

CONTENTS

	Page No.
1. FOREWORD BY THE CHIEF FINANCE OFFICER	2
2. STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS	3
3. FUND AND GOVERNANCE OVERVIEW	4-6
4. GOVERNANCE COMPLIANCE STATEMENT	7-12
5. REVIEW OF THE YEAR – ADMINISTRATION	13-16
6. MEMBERSHIP UPDATE	17-18
7. REVIEW OF THE YEAR – INVESTMENTS	19-22
8. PENSION FUND ACCOUNT	23
9. PENSION FUND NET ASSETS STATEMENT	24
10. NOTES TO THE ACCOUNTS	25-49
11. ACTUARIAL STATEMENT FOR 2012/13	50-51
12. SCHEDULED AND ADMISSION BODIES AS AT 31 MARCH 2013	52
13. INDEPENDENT AUDITORS REPORT	53-54
14. ADDITIONAL INFORMATION	55

FOREWORD BY THE CHIEF FINANCE OFFICER

As prescribed by Regulations, the Pension Fund annual report and accounts are audited in their own right, separate and removed from Falkirk Council's annual financial statements. These provide the reader with a wide range of information about the Fund including details on the governance and performance of Administration and Investment aspects, as well as the more traditional financial statements. These financial statements include the Pension Fund Account which details the Income and Expenditure of the Fund during the year, and the Net Asset Statement which provides comment on the value of assets held at year end. Both these sections are further supplemented by the Notes to the Accounts.

The Pension Fund Account at year end 31 March 2013 shows that contributions in 2012/13 have fallen to £69m from £74m in 2011/12. This is mainly the result of fewer strain on the fund payments being made in 2012/13 and the fact that the 2011/12 contributions were slightly inflated due to a one-off additional employer contribution. The Fund Account also shows that the market value of investments, including profits from trading, has risen by £177m during the year, reflecting an improvement in financial markets.

The Fund's Net Asset Statement at year end 31 March 2013 shows that the Fund had £1.46bn of assets under its management compared with £1.25bn at 31 March 2012. The improved asset value is mainly the result of the returns on fund investments of 15.9% against a benchmark target over the year of 11.6%. This out performance is particularly welcome given that the continuing low level of government gilt yields means that Fund liabilities are calculated at a higher value.

Pension Funds by their very nature have long-term time horizons. The Falkirk Council Pension Fund as part of the Local Government Pension Scheme with its underpinning statutory framework is well placed to recognise this. In consequence, a Funding Strategy Statement allows employers with strong covenants 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.

The Fund's new governance arrangements bedded in over the course of 2012/13. These involved the creation of a new Pensions Panel with a membership of fifteen to represent a broad spectrum of stakeholder interests. Moreover, three members from the Panel now sit on the Pensions Committee and have full voting rights. The position will need to be reviewed once the governance requirements of the Public Service Pensions Act 2013 are crystallised. Our Service Level Agreement with the Lothian Fund, geared to facilitate our operational capacity, has also worked well and continues to evolve. The Fund's dedicated website has been updated (www.falkirkpensionfund.org).

The creation of the new national entities for Police and Fire takes place with effect from 1 April 2013. Non operational staff working in the new services will continue to remain members of the local pension fund they were previously in. Service Level Agreements are now in place with the new national organisations. Auto Enrolment is now operational and the Scheme's employers will be implementing this at appropriate times from 1 April 2013.

The economic climate, notwithstanding Quantitative Easing, remains fragile and uncertain. Global growth remains elusive and the financial crisis in Cyprus was a sharp reminder that the Eurozone remains problematic. Efforts to fix the banking sector progress with the Basel III framework and the revised Bank of England regulatory structure.

I have already referred above to the Public Service Pensions Act 2013 which flows from the Hutton Report. This Act also brings in important changes for the LGPS, notably the requirement, via transitional arrangements, to move away from a final salary scheme to one based on career average earnings. It also aligns the scheme retirement age with the state pension age and caps employers' costs. The LGPS in England and Wales is well progressed with these changes, but the position in Scotland remains to be clarified and this generates concerns over what is likely to be a very challenging implementation timetable.

In summary, an environment of reform, turbulence and change was prevalent in 2012/13 and this landscape is likely to remain over the medium term.

Bryan Smail, CPFA MBA
Chief Finance Officer
28 June 2013

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 Falkirk Council Pension Fund 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 the Fund's affairs to secure economic, efficient and effective use of its resources and safeguard its assets.
- Approve the Statement of Accounts.

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 2012/13 (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 Falkirk Council Pension Fund as at 31 March 2013 and its income and expenditure for the year ended 31 March 2013.

Bryan Smail, CPFA MBA
Chief Finance Officer
28 June 2013

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 investments 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, a person 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 is produced every three years and acts as an independent financial health check to determine how much money has to be paid to the Fund so that it can continue pay benefits both now and in the future. The last valuation was produced on 31 March 2011 and showed that the Fund was 86% funded, meaning that it had 86% of monies needed to pay the benefits of scheme members based on the rights they had accumulated to that date. 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 cash-flows 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 Pensions Section. Administration of the Fund is undertaken in-house by the Pensions Section.

Governance Overview

Prior to the Local Government Elections of May, 2012, all Pension Fund business of Falkirk Council was delegated to its Investment Committee. The Investment Committee consisted of the following six elected members from Falkirk Council:

- Councillor John Patrick (Convener)
- Councillor Allyson Black
- Councillor Jim Blackwood
- Councillor Thomas Coleman
- Councillor Lynda Kenna
- Councillor Alistair McNeill

(Councillors Patrick, Black, Blackwood and McNeill were all active members of the Scheme in 2012/13 whilst serving on the Investment Committee).

Following the publication in 2011 of statutory guidance relating to governance matters, the Authority undertook a wide ranging consultation which culminated in new governance arrangements being approved by Falkirk Council on 14 March 2012.

The new governance approach means that from May, 2012 pension fund business has been delegated to a Pensions Committee with the support of an advisory Pensions Panel.

i) Pensions Committee

The Pensions Committee consists of nine members – six elected members from Falkirk Council and three members drawn from the Panel. The Committee meets on a quarterly basis. Members of the Committee are as follows:

Councillor John Patrick (Convener)	-	Elected Member (Falkirk Council)
Councillor Jim Blackwood	-	Elected Member (Falkirk Council)
Councillor Thomas Coleman	-	Elected Member (Falkirk Council)
Councillor Steve Carleschi	-	Elected Member (Falkirk Council)
Councillor Craig Martin	-	Elected Member (Falkirk Council)
Councillor Joan Paterson	-	Elected Member (Falkirk Council)
Councillor Callum Campbell	-	Employer Rep. (Stirling Council)
Mr Alastair Redpath	-	Pensioner Rep.
Mr Grant Eals	-	Union Rep.

The Committee's key responsibilities are to:-

- to oversee the administration of the Fund
- to manage the investments of the Fund
- to establish and review investment strategy;
- to ensure the suitability and adequate diversification of investments;
- to take proper advice in relation to investment matters
- to set the strategic asset allocation and individual manager benchmarks and targets;
- to review the performance of investment managers on a regular basis
- to select and appoint investment managers and custodians as required.
- to formulate and monitor a funding policy for the Fund
- to ensure the Fund is subject to actuarial valuations as required
- to approve the Annual Report and Accounts

(Councillors Patrick, Blackwood and Carleschi and Mr Eals were all active members of the Scheme during 2012/13. Mr Redpath is a pensioner member of the Scheme).

ii) Pensions Panel

The Panel comprises 15 members and includes Trade Union, Employer and Pensioner representatives. One member from each of these representative groups has been co-opted to sit on the Pensions Committee where they have full access to papers and voting rights. The Panel meets on a quarterly basis approximately two weeks prior to the corresponding Committee meeting. Members of the Panel are as follows:

Councillor Callum Campbell (Convener)	-	Employer Rep. (Stirling Council)
Mr Willie Watson	-	Employer Rep. (Stirling Council)
Mr Gordon Laidlaw	-	Employer Rep. (Scottish Autism)
Mr Ed Morrison	-	Employer Rep. (SCRA)
Mr John Ford	-	Employer Rep. (SEPA)
Mrs Alison Stewart	-	Employer Rep. (Forth Valley College)
Mrs Susan Mackay	-	Employer Rep. (Clackmannanshire Council)
Councillor Archie Drummond	-	Employer Rep. (Clackmannanshire Council)
Mrs Jackie McAuley	-	Employer Rep. (Falkirk Council)
Councillor Dr C R Martin	-	Employer Rep. (Falkirk Council)
Mr Alastair Redpath	-	Pensioner Rep.
Mr Ian McLean	-	Pensioner Rep.
Miss Mary Keggan	-	Union Rep.
Mr Grant Eals	-	Union Rep.
Mr Andy Douglas	-	Union Rep.

