

## Extra resource:

# Sample annual report and accounts



The **trustee toolkit** includes a number of 'extra resources' providing you with practical tools to help you transfer the learning to your own scheme or to illustrate key learning points.

This extra resource is a genuine annual report and accounts for the year ended 31 August 2006, in which the names of individuals and companies have been changed.

This is a sample form to help you embed the learning. It is not intended to be a definitive way of complying with your trustee duties under the Pensions Act 2008 and the regulations made under the Act. The Pensions Regulator cannot provide a definitive interpretation of the law; only the courts can do this. If you have any doubts of your legal rights or obligations please seek legal advice.

# The Coastline Footpaths Commission pension scheme

Annual report and accounts for the year ended  
31 August 2006

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## Section 1: The trustee's report

### Introduction

The trustee of the **Coastline Footpaths Commission** pension scheme (the scheme) is pleased to present its report for the year 1 September 2005 to 31 August 2006. This report has been prepared in accordance with the **Occupational Pension schemes (Disclosure of Information) Regulations 1996**.

The scheme provides members with benefits on death and retirement. It has a money purchase section which is open to new employees and a final salary section, which closed to new entrants on 5 October 1997. Employees of the **Coastline Footpaths Commission** (the CFC) and the **Beach Cleaning Agency** (the BCA) are able to join the scheme, subject to the scheme's eligibility conditions.

A summary of the scheme's benefits is set out in the booklet entitled **CFC Pension scheme money purchase section Members' booklet**. This booklet is made available to all new employees on commencement of employment and all active members are able to access it via the CFC and BCA intranet sites. A copy of the **CFC pension scheme final salary section Member's Booklet** is made available to eligible employees via the intranet sites as well. There are two versions of each of these booklets; one describes the benefit structure applicable to members who are CFC employees and the other describes the benefits structure applicable to members who are BCA employees.

The money purchase section of the scheme is contracted into the State Second Pension (S2P). Historically this section of the scheme was contracted out and members who joined the scheme before 31 August 2003 have contracted out rights in respect of their pensionable service completed prior to that date. The final salary section is contracted out of S2P.

### Trustee and advisers

The trustee of the scheme is **CFC Pension Scheme Trustee Limited**, a trustee company. The directors of the **CFC Pension Scheme Trustee Limited** for the period covered by this report were:

<b>Appointed by the CFC</b>	Kirstie Hatcher
	Sam Spencer (resigned 1 January 2006)
	Richard Jarvis

<b>Elected by the active and pensioner scheme members</b>	Ruth Haddon
	David Jones
	John Mattison

A vacancy arose following Sam Spencer's resignation and the CFC subsequently appointed Imogen Johnson with effect from 1 March 2006.

[The list of current advisers has been omitted from this example.] Other than the decision to appoint **Tindall Financial Services** as an investment manager to the final salary section of the scheme on 12 December 2005, there were no changes to the advisers during the period under review.

## Trustee provisions

The directors of **CFC Pension Scheme Trustee Limited** are appointed and removed in accordance with the trustee company's Memorandum and Articles of Association.

At the time of writing the trustee is in the process of establishing whether any changes need to be made to ensure that the trustee appointment procedure complies with the requirements of the Pensions Act 2004 regarding member-nominated directors.

## Trustee meetings

The trustee board meets regularly to exercise its functions. It is chaired by Richard Jarvis. A table showing the board members' attendance at board and committee meetings (see below for more information) during the year follows, with attendance shown as a proportion of the numbers of meetings individual board members were eligible to attend.

Board members	Board	Compliance committee	Communications committee	Investment and financing committee	Discretionary decisions committee
John Mattison	4/4	4/4	N/A	4/5	N/A
Kirstie Hatcher	4/4	4/4	3/3	N/A	0/0*
David Jones	3/4	N/A	2/3	3/5	0/0*
Sam Spencer	2/3	N/A	3/3	N/A	0/0*
Richard Jarvis	4/4	N/A	N/A	5/5	N/A
Ruth Haddon	3/4	3/4	N/A	4/5	0/0*

\* The Discretionary Decisions Committee held no formal meetings during the year

## Committees

The trustee board has established four committees to focus on specific aspects of the trustee's remit.

The compliance committee is concerned with the propriety of the scheme's governance arrangements and its compliance with relevant legislation and regulations. It monitors adherence of the scheme to statutory requirements, in particular those set out in the Pensions Act 1995 and the Pensions Act 2004 and to the Trust Deed and Rules of the scheme. The committee liaises with the auditor on matters the auditor may wish to raise in respect of the scheme's financial statements and with the CFC on matters which require notification to the appropriate bodies. With effect from 1 March 2006, Imogen Johnson replaced Sam Spencer on this committee. John Mattison chairs this committee.

The communications committee looks at all aspects of the trustee's communication with members to ensure impartial and accurate information is provided about the scheme. Sam Spencer chaired the committee until the date she resigned from the trustee board and Kirstie Hatcher was appointed chair at that point. David Jones has subsequently taken on the chair with effect from 1 March 2006 for an interim period, and Imogen Johnson joined this committee from the same date.

The investment and financing committee reviews investment strategy, asset allocation and appropriate benchmarks and monitors the performance of the investment managers. It monitors the development of the scheme's funding level and solvency based on regular reports from the scheme actuary, and ensures that a Statement of Investment Principles is maintained and is reviewed on an annual basis. In order to assist in fulfilling the legislative requirement to consult with the CFC regarding the trustee's investment policy, the CFC's financial controller and the head of Finance are invited to committee meetings. Ruth Haddon chairs the committee.

