assets, which at 31 March 2011 were valued at £1,199 million, were sufficient to meet 86% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2011 valuation was £194 million.

Individual employers' contributions for the period 1 April 2012 to 31 March 2015 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 30 March 2012.

(i) **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.

(ii) **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 2011 valuation were as follows:

Financial assumptions	**31 March 2011**	
	% p.a. Nominal	**% p.a. Real**
Discount rate	5.9%	3.1%
Pay increases *	5.1%	2.3%
Price inflation/Pension increases	2.8%	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2011/12 and 2012/13, reverting to 5.1% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. As described in the 2011 valuation report, life expectancy is based on the SAPS year of birth tables with improvements from 2008 in line with the Medium Cohort and a 1% p.a. underpin. Based on these assumptions, the average future life expectancies at age 65 are as follows (future pensioners are assumed to be aged 45 at 31 March 2011):

	Males	**Females**
Current Pensioners	23.0 years	25.8 years
Future Pensioners	24.9 years	27.7 years

Copies of the 2011 valuation report and Funding Strategy Statement are available on request from Falkirk Council, administering authority to the Fund.

Experience over the period since April 2011

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 2012. It showed that the funding level (excluding the effect of any membership movements) has worsened since the 2011 valuation due to falling real bond yields and lower asset returns than expected.

The next actuarial valuation will be carried out as at 31 March 2014. The Funding Strategy Statement will also be reviewed at that time.

Catherine McFadyen
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
29 June 2012

SCHEDULED AND ADMISSION BODIES AS AT 31 MARCH 2012

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
Falkirk Community Trust Ltd
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 2011/12 (the 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 2012 and their income and expenditure for the year ended 31 March 2012.

Bryan Smail, CPFA MBA
Chief Finance Officer
29 June 2012

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.

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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