The Panel's main responsibility is to provide advice and guidance to the Pensions Committee on all matters relating to the business of the Falkirk Council Pension Fund.

Full details of the governance arrangements are set out in the Governance Compliance Statement which has been reproduced in Pages 7 to 12 of this report.

iii) Member Training

The following training events were arranged for Committee and Panel members during 2012/13:

16/08/2012	-	Pension Fund Induction Training
24/10/2012	-	Local Government Pension Scheme – Members' Seminar
28/11/2012	-	Local Authority Pensions Funds Forum – Annual Conference
28/03/2013	-	Convention on Investment in Social Housing

In addition, the Fund hosted two full day training sessions for Members and Employers on the subject of Auto Enrolment on 21 September, 2012 and 1 February, 2013, plus a morning session on 14 March 2013 on the subject of FRS17/IAS19. These courses were supplemented with the annual Pensions and Investment Conference held in on March 2013.

The Fund's governance policy, including the governance compliance statement and Governance Training Statement, are set out in the Governance Framework documents.

Communications

Communication with stakeholder groups was achieved through emails, publication of committee minutes, newsletters, payslip messaging and the new pension fund website. The range of topics covered 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.

Funding Strategy Statement

The Fund's approach to dealing with scheme liabilities is set out in the Funding Strategy Statement.

More Information

Copies of the Statement of Investment Principles, the Funding Strategy Statement and the Governance Framework document are available from the Chief Finance Officer, Falkirk Council, Municipal Buildings, West Bridge Street, Falkirk FK1 5RS or at www.falkirkpensionfund.org.

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 2012/13 and meets the standards set out by the Scottish Public Pensions Agency in their paper of April 2011, entitled Governance Compliance Statement.

Principle A – Structure

Requirement		Level of Compliance	Arrangements in Place
(a)	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council	Full Compliance	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	Full Compliance	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	Full Compliance	<p>The main channel of communication between the Pensions Committee and the Pensions Panel lies with the three Committee members who are also Panel members.</p> <p>Communication is also assisted by synchronising Panel meetings with a corresponding Committee meeting and through the sharing of minutes.</p>
(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.	Full Compliance	Three places on the Pensions Committee are reserved for members of the Pensions Panel.

Principle B – Representation

Requirement		Level of Compliance	Arrangements in Place
(a)	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
	(i) Employing authorities (including e.g. admission bodies);	Full Compliance	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);	Full Compliance	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	There are no formal independent professional observers of Committee or Panel business. It is considered that: <ul style="list-style-type: none"> the diversity of representation; (employers, pensioner and Unions) the annual audit process; and the attendance of professional advisors at most Panel and Committee meetings provide robust and adequate scrutiny of pension fund business.
	(iv) Expert advisors (on an ad-hoc basis).	Full Compliance	Support for the Pensions Committee and Pensions Panel is provided by the undernoted advisors: <ul style="list-style-type: none"> 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.	Full Compliance	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 C – Selection and role of lay members

Requirement		Level of Compliance	Arrangements in Place
(a)	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	Full Compliance	<p>Members of the Pensions Committee are subject to the Falkirk Council Councillors' Code of Conduct.</p> <p>Members of the Pensions Panel have been appointed on the understanding that they are subject to the Falkirk Council Councillors' Code of Conduct.</p> <p>Induction training has been delivered to Committee and Panel members.</p>
(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	<p>Declaration of interests is a standard procedure at the start of all Committee and Panel meetings. Declarations are noted in the minutes.</p>

Principle D – Voting

Requirement		Level of Compliance	Arrangements in Place
(a)	The policy of individual Administering Authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Full Compliance	<p>All members of the Pensions Committee including co-opted members have voting rights on the basis that they have executive responsibility for pension fund decision making.</p>

Principle E – Training/Facility Time/Expenses

Requirement		Level of Compliance	Arrangements in Place
(a)	That in relation to the way in which statutory and related decisions are taken by the Administering Authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Full Compliance	<p>The administering authority's approach to training is set out in its training policy for the Pensions Committee and Pensions Panel members.</p> <p>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.</p> <p>Expenses incurred by Committee and Panel members are met either by the Fund or the Falkirk Council scheme for payment of Members expenses.</p>
(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.	Full Compliance	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.	Full Compliance	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 F – Meetings (Frequency/Quorum)

Requirement		Level of Compliance	Arrangements in Place
(a)	That an Administering Authority's main committee or committees meet at least quarterly.	Full Compliance	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.	Full Compliance	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.	Full Compliance	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 G – Access

Requirement		Level of Compliance	Arrangements in Place
(a)	That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Full Compliance	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 H – Scope

Requirement		Level of Compliance	Arrangements in Place
(a)	That Administering Authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full Compliance	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	Arrangements in Place
(a)	That Administering Authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Full Compliance	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.

Certification

It is my opinion that the governance arrangements set out above provide reasonable and objective assurance that any significant risks impacting on the achievement of the principal objectives of the Pension Fund will be identified and actions taken to avoid or mitigate their impact.

Bryan Smail, CPFA MBA
Chief Finance Officer

REVIEW OF THE YEAR – ADMINISTRATION

Introduction

This section provides an overview of the arrangements made during 2012/13 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	30 years	Yes
Pensions Project Officer	1	42 years	Yes
Pensions Officers	2	27 years	Yes (1 post)
Pensions Support Assistant	1	22 years	No
Pensions Assistants	4.8	10 years	No
Total	9.8		

n.b 50% of the Pensions Manager's time is devoted to Investment and Governance matters.

Main Activities

The principle activities of the Pensions 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;
- contribute towards the publication of the Annual Report and Accounts;
- 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 Fund's payroll system (used to calculate and pay around 10,000 pensioners each month) is Resourcelink, licensed from NorthgateArinso.

The Fund's accounting requirements are met through the Integra system of 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

2012/13 Review

General

The Section successfully completed all its statutory functions in the required timescale and to a high degree of accuracy.

Pensions Reform

As with 2011/12, 2012/13 was dominated by the topic of pensions reform and a well-publicised triumvirate of state initiatives - Public Sector Pensions Reform, Workplace Pensions Reform and State Pension Reform.

Public Sector Pensions Reform

During 2012/13, the UK Government brought forward the Public Service Pensions Bill essentially to make visible the reform proposals outlined in the Hutton report. The Bill, which became an Act in May, 2013 as a result of receiving Royal Assent, represents the most radical shake up of public sector schemes since their inception. Key proposals are:

- Schemes to be career average by no later than 1st April, 2015
- Scheme retirement age to be aligned with the now variable State Pension Age
- Protections to be in place for older members
- Employer costs to be capped
- Scheme boards to be instituted
- Wider powers given to Treasury and the Regulator

The reform process for the Local Government Pension Scheme (LGPS) is being taking forward in Scotland by the Scottish Local Government Pensions Advisory Group (SLOGPAG). The group consists of representatives from COSLA, Scottish Government and Trade Unions. SLOGPAG are currently assessing various models for the LGPS 2015.

Workplace Pensions Reform

Better known as Auto-Enrolment (AE), this initiative became law on 1 October, 2012. With effect from various staging dates, employers have to automatically enrol non scheme members into the nominated auto enrolment pensions vehicle. For local authorities in Scotland, this is the Local Government Pension Scheme (Scotland) or, for teaching staff, the Scottish Teachers Superannuation Scheme.

During the year, the Pensions Section hosted two full day training events for fund employers in order to raise awareness of auto enrolment and provide employers with a knowledge resource from which they could develop their auto enrolment strategies.

State Pension Reform

During 2012/13, the Government issued a White Paper on State Pension reform proposing to replace the basic and additional State Pensions with a single-tier pension. The change is scheduled to take place on April, 2016. A key element of the reform is the ending of the National Insurance Contracting-Out rebate that is currently enjoyed by LGPS members and their employers. The cost to Falkirk Council has been estimated as £4m p.a. with the cost to Scottish local government being put at £125m. The proposals are currently being debated as part of the Pensions Bill 2013.