The discretionary decisions committee considers requests from members or from the CFC for the exercise of the trustee's discretionary powers in a particular way. Kirstie Hatcher chairs this committee. The majority of the decisions are taken by correspondence. This year all decisions were taken by correspondence and there were no formal meetings.

### **Trustee training**

New trustees have completed one day of training with the scheme lawyer and one day with the scheme actuary. All trustees have had one day with the scheme lawyer and with the scheme actuary to consider the implications of the 2004 Pensions Act which came into force in April 2005 and which takes effect in stages. The implementation date for some of the provisions in the Act depends upon the date of the scheme's actuarial valuations. All except the new trustees have completed and passed the **Pensions Management Institute (PMI)** trustee certificate.

New members of the investment sub-committee have completed one day of training with the investment consultant to the scheme. All members of that committee have also had a half day training to cover the provisions of the 2004 Pensions Act which will have implications for investment decisions.

New members of the compliance sub-committee have had one day of training with the scheme lawyer on the scheme Trust Deed and Rules and one day with the scheme auditor learning about the scheme's financial statements and what they represent. All members have had a day with the scheme lawyer to consider the ways in which the provisions of the 2004 Pensions Act impinge upon the scheme's Trust Deed and Rules.

In future, trustee learning will comply with the regulator's **Code of practice for Trustee knowledge and understanding** which came into effect in May 2006. Trustees will use the regulator's e-learning programme ([www.trusteetoolkit.com](http://www.trusteetoolkit.com)) to obtain the certificate of successful completion and may go on to obtain the new PMI award in trusteeship. The compliance committee will report on progress.

## Sponsoring employers

The principal employer is the **Coastline Footpaths Commission**; it has participated in the scheme since its inception on 1 September 1996. The **Beach Cleaning Agency** is also a participating employer, having been included in the scheme with effect from 1 September 1999.

## Scheme membership

The tables below show how the scheme's membership has changed over the year.

	Active members	Deferred pensioners	Pensioners
<b>Final salary section</b>			
No of members as at 1 September 2005	913	1,165	205
Adjustments*	(10)	5	1
Retirements	(10)	(10)	20
Deaths	(1)	(1)	-
Spouses pensions commenced	-	-	2
Members leaving with deferred pension entitlements	(30)	30	-
Transfers out of the scheme	-	(3)	-
Dependant's pension ceased			(1)
No of members at 31 March 2006	862	1,186	227
<b>Money purchase section</b>			
No of members at 1 September 2005	2,444	1,010	8
Adjustments*	(11)	12	-
New entrants	601	-	-
Retirements	(1)	(3)	4
Deaths	-	(1)	1
Spouses pensions commenced	-	-	-
Members leaving with deferred pension entitlements	(312)	312	-
Transfers out of the scheme	-	(20)	-
No of members at 31 March 2006	2,721	1,311	12**

\* These represent members who changed membership status prior to 1 September 2005, but the administrative processes were not completed until after 1 September 2005.

\*\* On retirement pensions for money purchase members are bought out via the purchase of annuities in the member's name. These are no longer liabilities of the scheme.

## Financial development of the scheme

During the year, income to the scheme (final salary and money purchase sections) from contributions and other sources totalled £34,598,000. Of this amount £4,432,000 was required in order to pay benefits and other items of expenditure, leaving £30,166,000 as net additions from dealings with members.

Net returns on investments, arising from investment income and appreciation in value of the investments less investment management expenses, amounted to £69,492,000, which together with the net additions from dealings with members of £30,166,000 increased the value of the scheme's fund over the year from £245,170,000 to £344,821,000.

The full financial statements for the year ended 31 August 2006 are shown in Section 4.

The financial statements have been prepared and audited in accordance with regulations made under Section 41(1) and (6) of the Pensions Act 1995.

## Funding status of the scheme

### Money purchase section

The benefits accruing to members of this section of the scheme are equal to the contributions paid into the scheme by the CFC or the BCA by way of core and supplementary company contributions, and the individual members by way of Additional Voluntary Contributions (AVCs) plus the net returns achieved by the funds in which these contributions are invested. All such contributions due during the year have been paid over to the scheme in accordance with legislative requirements. The contributions were received well ahead of the statutory deadlines and no contributions were paid late. Further information about the level of contributions payable may be found in the appropriate version of the **CFC pension scheme money purchase section Members' Booklet**.

### Final salary section, actuarial status of the scheme

The benefits provided to members of the final salary section are funded by the CFC and the BCA. The level of contribution required to cover the 'cost' of the accruing benefits is calculated by the scheme actuary as part of the actuarial valuation process. Actuarial valuations for the scheme are carried out every three years. The last actuarial valuation was carried out as at 1 September 2004.

The actuary carried out a number of different valuation calculations:

- The ongoing measure
- The Minimum Funding Requirement (MFR) valuation [omitted from this example]
- The solvency measure
- The Inland Revenue surplus test [omitted from this example].

A copy of the scheme actuary's formal actuarial valuation report may be obtained from the secretary to the trustee.

## The ongoing measure

This valuation is used to assess the funding position of the scheme with regard to:

- past service benefits – ie the benefits accrued up to the valuation date; and
- future service benefits – ie the benefits yet to be earned by active members.

The scheme actuary uses a number of assumptions to enable him to carry out this calculation including the rate of investment return, mortality, and the rate of inflation.

## The position in respect of past service benefits

The valuation as at 1 September 2004 disclosed that the scheme was 77% funded. This means the value of the benefits that had been accrued to that date, known as 'past service benefits', exceeded the value of assets accumulated to cover those benefits by £48.4 million at the valuation date. The position had worsened since the previous valuation. The reasons for this were that the rate of return achieved on scheme assets was lower than expected. Also some of the assumptions used had been changed since the previous valuation. The mortality assumption was changed to reflect improving life expectancy for existing and current pensioners and the investment return assumption was changed to reflect the scheme's investment strategy.