Other Key Initiatives

- Unqualified audit of Pension Fund Annual Report and Accounts for 2011/12
- Service Level Agreements for Police and Fire Services
- Participation in National Fraud Initiative
- Launch of new Falkirk Council Pension Fund website
- Exit of Waterwatch Scotland and Raploch URC from Fund
- Provision of data to GAD relating to LGPS 2015 and Police and Fire reform
- Provision of statistical data to Pensions Regulator

Communications

Stakeholder communication during 2012/13 was undertaken through:

- Pensions and Investment Conference
- Benefit Statements for active and deferred members
- Newsletters for active and deferred members
- 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 4 years are set out in the table below:-

	2009/10	2010/11	2011/12	2012/13
Payment deadlines met	100%	100%	100%	100%
Annual Member Admin. Cost	£17.02	£16.12	£16.45	£14.50
Staff / Member ratio	1 to 3,042	1 to 2,893	1 to 2,932	1 to 2,972
Number of complaints	2	4	1	1
Lump Sums paid within 7 days	91%	92%	99%	99%
Queries responded to in 14 days	67%	71%	72%	73%

The reduction in annual administration costs is mainly due to part of the Pensions Manager's costs being attributed to investment administration rather than pensions administration.

Training

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 2013/14 will continue to be dominated by the ongoing issue of public sector pension scheme reform. Whilst 2012/13 saw a sustained recovery in asset values, bond yields remained low exacerbating fund deficits. In that climate, it is inevitable that the affordability of the Scheme and the need to seek out efficiencies will remain in the spotlight.

Although 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 suggested that funds should be pro-actively seeking ways in which to work more closely together. This debate remains highly topical given the announcement by the Local Government Minister in England and Wales that a consultation in possible fund mergers would be held later in the year.

In relation to employer costs, funding valuations are due as at 31st March, 2014 and will be an opportunity for financial and demographic assumptions to be reviewed and deficits recalculated. If the valuations are to take into account the initiation of the CARE arrangements from April, 2015, the specific proposals will have to be both agreed at SLOGPAG and given regulatory shape by the end of 2013/14. The importance of SLOGPAG maintaining momentum in this regard should not be underestimated as authorities will require an adequate lead in time in order to prepare administration systems for the new arrangements.

The Public Service Pensions Act 2013 will also make certain demands in relation to the governance of the LGPS, including the need for national and local pensions boards. These requirements will have to be considered within the context of the Fund's existing but relatively new governance arrangements.

Turning to more operational matters, the onset of auto enrolment will increase the flow of new member traffic between the Fund and its employers – both through member enrolment and then subsequent opting out. In an effort to counter this, the Section is developing an "Employer Portal" initiative to extend the range of data that can be transmitted electronically.

The pension arrangements of staff transferred to the new Police and Fire Services on 1st April, 2013 have been unaffected by the change of structure. However, going forward, it is likely that the administration of Police and Fire Pension Scheme members (i.e. not LGPS members) will be centralised, in order that the post 2015 CARE demands of these schemes can be fully addressed.

During 2013/14, it is also intended to explore the alternatives to issuing pensioners with a monthly paper pension advice slip. Production and postal costs make this an area where potential savings could be realised. Such savings could help to pay for initiatives such as tracing "lost" scheme members or undertaking more frequent mortality checks on pensioner data.

Overall, the pace of change appears to be quickening with a variety of themes being played out from government reform to governance reform. Given the range of challenges ahead, there is likely to be a pressure on resources and the careful prioritising of activities will be required.

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, staff transfers, changes in scheme rules or Government initiatives (e.g. auto enrolment).

The balance of membership between contributors and pensioners is an important indicator 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 few years has led to a steady flow of employees 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 early 2013/14) will halt the trend of declining or relatively static 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 31/03/11	Membership 31/03/12	Membership 31/03/13
All Fund Employers			
Actives	12,939	12,668	12,880
Deferreds	4,869	5,085	5,204
Pensioners	7,600	8,119	8,372
	<u>25,408</u>	<u>25,872</u>	<u>26,456</u>
Maturity Level (% of Deferred + Pensioner members to Total)	49.08%	51.04%	51.32%
 Scheduled Bodies			
Actives	11,948	11,286	11,450
Deferreds	4,358	4,518	4,599
Pensioners	7,301	7,779	7,996
	<u>23,607</u>	<u>23,583</u>	<u>24,045</u>
 Admission Bodies			
Actives	991	1,382	1,430
Deferreds	511	567	605
Pensioners	299	340	376
	<u>1,801</u>	<u>2,289</u>	<u>2,411</u>

Figure A below shows that total Fund membership (i.e. active, deferred and pensioner members) has been steady over the past few years.

However, this masks the fact that there has been a significant fall in active membership - over 1,000 members since 2009 - matched by a rise in pensioner and deferred member numbers. This trend which is demonstrated in Figure B 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 – 2013 in aggregate

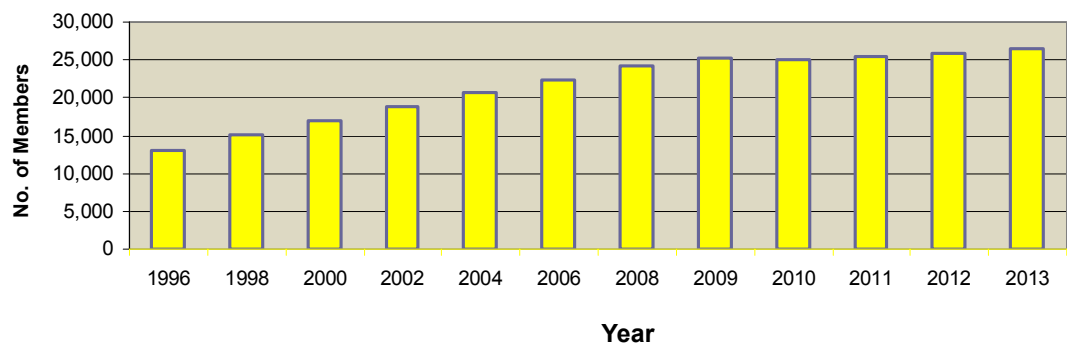
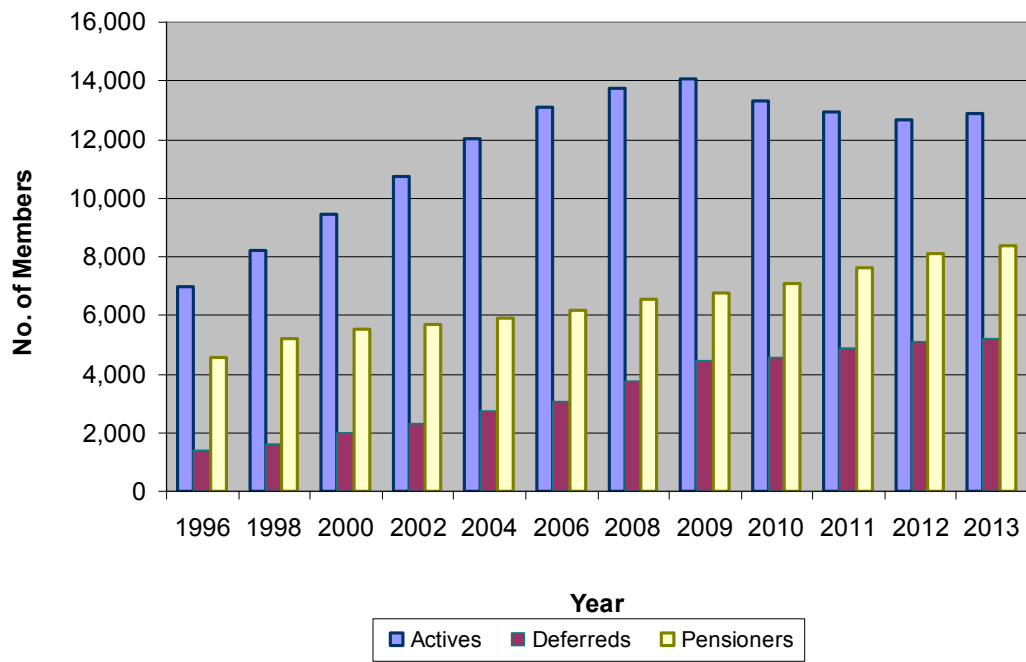


Figure B - Fund Membership from 1996 – 2013 by category



REVIEW OF THE YEAR – INVESTMENTS

Statement by Newton Investment Management Limited, Fund Managers

Economic and Market Background – 12 months to 31 March 2013

Investment Review

During the 12-month period under review, there was significant uncertainty about the outlook for many of the world's leading debt-laden economies, but investors were swayed by the influence of policymaking by authorities in the main economic areas. Overall, equity returns were strong over the period, albeit that there were disparities in the fortunes of different regions, with emerging-market returns lagging markedly those of their developed counterparts.

Investors grappled throughout the period with fears about the outlook for the major economies, most prominent among challenges continuing to be the state of government finances in Europe. The policy response to Europe's woes was multi-faceted but, until the autumn, it appeared far from durable. Nonetheless, the measures announced by the world's leading central banks from September appeared to mark the adoption of a more 'inflationary' policy stance, and they were received well by equity investors. Against this backdrop, even recent turmoil in Cyprus (which was the fifth eurozone member to require a financial bail-out) and Italy (where the fragmented general election result showed significant support for anti-austerity parties) appeared to be received relatively nonchalantly by financial-market participants.

Over the 12 months to 31 March 2013, the markets of North America led the way with a return of +19.3% in sterling terms, with some relief greeting the New-Year agreement reached by Congress, which allowed the US economy to avoid going over the 'fiscal cliff' of automatic public spending cuts. Continental Europe also delivered a strong sterling return of +18.0%, despite the region's debt-related challenges. The UK returned +16.8%, where the markets of the Asia-Pacific (ex Japan) region generated an aggregate sterling return of +16.7%. Japan, owing largely to the impetus provided by the announcement of much more concerted (deflation-fighting) monetary policy by the Bank of Japan during the first quarter of 2013) posted a return of +14.3%. Emerging markets, meanwhile, delivered a collective return of +7.7%.

In government bond markets, gilts made headway, with the FTA Government All Stocks Index returning +5.3%. Returns from overseas bonds were also positive, with the JPM Global Government Bond Index (ex UK) returning +4.5% in sterling terms.

In corporate bond markets, 'spreads' on higher-quality issues over equivalent-dated government bonds generally narrowed over the period, thereby meaning that such markets delivered returns significantly above those of government bond markets. The Merrill Lynch Non-Gilts Index returned +12.0% over the period.

Newton Investment Management Ltd
160 Queen Victoria Street
London
EC4V 4LA

Investment Strategy

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

The revised allocation targeted a 10% decrease in equities and 5% decrease in bonds. This was to enable the fund to invest in a Diversified Growth mandate and make a commitment to an investment in Infrastructure.

Work commenced in 2011/12 towards the new Investment Strategy with the tender for the Diversified Growth mandate, which was awarded to Baillie Gifford, and an Infrastructure mandate in which Credit Suisse were appointed manager.

In 2012/13, the Fund has built on this strategy providing a further \$12m in funding to its Infrastructure mandate, while the Diversified Growth fund has performed well above its benchmark and objective over the first year of its mandate.

Asset Class	Strategic Allocation %	Allocation as at 31/03/13 %
Equities	60	66
Bonds	10	9
Property	10	7
Alternatives	20	17
• <i>Private Equity</i>	5	6
• <i>Infrastructure</i>	5	2
• <i>Diversified Growth</i>	10	9
Cash	-	1

The overweight position in Equities has been the result of a resurgent equity market in the latter part of 2012/13 when risk assets were favoured. This contributed to the Fund's investment out performance during the year. The underweight position in property reflects the challenges encountered and static performance delivered by the property managers in 2012/13.

A valuation of the Fund is due to take place on 31 March 2014 at which time Fund Assets and Liabilities will be reassessed and a strategic review of asset allocation undertaken. However, in conjunction with its investment advisors, the Fund will continue to monitor global market conditions and will respond to potential opportunities/threats as they occur.

In 2012 the Fund entered into a shared service agreement with City of Edinburgh Council (Lothian Pension Fund) following a restructuring of the Council's Pensions Section to include investment responsibilities. The scope of this agreement is to provide assistance in the monitoring and reporting of the Fund's investment performance. This ensures that appropriate oversight and controls remain in place for the Fund's investments.

Corporate Governance

As a responsible investor, the Fund seeks to promote corporate 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 17 to the financial statements, page 37);
- Pensions and Investment Research Consultants (PIRC) who provide advice and research services on all matters pertaining to corporate governance and shareholder voting responsibilities; and

- membership of the Local Authority Pension Fund Forum (LAPFF) comprising 56 local government pension funds to promote and maximise investment interests of Funds.

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 120 companies) 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 managers. During 2012/13, voting was undertaken at 143 company meetings at which 1,363 votes were cast in favour of resolutions, 395 opposed and 181 cases of abstentions.

This voting period covered the "Shareholder Spring" of 2012 in which companies faced increased opposition from shareholders with particular focus on executive pay. Many of the opposition votes cast on behalf of the Fund related to boardroom remuneration packages. On this occasion, it appears that opposition votes exerted an influence in the boardroom and led to certain Directors being forced to leave their posts (e.g. AstraZeneca, Aviva and Trinity Mirror).

Areas where negative votes were cast extended beyond remuneration. PIRC also took an active role in challenging issues such as gender balance on boards, conflicts of interest, the level of independent oversight and auditor independence. In the coming year, issues such as corporation tax and labour standards are likely to become areas of further interest for shareholders.

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 15.9% comfortably surpassing its benchmark by 4.3%. Most managers benefited from improved market conditions to match/surpass their respective benchmarks.

Medium Term (3 years)

The Fund's return of 9.4% has outperformed its benchmark return by 2.1%. The Fund benefited, in particular, from strong performance by its Bond and UK Equity managers.

Longer Term (10 years)

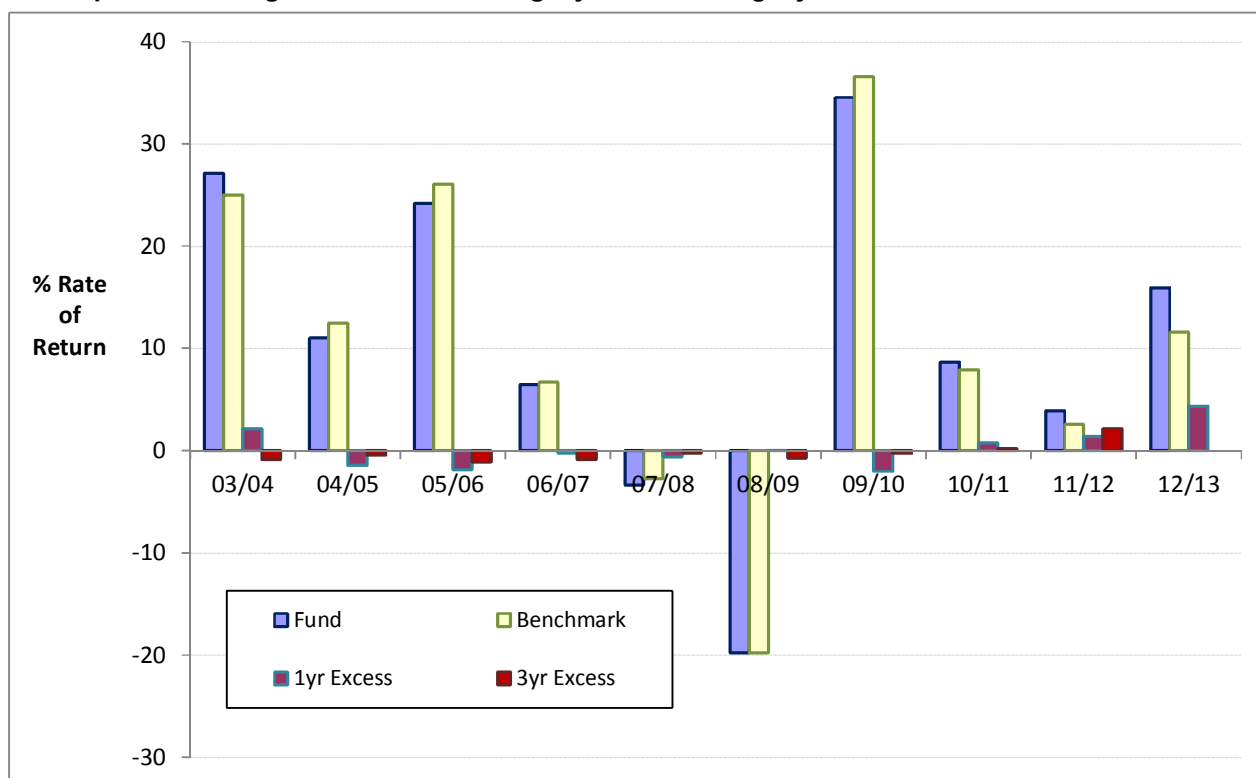
The Fund's longer term performance of 9.8% slightly outperformed its benchmark return by 0.3% p.a. over the period. This remains comfortably ahead of price and wage inflation to which the pension fund liabilities are linked.