The scheme actuary considered that the level of contribution required to make good the deficit should be £5 million for the year from 1 September 2004, plus an additional £1.7 million in the year and then £6 million per annum from 1 September 2005 to 2013, increasing in line with the Retail Prices Index each year with effect from 1 September 2006.

## The position in respect of future service benefits

With regard to the contributions required to fund future service benefits, the valuation makes no allowance for pay increases as this is assessed separately from this valuation exercise. The scheme actuary calculated the cost of the benefits accruing over the year commencing 1 September 2004 to be 18.2% of pensionable salary. The additional benefits accruing as a result of pay increases are funded by additional contributions. However in order to determine an acceptable level of contribution, the scheme actuary estimated the level of contribution required, including an allowance of 4% for future pay increases, to be 23% of pensionable salaries.

The total contributions required are the sum of the contributions required to cover the deficit, the contributions required to cover the benefits accruing in the future and the cost of additional benefits accruing as a result of pay increases.

## Solvency measure

The scheme actuary must also assess the value of benefits assuming the scheme was wound up at the valuation date. This assessment is made on the assumption that all of the benefits would be bought out with an insurance company. On this basis the scheme actuary calculated that the scheme was 41% funded. This means that the value of benefits on this 'buy out basis' exceeded the value of assets by £232.5 million at the valuation date. This assessment, though relevant, is of little concern on the basis that the scheme is a going concern, as there are no current plans to wind up the scheme and CFC and the BCA are committed to funding the scheme going forward. Accordingly the trustees are confident that there will be sufficient assets in the scheme to pay benefits as they fall due.

## Developments since the 1 September 2004 Valuation Report

As has been mentioned the Pensions Act 2004 has introduced a new requirement regarding the funding of occupational pension schemes. As a result the MFR is being phased out and replaced by the new scheme-specific Statutory Funding Objective (SFO). The next actuarial valuation due as at 1 September 2007 will be carried out on the new basis. The trustee is working closely under the guidance of the scheme actuary, the CFC and BCA in order to ensure compliance with the requirements of this new legislation.

The trustee is able to report that the CFC and BCA have demonstrated their ongoing commitment to the scheme through the payment of additional deficit funding contributions. The deficit contribution payable for the year commencing 1 September 2006 has been paid by the CFC as a lump sum at the start of the year. The CFC and the BCA have made further additional contributions of £3.2 million and £377,000 respectively in respect of the year under review.

## Changes to the scheme after the year-end

The rules of the scheme were changed with effect from 6 April 2006. The purpose of these changes was to give effect to the legislative changes introduced by the Finance Act 2004, commonly referred to as 'tax simplification'. Active members received an announcement outlining the proposed changes on 1 November 2005 and a newsletter entitled The Scheme, was issued to all members on the subject on 1 February 2006.

The new Definitive Trust Deed and Rules may be viewed by arrangement with the pensions manager (see page 10 for contact information) and active members can access a copy on the CFC or BCA company intranet sites.

## Contact for further information

### Access to scheme documents

Further information about the scheme is available on request to members and prospective members, their spouses/dependants or civil partners and other beneficiaries. Scheme documents such as the Definitive Trust Deed and Rules, the actuarial valuation report and the trustee's Statement of Investment Principles are available for inspection at the CFC's offices in Holborn, London. Individuals should contact the pensions manager to make necessary arrangements. All of these documents are freely available to employees of the CFC and the BCA via the respective company intranet sites.

### Information about member's scheme benefits

All money purchase section members and all active final salary section members are able to view details about their scheme benefits online at the member dedicated website at: [www.cfcpensionscheme.co.uk](http://www.cfcpensionscheme.co.uk).

In addition all money purchase members and all active final salary members receive an annual statement of their benefits. Members may request a transfer value once a year free of charge.

### Making a complaint

Members should seek assistance from the trustee. Usually, with the trustee's help and where the basis of the complaint is straightforward, it is possible to resolve complaints quickly and easily, but occasionally this is not the case.

The trustee has adopted a formal procedure for the resolution of complaints. Individuals who have not been able to resolve their complaint should follow the trustee's Internal Disputes Resolution Procedure (IDRP). A copy of the procedure is available on request from the pensions manager. This procedure can only deal with complaints against the trustee.

### The pensions manager

The pensions manager assists the trustee in running the scheme.

Contact	Kerry Smart APMI DipIEB
Address	CFC Pension Plan Holborn, London
Tel	
Email	<a href="mailto:cfcpensionscheme@cfc.gov.uk">cfcpensionscheme@cfc.gov.uk</a>

## The trustee's responsibilities

The audited financial statements are the responsibility of the trustee. Pension scheme regulations require the trustee to make available to scheme members, beneficiaries and certain other parties, audited financial statements for each scheme year which:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of the assets and liabilities, other liabilities to pay pensions and benefits after the end of the scheme year; and
- contain the information specified in the Schedule to the **Occupational Pension Schemes Regulations 1996** (requirement to obtain audited accounts and a statement from the auditor), including a statement on whether the accounts have been prepared in accordance with the statement of recommended practice, financial reports of pension schemes.

The trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis.

The trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised, a schedule of contributions showing the rates of contributions (other than voluntary contributions) payable towards the scheme by or on behalf of the employer and the active members of the scheme and the dates on or before which such contributions are to be paid.