Annualised returns to 31 March 2013

	1 Year	3 Years	10 Years
	%	%	%
Falkirk Council Pension Fund	15.9	9.4	9.8
Benchmark	11.6	7.3	9.5
Retail Prices Index	3.3	4.1	3.3
Consumer Price Index	2.8	3.8	2.7
National Average Earnings	-0.6	1.0	2.7

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	Mar-13
	%	%	%	%	%	%	%	%	%	%
Fund	27.13	11.02	24.18	6.46	-3.36	-19.75	34.53	8.65	3.91	15.94
Benchmark	24.99	12.47	26.03	6.70	-2.76	-19.77	36.57	7.92	2.55	11.59
1yr Excess	2.14	-1.45	-1.85	-0.24	-0.60	0.02	-2.04	0.73	1.36	4.35
3yr Excess	-	-0.84	-0.44	-1.14	-0.84	-0.25	-0.71	-0.28	0.19	2.16

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.

2011/12 £'000	CONTRIBUTIONS AND BENEFITS	2012/13 £'000	Note
	Dealings with members, employers and others directly involved in the fund		
74,472	Contributions	69,130	7
2,455	Transfers from Other Pension Funds	4,383	8
76,927		73,513	
(52,053)	Benefits	(52,729)	9
(3,016)	Payments to and on account of leavers	(4,058)	10
(444)	Administrative and Other Expenses	(375)	11
(55,513)		(57,162)	
21,414	Net Additions from dealing with Members	16,351	
	RETURNS ON INVESTMENTS		
21,830	Investment Income	21,607	12
(258)	Taxes on Income	(229)	13
26,586	Profit and losses on disposal of investments and changes in market value of investments	177,475	15
(3,754)	Investment Management Expenses	(4,118)	14
44,404	Net Return on Investments	194,735	
65,818	Net Increase/(Decrease) in the net assets available for benefits during the year	211,086	
1,186,171	Opening Net Assets as at 1 April 2012	1,251,989	
1,251,989	Closing Net Assets as at 31 March 2013	1,463,075	

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.

2011/12 £'000	INVESTMENT ASSETS	2012/13 £'000	Note
1,223,761	Investments	1,416,116	15
8,836	Cash Deposits	28,986	15
1,232,597		1,445,102	
(93)	INVESTMENT LIABILITIES	(58)	15
	NON-CURRENT ASSETS		
2,030	Long Term Debtors	1,611	25
	CURRENT ASSETS		
12,559	Cash Balances	12,419	26
6,624	Debtors	6,878	27
	CURRENT LIABILITIES		
(1,728)	Creditors	(2,877)	28
1,251,989	NET ASSETS OF THE FUND AVAILABLE TO FUND BENEFITS AT THE PERIOD END	1,463,075	

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 24.

The unaudited accounts were issued on 28 June 2013 and the audited accounts were authorised for issue by Bryan Smail, Chief Finance Officer on 5 September 2013. The Statement of Accounts presents a true and fair view of the financial position of the Pension Fund as at 31 March 2013 and their income and expenditure for the year ended 31 March 2013.

Bryan Smail, CPFA MBA
Chief Finance Officer

NOTES TO THE ACCOUNTS

1. **Fund and Scheme Overview**

Introduction

As part of its statutory obligations, Falkirk Council is required to operate the terms of Local Government Pension Scheme (LGPS), including the maintenance and administration of a pension fund.

The LGPS is a public sector statutory scheme which provides defined benefits on a final salary basis. The Scheme was established under the Superannuation Act 1972. It is also contracted-out of the State Second Pension and is 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 following statutory instruments:

- the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008;
- the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008; and
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010.

Administration of the Fund is undertaken by an in-house team who oversee the benefits of contributors, deferred members and pensioners on behalf of Clackmannanshire, Falkirk and Stirling Councils, as well as for around 35 other employers. Teachers, Police and Firefighters do not come within the scope of the LGPS as they have their own national pension arrangements. A full list of employers who participate in the Falkirk Council Pension Fund is included in this report on Page 52.

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 Pensions Committee and advisory Pensions Panel. Support on investment matters is also provided through a service level agreement with the City of Edinburgh Council.

Membership

Membership of the LGPS is voluntary and, although employees may have been enrolled in the scheme automatically (either as a result of auto enrolment legislation or the Scheme's own contractual enrolment provisions), employees are free to choose whether to remain in the scheme or, having opted out, join it at a later date.

Organisations participating in the Scheme fall into two categories, namely:

- Scheduled Bodies - organisations such as local authorities that are statutorily required to offer the Scheme to their employees,
- Admission Bodies - mainly charitable, non-profit making bodies that have reached an agreement with an Administering Authority to participate in the Scheme

Around 40 employing bodies participate in the Falkirk Council Pension Fund. Full details of membership numbers are contained on Page 17 of the Annual Report.

Funding

Benefits are funded by contributions and returns on investments. Contributions are made by active members of the fund in accordance with the LGPS (Benefits, Membership and Contributions) (Scotland) Regulations 2008. The rate of employee contribution varies depending on a member's full time equivalent pensionable pay with designated pay bands attracting rates of between 5.5% and 12%.

Employee Contributions are matched by employer contributions which are based on the results of the three yearly actuarial funding valuation. The last such valuation was at 31st March, 2011. For the majority of fund employers in 2012/13, contribution rates were in the range 17% – 22% of pensionable pay.

Benefits

Benefits under the LGPS are based on final pensionable pay and length of pensionable service, and are summarised below:

	Service pre 1 April 2009	Service post 31 March 2009
Pension	Each year worked is worth $1/80^{\text{th}}$ x final pensionable salary	Each year worked is worth $1/60^{\text{th}}$ x final pensionable salary
Lump Sum	Automatic lump sum of 3 x annual pension In addition, part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 surrendered. The lump sum cannot be greater than 25% of the capital value of the pre 2009 and post 2009 pension rights.	No automatic lump sum Part of the pension may be exchanged for a lump sum. The conversion rate is £12 of lump sum for each £1 surrendered.

Additionally, the Scheme provides a range of inflation proofed benefits including early payment of pension and lump sum on ill health or redundancy grounds, as well as death and survivor benefits.

The measure of inflation currently used by the Scheme in determining annual increases is the Consumer Price Index. Prior to April, 2010, the measure used was the Retail Price Index.

More information about scheme benefits can be found in the Member's Handbook which is accessible at www.falkirkpensionfund.org.

LGPS 2015

The Public Service Pensions Act 2013 requires that certain changes are made to public sector pension schemes by 1st April, 2015. The main changes affecting the LGPS are as follows:

- Scheme will operate on Career Average Re-valued Earnings (CARE) basis;
- Normal Retirement Age will be aligned with each member's own State Pension Age;
- Membership Rights up to 31st March, 2015 will be protected on Final Salary basis;
- Transitional protection will exist for those closest to retirement; and
- The Scheme will have a national Advisory Board and local Pension Boards.

It is expected that new regulations setting out details of LGPS 2015 will be laid around April, 2014.

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2012/13 financial year and its financial position as at the year end of 31st March 2013. The accounts also report on the net assets available to pay pension benefits.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis is disclosed at Note 24 of these accounts.

The accounting standard IFRS 13 came into effect from 1 January 2013 but had no effect on the Fund as it already complied with requirements.

3. Summary of Significant Accounting Policies

Fund account - revenue recognition

a) Contribution income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis. Employer contributions are made at the percentage rate recommended by the Fund Actuary in the payroll period to which they relate. Employee contributions are made in accordance with the rates specified in the Scheme rules.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises.

Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due to be paid until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In.

c) Investment income

i) Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

- iv) **Property related income**
Property-related income consists primarily of rental income.

Rental income from operating leases on properties owned by the fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

- v) **Movement in the net market value of investments**
Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account - expense items

- d) **Benefits payable**
Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.
- e) **Taxation**
The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.
- f) **Administrative expenses**
All administration expenses are accounted for on an accruals basis. Costs directly related to Fund activities are being charged to the Fund during the financial year. Costs which relate to both Fund and Non-Fund activities are apportioned between the Fund and the sponsors of the other pension arrangements administered by the Pensions Section. Any apportionment is carried out on the basis of share of aggregate membership numbers.
- g) **Investment management expenses**
All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.
The cost of obtaining external investment advice and the fee in respect of the shared service agreement with City of Edinburgh Council (Lothian Pension Fund) is included in investment management charges.

The costs of the in-house investment administration team are charged to the Fund. The basis of allocation is as per the administration expenses described above.

Net assets statement

h) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

- i) **Market quoted investments**
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) **Unquoted investments**
The fair value of investments for which market quotations are not readily available is determined as follows:
 - valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Council expects to receive on wind-up, less estimated realisation costs
 - securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs
 - directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
 - investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager
 - the values of the investments in unlisted private equity infrastructure are based on valuations provided by the general partners to the 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. The 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.
- iii) **Pooled investment vehicles**
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.
- iv) **Freehold and leasehold properties**
The Fund's direct property holding 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 due 31 March 2014. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms at the time of the valuation.

i) Foreign currency transactions and balances

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value a) cash balances held in foreign currency bank accounts, b) market values of overseas investments and c) purchases and sales outstanding at the end of the reporting period.

j) Derivatives

Derivative contract assets are fair valued at bid prices. Derivative contract liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are reflected within the change in market value in the net assets statements.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised.

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits of the Fund is assessed on an annual basis by the Fund Actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statements.

n) Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Standard Life as its AVC provider. AVCs are paid to Standard Life by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

In accordance with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, AVCs are not included in the pension fund financial statements. Details of contributions paid and the total value of funds invested are disclosed in Note 29 on page 48.

4. Critical Judgement in Applying Accounting Policies

In applying its 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) Unquoted Investments

It should be recognised that determining the fair value of private equity and infrastructure investments is highly subjective. Inherently, valuations are based on forward-looking estimates and judgements 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 2013 the Fund had a value of £113.8m (2012 £97.2m) in unquoted private equity and infrastructure investments.

(ii) 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. 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.

5. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions about the future or circumstances that are otherwise uncertain. The assumptions are made by the Council, by private equity and infrastructure managers, by the Fund Actuary and by other financial information providers. 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.

(i) Unquoted Investments

The Fund's asset allocation to Private Equity and Infrastructure exposes it to investments that are not publicly listed. Valuations for these assets will contain an element of estimation in their production.

There is a risk that these investments may be under or overstated in the accounts.

(ii) Actuarial present value of promised retirement benefits

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Fund's actuary provides expert advice on the assumptions used to produce the estimated valuation presented in the Notes to the Accounts.

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

Change in assumptions at year ended 31 March 2013	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% decrease in Real Discount Rate	9%	181
1 year increase in member life expectancy	3%	60
0.5% increase in the Salary Increase Rate	3%	60
0.5% increase in the Pension Increase Rate	6%	121

6. Events after the Balance Sheet Date

The unaudited Statement of Accounts were issued by the Chief Finance Officer on 28 June 2013 and the audited Statement of Accounts were authorised for issue on 5 September 2013. 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.

7. Contribution Receivable

By Category

2011/12 £'000		2012/13 £'000
51,934	Employers – Normal/deficit Contributions	50,063
6,000	Employers – Strain Contributions	2,481
16,538	Members	16,586
74,472	TOTAL	69,130

By Authority

2011/12			2012/13	
Members £'000	Employers £'000		Members £'000	Employers £'000
5,514	19,006	Administering Authority	5,442	17,650
9,437	33,869	Other Scheduled Bodies	9,447	29,270
1,587	5,059	Admission Bodies	1,697	5,624
16,538	57,934	TOTAL	16,586	52,544

8. Transfers from Other Pension Funds

All transfers during the year related to individual transfer payments and not bulk transfer payments.

9. Benefits Payable

By Category

2011/12 £'000		2012/13 £'000
(36,326)	Pensions	(39,651)
(14,627)	Commutation and lump sum retirement benefits	(10,915)
(1,100)	Lump sum death benefits	(2,163)
(52,053)	TOTAL	(52,729)

By Authority

2011/12			2012/13	
Pensions £'000	Lump Sum* £'000		Pensions £'000	Lump Sum* £'000
(12,337)	(6,341)	Administering Authority	(13,555)	(4,655)
(22,563)	(8,604)	Other Scheduled Bodies	(24,263)	(7,324)
(1,426)	(782)	Admission Bodies	(1,833)	(1,099)
(36,326)	(15,727)	TOTAL	(39,651)	(13,078)

* Lump Sum includes Death Benefits

10. Payments to and on account of leavers

2011/12 £'000		2012/13 £'000
(191)	Refunds to members leaving service	(137)
(2,825)	Individual transfers	(3,921)
(3,016)	TOTAL	(4,058)

11. Administration Expenses

2011/12 £'000		2012/13 £'000
(352)	Administration Costs	(319)
(63)	Actuarial Fees	(23)
(23)	External Audit	(22)
(6)	Fees and Subscriptions	(11)
(444)	TOTAL	(375)

12. Investment Income

2011/12 £'000		2012/13 £'000
9,956	UK Equities	9,764
142	UK Managed Funds – Others	125
2,690	UK Managed Funds – Property	3,037
8,990	Overseas Equities	7,841
123	Overseas Managed Funds – Property	187
144	UK Managed Funds – Unlisted	-
(483)	Overseas Managed Funds – Unlisted	351
192	UK Property	206
76	Cash & Other Income	96
21,830	TOTAL	21,607

13. Taxes on Income

All tax withheld on income for the Fund relates to equity investments.

14. Investment Management Expenses

2011/12 £'000		2012/13 £'000
(3,459)	External Investment Management Services	(3,875)
(139)	Custodian	(98)
(96)	Internal Administration	(98)
(9)	Performance Monitoring	(11)
(51)	Actuarial Fees – Investment Consultancy	(36)
(3,754)	TOTAL	(4,118)

These expenses do not include fees relating to the management of private equity/infrastructure funds. Expenses for these funds are capitalised and shown as an unrealised loss in the Pension Fund Account.

Generally, this is the approach taken by Local Government Pension Scheme Funds when reporting private equity fees.

15. Investments

Market Value 31/03/12 £'000		Market Value 31/03/13 £'000
	INVESTMENT ASSETS	
	Listed Investments	
219,502	UK Equities	262,331
4,718	UK Managed Funds – Unit Trusts	11,991
85,736	UK Managed Funds – Property	83,821
278,730	Overseas Equities	337,262
9,183	Overseas Managed Funds – Property	8,913
	Unlisted Investments	
51,189	UK Managed Funds – Unlisted	55,458
492,447	UK Managed Funds – Unitised Insurance Policies	566,495
46,010	Overseas Managed Funds – Unlisted	58,304
2,300	UK Property (Westmains)	2,300
	Cash Deposits	
30,671	Other Investment Balances	25,702
8,836	Cash Deposits	28,986
	Other Investment Assets	
2,931	Dividends & Other Income Due	3,296
344	Derivatives – Forward Foreign Exchange	243
1,232,597	Total Investment Assets	1,445,102
	INVESTMENT LIABILITIES	
(93)	Derivatives – Forward Foreign Exchange	(58)
(93)	Total Investment Liabilities	(58)
1,232,504	NET INVESTMENT ASSETS	1,445,044

	Market Value 01/04/12 £'000	Purchases at Cost £'000	Sale Proceeds £'000	Change in Market Value £'000	Market Value 31/03/13 £'000
INVESTMENT ASSETS					
UK Equities	219,502	48,037	(34,024)	28,816	262,331
UK Managed Funds – Unit Trusts	4,718	4,935	(19)	2,357	11,991
UK Managed Funds – Property	85,736	6,225	(6,331)	(1,809)	83,821
Overseas Equities	278,730	74,226	(68,448)	52,754	337,262
Overseas Managed Funds – Property	9,183	-	-	(270)	8,913
UK Managed Funds – Unlisted	51,189	6,441	(3,321)	1,149	55,458
UK Managed Funds – Unitised					
Insurance Policies	492,447	122	(122)	74,048	566,495
Overseas Managed Funds – Unlisted	46,010	20,443	(10,554)	2,405	58,304
UK Property (Westmains)	2,300	-	-	-	2,300
Derivatives – Forward Foreign Exchange	251	710	(1,702)	926	185
	1,190,066	161,139	(124,521)	160,376	1,387,060
Other Investment Balances	30,671	47,017	(51,182)	(804)	25,702
Cash Deposits	8,836	-	-	17,903	28,986
Dividends & Other Income Due	2,931	-	-	-	3,296
NET INVESTMENT ASSETS	1,232,504	208,156	(175,703)	177,475	1,445,044

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 2012/13 amounted to £504,609 (2011/12 £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.