The trustee is also responsible for ensuring that contributions are made to the scheme in accordance with the schedule of contributions.

The trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as a reasonably open to it to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities.

We approve the trustee's report, together with the accompanying investment report and the compliance statement for and on behalf of **CFC Pension scheme Trustee Limited**.

Director .....

Director .....

Date .....

## Section 2: Investment report

The trustee has adopted an investment strategy appropriate to each of the scheme's two sections, the final salary section and the money purchase section. The investment and financing committee, in conjunction with its advisers, is responsible for reviewing the scheme's investment strategy and making recommendations to the trustee board.

### Investment strategy

In accordance with the requirements of section 35 of the Pensions Act 1995, the trustee has produced a Statement of Investment Principles in respect of both sections of the scheme. The investment and financing committee is responsible for reviewing the statements at least annually. A copy of the Statements of Investment Principles is available on request from the pensions manager. Active members of the scheme may view the documents via the CFC and BCA intranet sites.

The Statement of Investment Principles for the final salary section contains details of the strategic asset allocation set by the trustee and the permitted investment ranges. Occasionally the limits of the permitted investment ranges may be breached due to market movements. The trustee monitors the investment manager's adherence to these limits and action is taken when necessary to correct any such breach. For example at the end of the year under review the actual allocation to Pacific (including Japan) equities exceeded the upper limit of the permitted range by 0.15%. At the time of writing a further review of these documents is underway.

### Investment report – final salary section

Following an extensive strategic review completed in 2005, the trustee adopted a new long-term investment strategy for the final salary section. The aim of this long-term strategy is to move to a minimum risk investment strategy by the time that no further active members remain in the final salary section of the scheme. Consequently, there is expected to be a move from equities to bonds over the longer term, according to a predetermined programme.

The assets are managed by **Jenson Worldwide Investors (JWI)** on a passive (index-tracking) basis and are held in pooled funds. During the year the investment and financing committee investigated the suitability of alternative asset classes and as a result recommended to the trustee board that approximately 10% of the scheme's assets should be invested in property via a pooled fund. The committee received presentations from a number of potential managers, and having taken advice from the investment consultant, selected **Tindall Financial Services'** Crystal Fund as the investment vehicle. The first investment into this fund was made after the year-end.

Since the year-end the committee has further recommended to the board that investments should be made in two active currency funds (the global cash movements fund and the currency counters fund) and in an active global equity fund (manager selection has yet to be confirmed). Investments will be made over the coming months. These decisions do not affect the long-term strategy of the scheme but will alter the strategic asset allocation of the final salary section. The strategic objective for making these investments is to diversify the portfolio and to enhance performance in return for an acceptable level of risk.

The table below sets out the strategic asset allocation of the final salary section as at 31 August 2005, and the actual asset allocation at that date.

Asset class	Allocation as at 31 August 2006	
	Strategic asset allocation (%)	Actual asset allocation (%)
UK equities	20	19.7
Overseas equities	60	61.8
UK non-government bonds	20	18.5
Cash	-	-
Total	100	100

### Investment funds

The above strategy is achieved by investing in selected pooled passive funds with JWI. The table below shows the funds in which the final salary section was invested at 31 August 2006. The objective of each fund is to track its benchmark index. The benchmark index is the index for the relevant stock market, asset class or geographical area which the manager has agreed to follow. JWI aims to match the performance of the benchmark index for each fund.

### Investment funds as at 31 August 2006

Asset class	JWI fund	Benchmark index
UK equities	JWI UK equity index	FTSE All-Share index
Overseas equities:		
US	JWI US equity index	FTSE All-World USA index
European	JWI European equity index	FTSE All-World Developed Europe ex-UK index
Japanese	JWI Japan equity index	FTSE All-World Japan index
Pacific rim	JWI Pacific rim index	FTSE All-World Developed Asia Pacific ex-Japan index
UK non-government bonds	JWI over 15 years corporate bonds index	iBoxx £ non-gilts, over 15 years index

## Performance

The overall return of the final salary section assets for the periods to 31 August 2006 is set out below:

Period to 31 August 2006	Combined final salary section assets (%)	Benchmark index (%)
12 months	27.6	27.4
3 years (annualised returns)	19.3	20.8

The underperformance of the final salary section assets over the three year period reflects the fact that the scheme invested part of its assets in a range of **Jackson Jones** active funds. The trustee moved its investments from **Jackson Jones** in 2004 as a result of its dissatisfaction with their poor performance.

## Investment report – money purchase section

The trustee has selected 13 pooled funds to be made available to members for investment. In addition members may select the 'lifestyle' option which is a predetermined investment strategy that invests in three of the 13 funds.

All of the funds are managed by JWI on a passive basis. The trustee considers that the range of available funds sufficient to meet the investment needs of the members. This is reviewed by the investment and financing committee from time to time and members are canvassed for their views at least triennially.

The objective of each fund is to track its benchmark index. The benchmark index is the index for the relevant stock market, asset class or geographical area which the manager has agreed to follow. JWI aims to match the performance of the benchmark index for each fund. The table opposite shows the funds available and the returns achieved over the periods specified.