	Market Value 01/04/11 £'000	Purchase s at Cost £'000	Sale Proceeds £'000	Change in Market Value £'000	Market Value 31/03/12 £'000
INVESTMENT ASSETS					
UK Equities	225,585	42,672	(49,175)	420	219,502
UK Managed Funds – Unit Trusts	4,678	-	-	40	4,718
UK Managed Funds – Property	74,951	18,121	(10,057)	2,721	85,736
Overseas Equities	339,476	110,049	(165,260)	(5,535)	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	409,491	120,461	(60,308)	22,803	492,447
Insurance					
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	324,815	(292,417)	24,650	1,190,066
Other Investment Balances	29,883	51,221	(46,416)	(1,086)	33,602
Cash Deposits	7,823	-	-	3,022	8,836
NET INVESTMENT ASSETS	1,170,724	376,036	(338,833)	26,586	1,232,504

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

31 March 2012

£'000	%	
114,422	9.1	Baillie Gifford Diversified Growth
93,176	7.4	L&G – UK Equity Index
90,813	7.2	L&G – North American Equity Index
72,416	5.8	Baillie Gifford Sterling Aggregate Bonds

31 March 2013

£'000	%
127,512	8.8
108,895	7.6
105,915	7.3
82,381	5.7

16. Securities Lending

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

17. Funds Under External Management

MARKET VALUE

31 March 2012

£ million	(%)	
176.9	14.4	Aberdeen Asset Management
120.0	9.7	Baillie Gifford Life Ltd.
114.0	9.3	Baillie Gifford Life Ltd – Diversified Growth
258.6	21.1	Legal and General Investment Management Ltd.
175.9	14.3	Newton Investment Management Ltd.
181.1	14.7	Schroder Investment Management Ltd.
		Schroder Investment Management Ltd.
99.0	8.0	(Property)
44.7	3.6	SL Capital Partners LLP
31.9	2.6	Wilshire Private Markets Group
10.3	0.8	M&G UK Companies
17.8	1.5	Credit Suisse Securities
1,230.2	100.0	TOTAL

MARKET VALUE

31 March 2013

£ million	(%)
208.6	14.5
136.1	9.4
127.5	8.8
302.9	21.1
213.0	14.8
226.3	15.7
100.2	6.9
48.3	3.3
34.8	2.4
12.0	0.8
33.1	2.3
1,442.8	100.0

18. Derivatives

Derivatives – Forward Foreign Exchange Summary of Contracts held at 31 March 2013

Contract	Settlement Date	Value of Currency Bought £'000	Asset £'000	Liability £'000	Net £'000
Various Currency Forwards	Within 1 month	12,832	101	(58)	43
Various Currency Forwards	Within 2 months	5,546	142	-	142

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)

The Fund's approach to derivatives is to allow individual managers to decide to participate in derivative contracts subject to any limits set out in their investment management agreements. At present only Newton chooses to do so, with derivatives making up 0.09% of their portfolio's value. These contracts are used as currency hedges reducing the extent to which their portfolio is exposed to currency movement. Three foreign currencies are involved in this hedge and contracts are traded on an over-the-counter basis.

19. 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.

Designated as fair value through net asset statement £'000	31 March 2012		FINANCIAL ASSETS	31 March 2013		
	Loans and receivables £'000	Financial liabilities at amortised cost £'000		Designated as fair value through net asset statement £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
			Investment assets			
498,232	-	-	Equities	599,593	-	-
594,364	-	-	Pooled investments	692,248	-	-
94,919	-	-	Property	92,734	-	-
344	-	-	Derivative contracts	243	-	-
-	8,836	-	Cash	-	28,986	-
-	33,602	-	Other investment balances	-	28,998	-
1,187,859	42,438	-		1,384,818	57,984	-
			Other assets			
-	12,559	-	Cash Balances	-	12,419	-
-	8,654	-	Debtors	-	8,489	-
-	21,213	-		-	20,908	-
1,187,859	63,651	-	ASSETS TOTAL	1,384,818	78,892	-
			FINANCIAL LIABILITIES			
(93)	-	-	Investment liabilities			
			Derivative contracts	(58)	-	-
			Other liabilities			
-	-	(1,728)	Creditors	-	-	(2,877)
(93)	-	(1,728)	LIABILITIES TOTAL	(58)	-	(2,877)
1,187,766	63,651	(1,728)		1,384,760	78,892	(2,877)
		1,249,689	Total net financial instruments			1,460,775
		2,300	Amounts not classified as financial instruments			2,300
		1,251,989	Total net assets			1,463,075

31 March 2012 £'000		31 March 2013 £'000
24,650	Designated as fair value through net asset statement	160,376
1,936	Loans and receivables	17,099
-	Financial liabilities at amortised cost	-
26,586	Net gains and losses on financial instruments	177,475
-	Gains and losses on directly held freehold property	-
26,586	Change in market value of investments per fund account	177,475

21. 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.

As at 31 March 2013

	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total at 31 March 2013 £'000
FINANCIAL ASSETS				
Designated as fair value through net asset statement	1,042,234	228,825	113,759	1,384,818
Loans and receivables	78,892	-	-	78,892
Total Financial Assets	1,121,126	228,825	113,759	1,463,710
FINANCIAL LIABILITIES				
Designated as fair value through net asset statement	(58)	-	-	(58)
Financial liabilities at amortised cost	(2,877)	-	-	(2,877)
Total Financial Liabilities	(2,935)	-	-	(2,935)
NET FINANCIAL ASSETS	1,118,191	228,825	113,759	1,460,775

As at 31 March 2012

	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs 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	63,651	-	-	63,651
Total Financial Assets	939,849	214,462	97,199	1,251,510
FINANCIAL LIABILITIES				
Designated as fair value through net asset statement	(93)	-	-	(93)
Financial liabilities at amortised cost	(1,728)	-	-	(1,728)
Total Financial Liabilities	(1,821)	-	-	(1,821)
NET FINANCIAL ASSETS	938,028	214,462	97,199	1,249,689

22. 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. Responsibility for the fund's risk management strategy rests with the Pensions Committee. Risk management policies are reviewed on a consistent basis to reflect changes in activity and in market condition.

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. The fund's direct exposure to interest rate movement as at the 31 March 2013 is estimated to be around £245m.

(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 a 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. The fund's currency exposure as at the 31 March 2013 is estimated to be around £502m.

(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. The Fund has had no experience of default or uncollected deposits over the past five financial years.

Cash deposits are the major area of credit exposure where risk is not reflected in market price. At 31 March 2013 cash was 3.7% of total assets.

Balances at 31 March 2012		Moody's Credit Rating	Balances at 31 March 2013
£'000			£'000
	Held for Investment Purposes		
9,761	Northern Trust Global Investment Limited – Liquidity Funds	Aaa	17,326
23,072	Northern Trust Company – Cash Deposits	Aa3	29,210
32,833	Total Investment Cash		46,536
	Held for Other Purposes		
10,284	Clydesdale Bank	A2	8,189
43,117	Total Cash		54,725

All of the Fund's cash deposits fall within the Council's minimum requirements of credit rating detailed in the Treasury Management Strategy. The credit rating used in this report is Moody's Long Term Outlook.

From 2013/14 the Fund will have a Cash Management Strategy separate to that of the Council. This will detail the tolerance levels on credit rating and deposit limits as well as the approved counterparties that the Fund may have dealings with.

(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. The Fund currently does not have access to an overdraft facility for short term cash needs. As part of the ongoing monitoring of the Fund's banking arrangements this position may be reviewed and amended accordingly.

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

The Fund's valuation is sensitive to fluctuations in its Asset prices. The level of these fluctuations is known as "volatility" and will differ between asset classes. By analysing historical data, it is possible to gain an indication of the likely volatility of certain asset classes. In consultation with KPMG and Lothian Pension Fund, the following analysis predicts the likely annual volatility of the Fund's assets.

Asset Type	Potential price movement (+ or -)
Equities - Developed Markets	20.0%
Equities - Emerging Markets	30.0%
Private Equity	30.0%
Commodities	30.0%
Property	13.0%
Infrastructure	8.0%
Diversified Credit	10.0%
Fixed Interest Gilts	9.0%
Index-Linked Gilts	7.0%
Cash	1.6%

Standard deviation is used to determine what volatility is reasonably possible during the year. In short, for every two out of three years, the movement would be expected to be lower whilst in the remaining year the percentage would be expected to be higher.

This sensitivity 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.