## Performance to 31 August 2006

JWI fund	Benchmark index	Annualised returns: 12 months		Annualised returns: 3 years	
		Fund %	Benchmark %	Fund %	Benchmark %
Global equity (70:30) index*	FTSE All-Share index; overseas investments the weightings of the average UK pension fund	30.1	30.0	25.1	25.0
Global equity (50:50) index	FTSE All-Share index; FTSE All-World Developed Europe ex-UK index; FTSE All-World USA index; FTSE All-World Japan index; FTSE All-World Developed Asia Pacific ex-Japan index	30.9	30.6	24.5	24.4
World ex-UK index	FTSE AA-World Developed ex-UK index	30.1	29.5	19.9	19.7
UK equity index	FTSE All-Share index	28.0	28.0	24.7	24.7
UK smaller companies index	FTSE SmallCap index	36.4	23.5	34.2	31.8
European equity index	FTSE All-World Developed Europe ex-UK index	35.8	35.6	29.9	29.8
US equity index	FTSE All-World USA index	23.5	23.1	14.1	14.2
Japan equity index	FTSE All-World Japan index	48.8	48.1	27.9	27.5
Pacific Rim equity index	FTSE All-World Developed Asia Pacific ex-Japan index	34.2	33.8	28.7	28.5
All-Stock UK index-linked gilt	FTSE UK gilts index-linked All-Stocks index	8.4	8.4	6.7	6.7
Corporate bond over 15 years	iBoxx £ non-gilts, over 15 years index	10.7	10.6	7.8	7.8
Over 15 years UK gilt index*	FTSE UK gilts over 15 years index	10.7	10.7	6.3	6.3
Cash*	Seven day LIBID	4.5	4.6	4.1	4.3

\* Members invested in the 'lifestyle' option invest in these funds.

## Additional voluntary contributions

The trustee provides an AVC facility to members of the scheme. Members may invest in the full range of JWI funds available through the money purchase section of the scheme.

In addition there are a number of legacy AVC policies which were maintained following the transfer of members of the previous schemes to the scheme.

## Section 3: Independent auditors' report

We have audited the financial statements of the CFC pension scheme for the year ended 31 August 2006 which comprise the fund account, the net assets statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of trustee and auditors

The trustee's responsibilities for obtaining an annual report and audited financial statements prepared in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom generally accepted accounting practice) are set out in the statement of trustee's responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the trustee as a body in accordance with Section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and contain the information required by the relevant legislation. We also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the trustee's report, the investment report, the actuarial statement and certificate, the summary of contributions and the compliance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of the trustee in the preparation of the financial statements, and of whether the accounting policies are appropriate to the scheme's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom generally accepted accounting practice, of the financial transactions of the scheme during the year ended 31 August 2006, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year, and
- the financial statements contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension schemes Regulations 1996 (requirement to obtain audited accounts and a statement from the auditor).

Channing, Chase and Norman LLP  
Chartered Accountants and Registered Auditors  
London

Date

## Fund account for the year ended 31 August 2006

	Note	Final salary section 2005-6 £000	Money purchase section 2005-6 £000	Total 2005-6 £000	Total 2004-5 £000
<b>Contributions and other income</b>					
Contributions receivable	3	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Transfers in	4	-	xxx	xxx	xxx
Other income	5	xxx	-	xxx	-
Contributions and other income		xx,xxx	xx,xxx	xx,xxx	xx,xxx
<b>Benefits and other payments</b>					
Benefits payable	6	x,xxx	xxx	x,xxx	x,xxx
Payments to and on account of leavers	7	xxx	xxx	xxx	xxx
PPF Levy		xx	-	xx	-
Benefits and other payments		x,xxx	xxx	x,xxx	x,xxx
Net additions from dealings with members		xx,xxx	xx,xxx	xx,xxx	xx,xxx
<b>Investment returns</b>					
Investment income	8	xx	xx	xx	x,xxx
Change in market value	10	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Investment management expenses	9	xxx	-	xxx	xxx
<b>Net returns on investments</b>					
Net returns on investments		xx,xxx	xx,xxx	xx,xxx	xx,xxx
Net increase in the fund during the year		xx,xxx	xx,xxx	xx,xxx	xx,xxx
Net assets as at 1 September		xxx,xxx	xx,xxx	xxx,xxx	xxx,xxx
Transfers between sections	12	xxx	xxx		
Net assets at 31 August 2006		xxx,xxx	xx,xxx	xxx,xxx	xxx,xxx

The notes in section 4 form an integral part of these financial statements.

## Net assets statement as at 31 August 2006

	Note	Final salary section 2005-6 £000	Money purchase section 2005-6 £000	Total 2005-6 £000	Total 2004-5 £000
Investments	10	xxx,xxx	-	xxx,xxx	xxx,xxx
Current assets and liabilities	11	x,xxx	-	x,xxx	x,xxx
Total		xxx,xxx	-	xxx,xxx	xxx,xxx
Assets designated to members: investment	10	-	xx,xxx	xx,xxx	xx,xxx
Assets designated to members: AVC investments	10	-	xx,xxx	xx,xxx	x,xxx
Current assets and liabilities (designated)	11	-	x,xxx	x,xxx	x,xxx
Total		-	xx,xxx	xx,xxx	xx,xxx
Net assets at 31 August 2006		xxx,xxx	xx,xxx	xxx,xxx	xxx,xxx

The notes in section 4 form an integral part of these financial statements.

These financial statements were approved by the trustee and were signed on its behalf by:

Director .....

Director .....

Date .....

## Section 4: Financial statements

Notes to the financial statements for the year ended 31 August 2006.

### 1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension schemes Regulations 1996 (requirement to obtain audited accounts and a statement from the auditor), and with the guidelines set out in the **Statement of Recommended Practice (SORP), Financial Reports of Pension schemes** (Revised November 2002).

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year.

### 2. Accounting policies

#### Disclosure of final salary and money purchase transactions and balances

In order to distinguish clearly between the different nature of the scheme's liabilities under the final salary and money purchase sections of the scheme, all scheme transactions and balances are disclosed in the financial statements under the following headings:

'Final salary section' – for all final salary transactions and balances, but excluding AVCs for final salary members.

'Money purchase section' – for all money purchase transactions and balances, but including AVCs for final salary members and the benefits derived from these AVCs, calculated on a money purchase basis.

#### 2.1 Accruals concept

These financial statements have been prepared on an accruals basis. The historical cost convention has been followed, except where indicated below. The principal accounting policies, all of which were adopted last year and this year, unless otherwise indicated, are as follows:

#### 2.2 Valuation of investments

Unit trusts and managed funds are stated at the average of bid and offer unit prices as advised by the investment managers.

#### 2.3 Investment income

Income from fixed interest securities and other interest receivable is taken into account on an accruals basis. Dividend income is taken into account by reference to ex-dividend date. Income from all other investments is taken into account on a receivable date basis.

#### 2.4 Contributions and benefits

Contributions and benefits are accounted for in the period in which they fall due.

## 2.5 Transfers to and from other schemes

Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the scheme. They take account of transfers where the trustees of the receiving scheme have agreed the liabilities in respect of the transferring members before the year end, and where the amount of transfer can be determined with reasonable certainty. Group transfers into the scheme are accounted for by reference to the relevant provisions of the legal agreements under which the scheme accepts liability for the past service of members joining the scheme. All the values were based on methods and assumptions determined by the consulting actuary for approval by the trustee and subsequent implementation by the consulting actuary.

## 2.6 Contributions and benefits

Under certain circumstances, it is the trustee's policy to purchase annuities from insurance companies to secure the benefits of members retiring from the scheme, for example, to secure the retirement benefits arising from AVC funds or in respect of money purchase section members. As these annuity policies match and fully guarantee the benefits due to contributors, the full purchase price is accounted for as benefit expenditure which fully discharges the trustee's liability to the contributors in this respect. No asset value is assigned to the annuity policies themselves in these financial statements.

## 2.7 Administration expenses

All administration expenses are borne by the employers.

## 3. Contributions receivable

	Final salary section 2005-6 £000	Money purchase section 2005-6 £000	Total 2005-6 £000	Total 2004-5 £000
Employers	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Normal contributions	x,xxx	-	x,xxx	x,xxx
Special contributions	xxx	xx	xxx	xxx
Augmentations	-	xx	xx	-
Age-related rebates	xxx	-	xxx	-
Other contributions	-	x,xxx	x,xxx	x,xxx
Members AVCs	-	xx,xxx	xx,xxx	xx,xxx
	xxx,xxx	xx,xxx	xxx,xxx	xxx,xxx

The amount and timing of contributions are determined by the CFC and the BCA. However, the CFC has agreed that in aggregate, the contributions will not be less than 23% of pensionable salary for the year ended 31 August 2006 in accordance with the Schedule of Contributions.

The employers' contributions to the money purchase section are paid at the rates according to the scheme rules. Members' additional voluntary contributions secure extra benefits on a money purchase basis on retirement within certain permissible limits set out by the Inland Revenue.

As described in accounting policy 2, additional voluntary contributions for all members are included in the money purchase section. In addition to normal contributions, the employer pays life assurance premiums directly to the insurance company. The premium payable by the employer in respect of the year to 31 August 2006 was £312,330 (2005: £278,330).

Special contributions of £x,xxx,xxx were paid by the CFC to the final salary section during the year ended 31 August 2006 (2005: £x,xxx,xxx) to improve the scheme's funding position following the actuarial valuation as at 1 September 2004. In addition a further amount of £x,xxx,xxx was accrued before the end of the year and was received from the CFC on 9 September 2006 in respect of the final salary section for the year to 31 August 2006.

Augmentations represent contributions paid by the employer specifically to augment the pension benefits of individual members. The amount shown in respect of age-related rebates relates to a reversal of accruals made in previous years. Other contributions represent the additional contributions paid by the BCA during the year towards the deficit.

#### 4. Transfers in

	<b>Final salary section 2005-6 £000</b>	<b>Money purchase section 2005-6 £000</b>	<b>Total 2005-6 £000</b>	<b>Total 2004-5 £000</b>
Transfers in – individual	-	xxx	xxx	xxx
	-	xxx	xxx	xxx

#### 5. Other income

	<b>Final salary section 2005-6 £000</b>	<b>Money purchase section 2005-6 £000</b>	<b>Total 2005-6 £000</b>	<b>Total 2004-5 £000</b>
Claims on term insurance policies	xxx	-	xxx	-
Funding for the PPF levy	xx	-	xx	-
	xxx	-	xxx	-

## 6. Benefits payable

	Final salary section 2005-6 £000	Money purchase section 2005-6 £000	Total 2005-6 £000	Total 2004-5 £000
Pension payments	x,xxx	-	x,xxx	x,xxx
Commutations	xxx	xxx	xxx	x,xxx
Lump sums on death	xxx	x	xxx	-
Purchase of annuities	-	xxx	xxx	xxx
	x,xxx	xxx	x,xxx	x,xxx

## 7. Payments to and account of leavers

	Final salary section 2005-6 £000	Money purchase section 2005-6 £000	Total 2005-6 £000	Total 2004-5 £000
Payment for members joining state scheme	x	-	x	-
Transfers out – individual	xxx	xxx	xxx	xxx
	xxx	xxx	xxx	xxx

## 8. Investment income

	Final salary section 2005-6 £000	Money purchase section 2005-6 £000	Total 2005-6 £000	Total 2004-5 £000
Income from pooled investment vehicles	x	-	x	x,xxx
Income from equities	x	-	-	xx
Domestic currency bonds	-	-	-	xx
Interest on cash deposits	xx	xx	xx	xx
Investment charge rebates	-	-	-	x,xxx
	xx	xx	xx	x,xxx

All money purchase section investments are held in the form of accumulation units in managed funds and unit trusts, which do not distribute income. Certain final salary section investments do distribute income.

The rebates of investment charges related to the way the fees are charged on certain of the managed funds and unit trust investments of the scheme. In these arrangements, fees are charged at a standard rate against the assets of the fund before the unit price is struck, in other words, they are implicit in the unit prices quoted on those funds. However, the scheme qualifies due to its size for discounted fees and the standard scale fees implicit in the unit price are rebated directly to the scheme.

No rebates were received for the year ended 31 August 2006, as the assets are no longer held with **Jackson Jones Investment Managers Limited**.

## 9. Investment management expenses

	<b>Final salary section 2005-6 £000</b>	<b>Money purchase section 2005-6 £000</b>	<b>Total 2005-6 £000</b>	<b>Total 2004-5 £000</b>
Investment management and custody	xxx	-	xxx	xxx

Investment management expenses for all money purchase section investments are implicit in the unit prices quoted on those funds.

The managers of final salary section investments charge explicit investment management fees related to the value of the funds under management. Fees for JWI are a flat 0.11% per annum based on the market value of the fund.

## 10. Investments

### Movements in investments

	Value at 1 Sept 2005	Purchases at cost	Sale proceeds	Change in market value	Value at 31 August 2006
<b>Final salary section</b>					
Pooled investment vehicles	xxx,xxx	xx,xxx	xxx	xx,xxx	xxx,xxx
JWI sterling liquidity fund	-	xx,xxx	xx,xxx	x	-
Subtotal	xxx,xxx	xx,xxx	xx,xxx	xx,xxx	xxx,xxx
Cash deposits	x				x
Total	xxx,xxx				xxx,xxx
<b>Money purchase section</b>					
Pooled investment vehicles	xx,xxx	xx,xxx	x,xxx	xx,xxx	xx,xxx
AVC investments	x,xxx	xxx	xxx	x,xxx	xx,xxx
Subtotal	xx,xxx	xx,xxx	x,xxx	xx,xxx	xx,xxx
Cash deposits	xxx				xx
Total	xx,xxx				xx,xxx

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

AVCs provide money purchase benefits and are invested separately in individual accounts at the investment manager. Where money purchase members elect to pay their AVCs into the same managed and unitised investment as their main fund, these AVCs are included together with the money purchase section managed and unitised funds. AVC assets of final salary members are included and separately disclosed within the money purchase section.

Included in the money purchase investments is an amount of £nil (2005: £751,178) relating to funds not designated to members. These arise when a money purchase member leaves the scheme within two years of joining, dies in service or leaves the scheme less than one year after returning from a period of unpaid maternity leave. In these circumstances, the employers' core contributions paid in respect of the member are retained in the scheme. The value of the surplus units has now been transferred to the final salary section.

From 1 April 2003, the two year vesting period was removed for members of the money purchase section of the scheme. Therefore, funds not designated to members will only increase as a result of a death in service or a member leaving less than one year after returning from a period of unpaid maternity leave.

## Investment assets

	<b>Final salary section 2005-6 £000</b>	<b>Money purchase section 2005-6 £000</b>	<b>Total 2005-6 £000</b>	<b>Total 2004-5 £000</b>
Unitised – UK equities	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Unitised – overseas equities	xxx,xxx	xx,xxx	xxx,xxx	xxx,xxx
Unitised – UK fixed interest	xx,xxx	xxx	xx,xxx	xx,xxx
Unitised – index-linked	-	x,xxx	x,xxx	x,xxx
Cash fund	-	x,xxx	x,xxx	xxx
<b>Total investments</b>	<b>xxx,xxx</b>	<b>xx,xxx</b>	<b>xxx,xxx</b>	<b>xxx,xxx</b>
AVCs: with-profits insurance policies	-	x,xxx	x,xxx	x,xxx
AVCs: managed funds	-	x,xxx	x,xxx	x,xxx
AVCs: JWI for final salary members	-	x,xxx	x,xxx	x,xxx
<b>Total AVCs</b>	<b>-</b>	<b>xx,xxx</b>	<b>xx,xxx</b>	<b>x,xxx</b>
Cash deposits	x	xx	xx	xxx
<b>Total</b>	<b>xxx,xxx</b>	<b>xx,xxx</b>	<b>xxx,xxx</b>	<b>xxx,xxx</b>

## Concentration of investments

The following individual investments represent in excess of 5% of the total value of the scheme's net assets (that is, of the combined total for both sections of the scheme, including AVCs), excluding UK Government securities, account for more than 5% of the scheme's net assets as at 31 August 2006.

This apparent concentration of investment is the natural consequence of the trustee's strategy of investing in pooled fund arrangements (see the Investment report) on pages 12 to 16.

	<b>Final salary section 2005-6 £000</b>	<b>Money purchase section 2005-6 £000</b>	<b>Total 2005-6 £000</b>	<b>Total 2004-5 £000</b>
JWI UK equity index fund series 1	xx,xxx	xxx	xx,xxx	xx,xxx
JWI (70:30) global equity fund	-	xx,xxx	xx,xxx	xx,xxx
JWI US equity index fund series 1	xx,xxx	-	xx,xxx	xx,xxx
JWI corporate bond over 15 years	xx,xxx	-	xx,xxx	xx,xxx
JWI European equity index fund series 1	xx,xxx	-	xx,xxx	xx,xxx
JWI Japan equity index fund	xx,xxx	-	xx,xxx	xx,xxx
JWI All-Stocks UK index-linked gilt fund	-	x,xxx	x,xxx	-

## 11. Current assets and liabilities

### Current assets

	Final salary section 2005-6 £000	Money purchase section 2005-6 £000	Total 2005-6 £000	Total 2004-5 £000
AVC cash balance due from final salary section	-	x	x	-
Age-related rebates	-	-	-	x
Cash at bank	-	x,xxx	x,xxx	x,xxx
Subtotal – designated	-	x,xxx	x,xxx	x,xxx
Special contribution due from employer	x,xxx	-	x,xxx	x,xxx
Pensions prepaid	xxx	-	xxx	xxx
Cash at bank	x,xxx	-	x,xxx	x,xxx
Subtotal – not designated	x,xxx	-	x,xxx	x,xxx
Total	x,xxx	x,xxx	x,xxx	x,xxx

## Current liabilities

	Final salary section 2005-6 £000	Money purchase section 2005-6 £000	Total 2005-6 £000	Total 2004-5 £000
Benefits payable	-	x	x	x
AVC cash balance due to money purchase section	-	x	x	x
Investment fees payable	x	-	x	-
Sundry creditor	xxx	-	xxx	xxx
Inland Revenue	x	-	x	-
State scheme premiums payable	xx	-	xx	-
Subtotal – not designated	xxx	-	xxx	xxx
Net current assets	x,xxx	x,xxx	x,xxx	x,xxx

## 12. Transfer to another section

	Final salary section 2005-6 £000	Money purchase section 2005-6 £000	Total 2005-6 £000	Total 2004-5 £000
Transfer value of surplus units to final salary section*	xxx	xxx	-	-
Transfer to final salary section to purchase pension**	xx	xx	-	-
	xxx	xxx	-	-

\* The transfer is in respect of the value of the surplus units held in the Money Purchase section now transferred to the final salary section.

\*\* AVC funds for Final Salary members have been used to purchase additional pension from the scheme. As AVCs are included in the money purchase section investments, assets have been transferred to the final salary section.

## 13. Related party transactions

The trustee is not aware of any transactions with related parties that require disclosure in these financial statements under Financial Reporting Standard 8: Related Party Transactions.

## Section 5: Independent auditors' statement

We have examined the summary of contributions to the CFC pension scheme for the year ended 31 August 2006 which is set out on the following page.

### Respective responsibilities of trustee and auditors

The trustee's responsibilities for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions are set out in the statement of trustee's responsibilities.

Our responsibility is to provide a statement about contributions to the scheme in accordance with relevant legislation and to report our opinion to you. This report, including the statement about contributions, has been prepared for and only for the scheme's trustee as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this statement, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Basis of statement about contributions

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that contributions reported in the attached summary have been paid in accordance with the relevant requirements. For this purpose the work that we carried out included examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the schedule of contributions. Our statement about contributions is required to refer to those breaches of the schedule of contributions which we consider to be material for this statement and which come to our attention in the course of our work.

### Statement about contributions to the scheme

In our opinion, the contributions payable to the scheme required by the schedule of contributions during the year ended 31 August 2006 as reported in the summary of contributions on the following page have been paid in accordance with the schedule of contributions certified by the actuary on 7 September 2006.

Channings, Chase and Norman LLP  
Chartered Accountants and Registered Auditors  
London

Date

## Section 6: Summary of contributions payable in the year

During the year, the contributions payable to the scheme by the employer, and the employees, were as follows:

	Employee £000	Employer £000
<b>Required by the schedule of contributions</b>		
Normal contributions	-	xx,xxx
Special contributions	-	x,xxx
Augmentation of individual members' benefits	-	xxx
Total	-	xx,xxx
<b>Other contributions payable</b>		
Age-related rebates	-	xx
AVCs	x,xxx	-
Other additional contributions	-	xxx
Total	x,xxx	xx,xxx

Signed on behalf of the trustee:

Director .....

Director .....

## Section 7: Compliance statement

### Constitution and tax status of the scheme

The scheme is established under an irrevocable trust. It was set up in 1998 and was approved by the Inland Revenue under chapter 1, part XIV of the Income and Corporation Taxes Act 1988. With effect from 25 May 2006, the scheme was deemed a registered pension scheme under Schedule 36 Part 1 of the Finance Act 2004.

Over the period under review the scheme was governed by the Definitive Trust Deed and Rules dated 1 April 1996, as amended. With effect from 25 May 2006 this was replaced by a new Definitive Trust Deed and Rules dated 1 June 2006.

### Pension increases – final salary section only

#### Pensions in deferment

Pensions in deferment were increased in accordance with statutory requirements and the provisions of the scheme rules.

#### Pensions in payment

Once in payment benefits are increased in accordance with the provisions of the scheme rules. Different rates may apply to those members who transferred benefits into the scheme from the previous schemes. However this year they were all 2.7.

### Transfer values

On leaving pensionable service, members may transfer the value of the benefits they have earned in the scheme to another registered pension scheme.

#### Money purchase section

The transfer value payable is the value of the member's accumulated fund.

#### Final salary section

The transfer value is calculated in accordance with the provisions of the Occupational Pension schemes (Transfer Value) Regulations 1996. No allowance is included in the transfer value calculation for any discretionary benefits, but full allowance is made for any contributions paid by or in respect of members above normal levels of contributions.

Transfer values paid during the year were calculated and verified in accordance with regulations under Section 97 of the Pension schemes Act 1993.

During the year the transfer values paid were equal to the cash equivalent of the member's leaving service rights calculated in accordance the transfer value basis recommended by the scheme actuary.