Had the market price of the fund investments increased/decreased in line with the standard deviation for each asset class, the net assets available to pay benefits would have been as follows (prior year comparative also shown below):

Asset Type	Value at 31 March 2013 £'m	Asset Weight	Volatility	Potential Change +/- £'m	Value on increase £'m	Value on decrease £'m
Equities - Developed Markets	884.8	61.2%	20.0%	177.0	1,061.8	707.8
Equities - Emerging Markets	53.0	3.7%	30.0%	15.9	68.9	37.1
Private Equity	78.9	5.5%	30.0%	23.7	102.6	55.2
Commodities	6.2	0.4%	30.0%	1.9	8.1	4.3
Property	95.8	6.6%	13.0%	12.5	108.3	83.3
Infrastructure	33.2	2.3%	8.0%	2.7	35.9	30.5
Diversified Credit	135.7	9.4%	10.0%	13.6	149.3	122.1
Fixed Interest Gilts	54.2	3.7%	9.0%	4.9	59.1	49.3
Index-Linked Gilts	32.9	2.3%	7.0%	2.3	35.2	30.6
Cash	70.3	4.9%	1.6%	1.1	71.4	n/a
Total [1]	1,445.0	100%	17.7%	255.6	1,700.6	1,189.4
Total [2]	1,445.0		15.3%	221.1	1,666.1	1,223.9

Asset Type	Value at 31 March 2012 £'m	Asset Weight	Volatility	Potential Change =/ £'m	Value on increase £'m	Value on decrease £'m
Equities - Developed Markets	712.1	57.8%	20.0%	142.4	854.5	569.7
Equities - Emerging Markets	61.2	5.0%	30.0%	18.4	79.6	42.8
Private Equity	85.6	6.9%	30.0%	25.7	111.3	59.9
Commodities	3.8	0.3%	30.0%	1.1	4.9	2.7
Property	99.4	8.1%	13.0%	12.9	112.3	86.5
Infrastructure	26.2	2.1%	8.0%	2.1	28.3	24.1
Diversified Credit	116.5	9.4%	10.0%	11.7	128.2	104.9
Fixed Interest Gilts	39.7	3.2%	9.0%	3.6	43.3	36.1
Index-Linked Gilts	28.4	2.3%	7.0%	2.0	30.4	26.4
Cash	59.6	4.9%	1.6%	1.0	60.6	n/a
Total [1]	1,232.5	100%	17.9%	220.8	1,453.3	1,011.7
Total [2]	1,232.5		15.5%	191.0	1,423.5	1,041.5

Falkirk Council Pension Fund benefits from the diverse range of assets it holds. Asset classes do not always move in line with each other, but the extent to which they do move together is known as correlation. Due to the diversified nature of its portfolio, the Fund lowers its correlation thus reducing the risk of assets losing value at the same time.

Total [1] does not take into account the effect of correlation on assets. Total [2] demonstrates the benefit of diversification showing a reduction of volatility by 2.4% when correlation is considered.

It should be noted that the asset allocation used for this analysis will differ to that shown in the financial statements earlier. This is due to the Fund reporting its asset allocation in the financial statements according to each Manager's mandate, whilst for this section the most appropriate means is to analyse the mandate according to the underlying elements.

23. **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.falkirkpensionfund.org

The Actuary has provided a statement describing the funding arrangements of the Fund during 2012/13. This can be found in a separate section later in this report (page 50).

24. 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 £2,011m (£1,684m at 31 March 2012). 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 2012 % p.a.	31 March 2013 %p.a.
Discount rate	4.8	4.5
Pay increase *	4.8	5.1
Price inflation/Pensions increases	2.5	2.8

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

Longevity Assumptions

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

	Males	Females
Current pensioners	23.0 years	25.8 years
Future pensioners (assumed to be currently 45)	24.9 years	27.7 years

Commutation Assumptions

An allowance is made for future retirees 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.

25. Non Current Assets

31 March 2012 £'000		31 March 2013 £'000
2,030	Strain on Fund Contributions (Due in over 1 year)	1,611
<u>Analysis of Long Term Debtors</u>		
31 March 2012 £'000		31 March 2013 £'000
-	Central government bodies	-
1,992	Other local authorities	1,401
-	NHS bodies	-
-	Public corporations and trading funds	-
38	Other entities and individuals	210
2,030	TOTAL	1,611

26. Cash Balances

31 March 2012 £'000		31 March 2013 £'000
10,284	Bank Account	8,189
2,275	Balance held by Falkirk Council	4,230
12,559	TOTAL	12,419

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 have been required to operate their own bank account from 1 April 2011, separately from the bank account of the administering authority. Accordingly, from 1 April 2011 all payments made to and from the Fund have been made directly through the Fund's separate bank account.

Due to the Fund using Falkirk Council's financial management system, there is a working balance at year end.

27. Debtors

By Category

31 March 2012 £'000		31 March 2013 £'000
4,053	Contributions due – employers	4,187
1,371	Contributions due – members	1,387
789	Strain on Fund Contribution (Due within 1 year)	1,150
198	Benefits Paid in Advance	17
213	Sundry Debtors	137
6,624	TOTAL	6,878

Analysis of Debtors

31 March 2012 £'000		31 March 2013 £'000
990	Central government bodies	974
4,852	Other local authorities	4,976
-	NHS bodies	-
-	Public corporations and trading funds	-
782	Other entities and individuals	928
6,624	TOTAL	6,878

28. Creditors

31 March 2012 £'000		31 March 2013 £'000
(360)	Benefits Payable	(1,737)
(1,368)	Miscellaneous Creditors and Accrued Expenses	(1,140)
(1,728)	TOTAL	(2,877)

Analysis of Creditors

31 March 2012 £'000		31 March 2013 £'000
(8)	Central government bodies	(28)
-	Other local authorities	(8)
-	NHS bodies	-
(935)	Public corporations and trading funds	(1,049)
(785)	Other entities and individuals	(1,792)
(1,728)	TOTAL	(2,877)

29. 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 2013 was £2.54 million (£2.41 million at 5 April 2012). Contributions made by members during the year to 5 April 2013 were £0.18 million. Expenditure from the policy during the same period (including the purchase of member annuities) amounted to £0.24 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).

30. Related Party Transactions

Falkirk Council

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 £473k (2011/12: £472k) 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 £17.1m to the fund in 2012/13 (2011/12: £16.7m). 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.

Key Management Personnel

Local authorities are exempt from the key management personnel disclosure requirements of IAS24 under paragraph 3.9.4.3 of the Code. The remuneration and members allowance disclosure detailed in section 3.4 of the Code satisfy the key management personnel disclosure requirements of paragraph 16 of IAS24.

Details of remuneration and members allowances can be found in the Remuneration Report of the main accounts of Falkirk Council.

31. Contractual Commitments

Outstanding capital commitments (investments) at 31 March 2013 totalled £66m (31 March 2012 : £93m).

These commitments relate to outstanding call payments due to unquoted limited partnership funds held in the private equity and infrastructure segments of the portfolio. The amounts “called” by these funds are irregular in both size and timing over the life of the investment.

32. 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.

ACTUARIAL STATEMENT FOR 2012/13

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 2012/13.

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 £1,199million, 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.

Method

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

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value. The key financial assumptions adopted for the 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 2012

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 March 2013 and indicated a funding level of 78.4%. The funding level (excluding the effect of any membership movements) has therefore improved since the funding update at 31 January 2012 at which time it was 70.9%. This is due to stronger than expected investment performance over the period, slightly offset by a fall in gilt yields.

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
28 August 2013

SCHEDULED AND ADMISSION BODIES AS AT 31 MARCH 2013

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
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
Plus
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

INDEPENDENT AUDITOR'S REPORT

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

I certify that I have audited the financial statements of Falkirk Council Pension Fund for the year ended 31 March 2013 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Responsible Financial Officer and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2012/13 Code of the financial transactions of the fund during the year ended 31 March 2013, and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2012/13 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003

Opinion on other prescribed matter

In my opinion the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Fiona Mitchell-Knight FCA
Assistant Director (Audit Services)
Audit Scotland
4th Floor, South Suite
Athenaeum building
8 Nelson Mandela Place
Glasgow
G2 1BT

5 September 2013

ADDITIONAL INFORMATION

Key Documents Online

You can find further information on what we do and how we do it on our website www.falkirkpensionfund.org. The following documents are on the website:

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

Fund Key Contracts

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

Contact Details

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

Address:	Falkirk Council Pension Fund
Telephone:	01324 506338 (Accounting & Investment)
Telephone:	01324 506316 (Administration)
Fax	01324 506334
E-Mail	pensions@falkirk.gov.uk or investments@falkirk.gov.uk
Web	www.falkirkpensionfund.org

Independent Auditor

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

Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT