Cumbria County Council

Cumbria Local Government Pension Scheme

Annual Report and Accounts 2010/11

Contents

Page

1 **Chairman's Introduction** ... 3
2 **Governance** ... 7
3 **Scheme Membership** ... 7
4 **Fund Management** ... 8
5 **Performance of the Fund** ... 10
6 **Management Arrangements** ... 11
7 **Financial Statements** ... 12
8 **Glossary** ... 34

Regulatory Statements:

Appendix 1: Actuarial Certificate ... 35
Appendix 2: Fund Policy Document ... 39
Appendix 3: Statement of Responsibilities ... 70
Appendix 4: Independent Auditor's Report ... 71

General Contact Details

For any queries relating to the Annual Report and Accounts please contact:

Cumbria County Council
Resources Directorate
Finance, Lonsdale Building, The Courts, Carlisle CA3 8NA

Email: **technicalfinance@cumbria.gov.uk**
Telephone: **01228 226565** or **01228 226279**

Access to Pension Committee Papers

For access to publicly available papers please see the website, or contact:

Cumbria County Council
Resources Directorate
Member Services & Scrutiny, Lonsdale Building, The Courts, Carlisle CA3 8NA

Web: **www.cumbriacc.gov.uk/council-democracy**

Pensions Contact Details

For personal pensions and benefits queries please contact:

Your Pension Service
Cumbria LGPS Team
PO Box 100, County Hall, Preston PR1 0LD

Email: **pensions.helpdesk@lancashire.gov.uk**
Telephone: **01772 530530**

Alternatively for general LGPS scheme information, consult the website **www.yourpensionservice.org.uk**

1. Chairman's Introduction

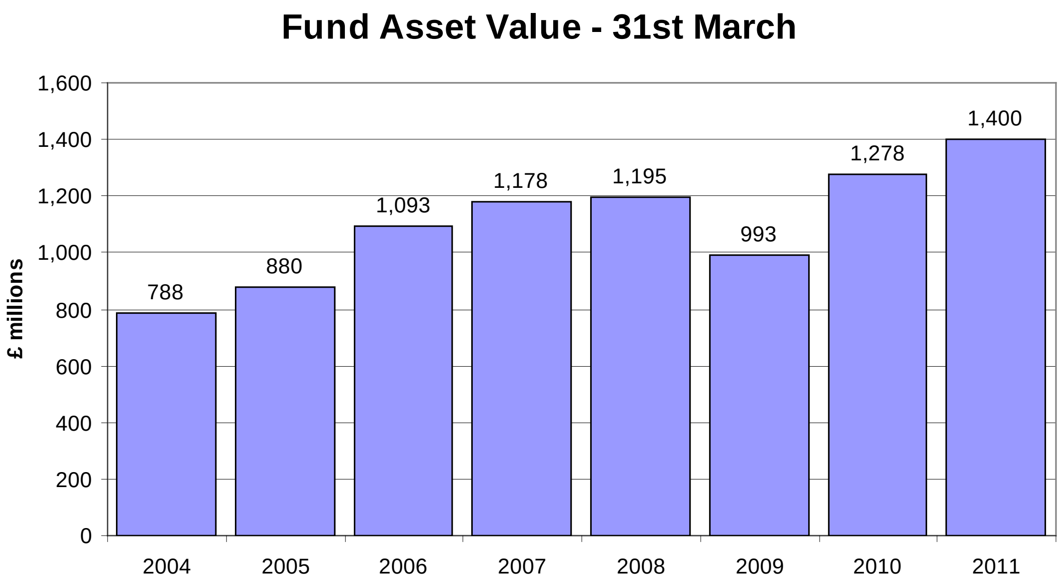
It is my pleasure to introduce the Cumbria Local Government Pension Scheme Annual Report for 2010/11, on behalf of the Cumbria Pensions Committee.

Financial markets had a positive start to the year with sentiment improving in response to the recovery from the global financial crisis. There still remain concerns over the viability of some Euro zone countries with national bailouts required for Ireland, Portugal and Greece during 2010/11. This year has seen a strong positive performance across the markets with the majority of our asset classes rising by around 10%. Therefore the majority of Local Government pension funds delivered positive growth in value, this is a continuation from 2009/10, although at a slower pace. For Cumbria this resulted in the fund value increasing by £122 million to £1,400 million at 31st March 2011.

The Fund achieved an investment return of +8.0% for the year which compares well with the Fund's own benchmark return of +7.7%. The Fund's gains during 2010/11 have not been as high as some other Local Government pension funds which have experienced significant gains due to rising equity markets. Cumbria's more risk averse investment strategy means it has a lower exposure to equities than the average local authority fund and therefore did not benefit from some of the upside achieved elsewhere. However, this does also mean we are not as exposed to potential downside when the market falls.

The Funds principal aim, to maintain consistent outperformance over the longer term, is best demonstrated by focusing on the ten year performance which shows the Fund continuing to rank within the top quartile in the WM Local Authority Universe. The 10 year investment return ranked Cumbria 17th out of 100. The stability this approach offers has also contributed to a stable funding position (79% as at 31st March 2010 triennial actuarial valuation). This in turn has meant that post the triennial valuation only moderate increases in the employers' contribution rates have been required (from 17.7% 2007 to 18.4% 2010) This can be compared to the average contribution rate for the English Shire Counties of 19.2%.

The changes in the Fund's asset value are shown in the chart below.



1.1 Scheme Funding Level

The increase in the Fund's assets has to be set alongside the liabilities. A full triennial Actuarial Valuation was carried out as at 31st March 2010 and showed that the funding level had fallen slightly from 81% in March 2007 to 79% at 31 March 2010. However, interim monitoring statements from the actuary indicated the funding level had risen during the year to 82% as at 31st March 2011. The scheme remains well, although not fully, funded.

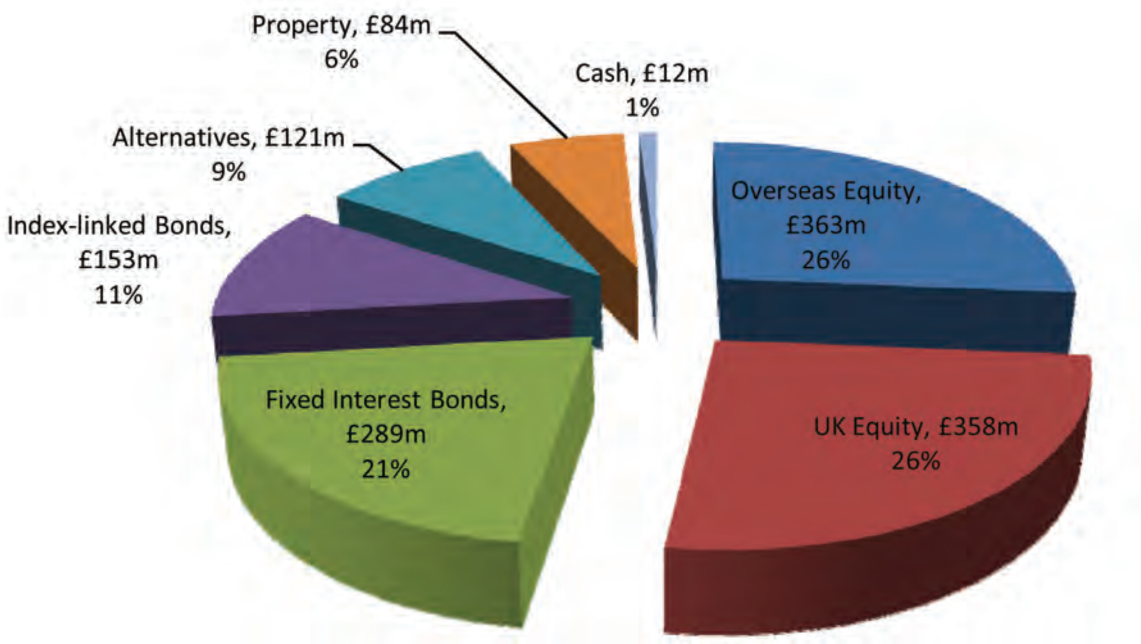
The scheme is designed to become fully funded over the longer term and alternative options were explored with advice from Mercers Consulting (the Fund's Actuaries) throughout the triennial valuation process to help maintain stability in employer contribution rates. Fluctuations in markets do have major impacts on forecast funding levels, as do changes in government policy, such as the amendment from 1 April 2011 of the pensions uplift rate from RPI to CPI which resulted in decreased forecasted liabilities.

1.2 Investment Management – Asset Allocation

The Pension Committee is charged with the responsibility for the governance and stewardship of the Fund. The Scheme has a prudent, risk averse strategy, which is kept continually under review through an annual evaluation of the funding strategy. The 2010/11 review determined that the current strategy and asset allocation still maintained the best fit for the Cumbrian Scheme and as such no changes were made during 2010/11 to asset allocation or basic fund structure.

The following table shows the distribution of the total investment assets held by the investment managers across all the asset classes at the year end.

Investment Assets at 31st March 2011, £1,381 million



1.3 Investment Management – Fund Manager Performance

The Pension Committee take an active role in monitoring fund manager performance, and are keen to obtain the best possible performance from every manager. Performance of all managers is scrutinised quarterly by the Committee, in addition in depth monitoring is also undertaken by officers during the intervening period as required.

The performance of the active investment managers for the year was mixed. The investment managers employed by the fund to manage UK equities, UK property, alternatives and the fixed interest outperformed their benchmarks for the year, with alternatives (including private equity, hedge funds, commodities) performing particularly well. However the global equity managers underperformed their benchmarks, as the highest returns were seen from the riskier, more volatile stocks in the world markets. All performance results are shown in the following table, as annualised figures.

1.4 Summary of Fund Performance as at 31 March 2011

Key: Manager portfolio performance = PF %
Benchmark performance = BM %
Difference - positive is outperformance, negative is underperformance.

	1 year			3 years			10 years		
Manager	**PF %**	**BM %**	**diff %**	**PF %**	**BM %**	**diff %**	**PF %**	**BM %**	**diff %**
Aberdeen - property manager	11.8	10.7	1.1	0.9	-1.4	2.3	7.7	6.6	1.1
BlackRock - alternatives	5.7	0.7	5.0	-1.3	2.1	-3.4			
GMO UK Ltd - international equity	7.9	8.2	-0.3	8.0	8.1	-0.1			
Insight Investments - fixed interest	6.5	5.9	0.6	5.2	5.9	-0.7			
Newton - global equity	7.4	8.2	-0.8	4.5	8.4	-3.9			
Schroder Asset Mgt - UK equity	11.4	8.7	2.7	8.3	5.4	2.9	6.3	4.7	1.6
Cumbria LGPS Total	**8.0**	**7.7**	**0.3**	**5.3**	**6.3**	**-1.0**	**5.7**	**5.6**	**0.1**

Results for individual managers are reviewed over a number of years, so that one year's figures do not carry undue weight.

Newton and BlackRock have been in place for just over three years. The nature of their underlying investments has led to their performance being hit hard by the market turbulence, and they have underperformed their benchmarks since inception – although BlackRock have performed well over the last 12 months. Insight Investments have also underperformed since inception and as a result their mandate was terminated in April 2011. The bonds will be transferred to our passive manager, Legal & General, until a new manager is appointed.

A longer-term view continues to be taken and the aim is to benefit from the wider diversification of the Fund's assets. The Fund's Investment Strategy will be reviewed by the Pensions Committee at forthcoming meetings, focussing on the drive to obtain extra value from new investment areas.

Pensions Administration

In February 2011 after an extensive procurement process the Fund opted to enter into a shared service arrangement with Your Pension Service (YPS - operated by Lancashire County Council) for the provision of its pension administration services. Through the commitment of both parties this difficult transition was implemented smoothly and Cumbria looks forward to building on this very positive start in its new relationship with YPS.

The Committee's thanks go to the staff in the Resources Directorate, the Pension Investments Team and the Administration provider's staff, for their work during the year in supporting the management and beneficiaries of the Scheme.

Finally I would like to thank my fellow Committee Members for their contributions during 2010/11. We face challenging times in the coming years both in terms of administration and fund management. The outcome of the Hutton Report into Public Sector Pensions has suggested major reforms to both benefit structures and employee contribution rates and we await both the scale and timescales for the changes. However, I am confident that the transfer of our administration to YPS will leave us best placed to meet any changes required in a timely and efficient manner.

Additionally although there are signs of global economic recovery, major uncertainty still exists in the global markets with some Euro zone countries facing major financial difficulties. Geopolitical events in the Middle East continue to affect world markets especially for commodities and oil. The UK economy is particularly sensitive to world wide political and economic events. However, while we cannot predict future outcomes I am confident that the current investment strategy leaves us in a good position to deal with such short term fluctuations.

Cllr. Mel Worth
Chairman
June 2011

2. Governance

2.1 Cumbria Pensions Committee

This report is prepared on behalf of Cumbria County Council, as beneficial owner of the assets of the scheme. The local government pension scheme, unlike private pension schemes, does not have trustees. The elected members who represent Cumbria County Council and the District Councils and form the Cumbria Pensions Committee perform duties that are similar to those of private trustees. The County Council has the ultimate responsibility for administration of benefits under the scheme.

The Pensions Committee normally meet five times a year and one of their duties is to decide the future investment strategy. The Committee members are advised by Independent Advisers, Mr Tim Gardener and Mr Alistair Sutherland and by Council officers. Advice may also be obtained on specific issues from Investment Consultants or other experts where appropriate.

2.2 Regulatory Framework

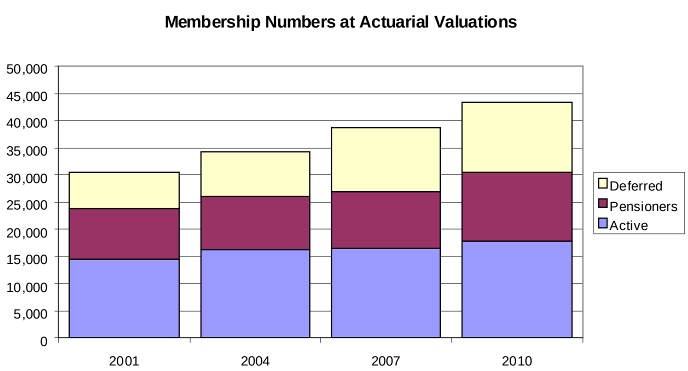
The Cumbria Local Government Pension scheme is part of the Local Government Pension Scheme. The scheme is a funded pension scheme, which means that funds are set aside to meet future retirement needs of scheme members. The scheme is a statutory pension scheme governed by the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2007. Under these regulations Cumbria County Council is required to provide an administration service for the scheme within the geographical area of Cumbria.

The scheme is open to all local government employees within the County who are not covered by alternative pension arrangements. The main categories of employees covered by alternative arrangements are teachers, Fire Service uniformed personnel and police officers. Membership is also open to other eligible employees of employer members of the scheme. All local government employees (except casual workers) are automatically entered into the scheme, but they may opt out if they do not want to retain membership.

3. Scheme Membership

The County Council administers the pension scheme on behalf of 86 employers who are members of the scheme such as local authorities, further and higher education colleges and voluntary organisations. The fund includes a number of 'Admitted Bodies', i.e. organisations that have entered into an admission agreement with the County Council to participate in the Pension Fund. The Cumbria Pension Fund currently includes 47 admitted bodies such as charities and other non-profit making organisations.

At the 31st March 2011 the Cumbria Local Government Pension Scheme had over 17,800 active members, over 12,500 pensioners and dependants receiving benefits, and over 12,900 preserved pensions. Of the 86 employer bodies in the Cumbria scheme 21 have no active members. A full list of the scheduled and admitted bodies currently in the Scheme is shown in Section 7.6 later in this report. The membership numbers at the time of the triennial valuation of the Scheme have increased as follows:



3.1 Benefits of Scheme Membership

The Local Government Pension Scheme is a valuable benefit for staff. It is a final salary pension scheme where the pension is based on the final years' pensionable pay and actual scheme membership. The scheme is contracted out of the State Second Pension and must, in general, provide benefits at least as good as most members would have received had they been members of the State Second Pension.

The scheme provides a comprehensive range of guaranteed benefits* which include:

- A tax-free lump sum on retirement;
- A pension at retirement age that is inflation proofed once in payment;
- The ability to increase the pension by paying extra contributions;
- Ill health retirement at any age, subject to medical approval.
- Death benefits - lump sum life cover of three years' pay and dependants pensions.

** The above is a summary, intended only to give an outline of the scheme. Specific queries should be referred to Your Pension Service, PO Box 100, County Hall, Preston PR1 0LD, telephone number 01772 530530. Alternatively for general pension scheme information, consult the website www.yourpensionservice.org.uk*

3.2 Cost of Scheme Membership

In the scheme there are different employee contribution rates for different pay bands. The rates are tiered according to whole time equivalent pay grouped in seven band ranges. The lowest contribution rate of 5.5% applies to salaries below £12,000 and the highest rate of 7.5% applies to salaries above £75,000. The contribution rates for existing members who are currently paying 5% will be increased on a phased basis, bringing their rate into line with all other scheme members from 1st April 2011.

The scheme employer pays the balance of the cost of providing the scheme's benefits after taking into account investment returns. Every three years an independent actuary calculates how much the employer has to contribute to the scheme. The Cumbria scheme currently employs Mercer Human Resource Consulting as scheme actuary.

Revised Employers' contribution rates were implemented on 1 April 2011 following the triennial Actuarial Valuation which was carried out as at 31st March 2010. The required overall employer contribution rate is, on average, 18.4% of pensionable pay. Individual employer rates vary from 7.9% to 48.2%.

Under the provisions of the Social Security Act 1986, all employees are entitled to make alternative arrangements for their retirement, within rules laid down by the government.

4. Fund Management

The Cumbria Local Government Pension Scheme collects contributions from the scheme employers and employees. Seven external fund managers are employed by the Fund to invest these funds. The current mandates with managers cover investments in UK equities, overseas equities, index-linked securities, fixed interest securities, managed funds (in particular unit and investment trusts), direct property, alternatives, cash and other assets as determined from time to time by the Pensions Committee. The return of the Fund is to be achieved by the investment managers without exposing the Fund to excessive risk and with regard to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998.

The Pension Committee monitors fund managers' performance at its quarterly meetings. Current practice is for fund managers to attend Committee meetings to present their reports at least twice yearly and where performance is below the benchmark, the Pension Committee may require fund managers to attend all quarterly meetings to present their performance reports.

4.1 Investing Fund Money

The investment weighting to the different asset classes is decided through the Investment Strategy. The current strategy was agreed in 2007 and updated by the Pensions Committee in March 2010. It is under regular review.

The Cumbria Fund has a diversified portfolio. This spreads the risk associated with any particular form of investment whilst facilitating the growth potential of the Fund. The investment risks are spread further as a result of employing different active fund managers and also by using passive managed funds. The detailed selection and timing of investment purchases and sales is delegated to the Fund Managers.

Investment management fees are based on the value of funds under the management of each manager as set out in individual agreements, and as growth in the portfolio would lead to an increase in fee, this provides an element of performance incentive. The agreements also include the individual active managers' investment performance targets.

4.2 Statement of Investment Principles

There is a statutory requirement for administering authorities to prepare and maintain a Statement of Investment Principles. The full Statement in place at the 31st March 2011 is shown at Appendix 2 within the Fund Policy Document.
The Scheme has a scheme-specific benchmark with long-term allocations to the various asset classes, excluding the direct property allocation and alternatives, currently as follows:

Asset Class	%	Index	Range	% at 31.03.11
UK Equities	30.00	FTSE All Share	28.0 – 32.0	30.8
Overseas Equities North America Europe Ex UK Japan Pacific Ex Japan Emerging Markets	30.00	FTSE World North America FTSE World Europe Ex UK FTSE World Japan FTSE Developed Asia Pacific Ex Japan S&P IFC Investable Composite	28.0 – 32.0	31.2
Fixed Interest UK Fixed Interest Corporate Bonds	26.5 7.0 19.5	FTSE-A Govt (over 15 years) IBOXX £ Non-Gilt	24.5 – 28.5	24.8
Index-Linked	13.5	FTSE-A Index-Linked (over 5 years)	12.0 – 15.0	13.2
TOTAL	100.0			100.0

Property has a monetary target held separately from the strategic benchmark and compared to the Investment Property Databank Quarterly Index. The alternatives portfolio managed by BlackRock is benchmarked against the London Inter-Bank Offered Rate. Legal & General are engaged to passively hedge up to 50% of the overseas currency exposure (replacing BNY Mellon in December 2010).

4.3 Funding Strategy Statement

There is a statutory requirement for administering authorities to prepare and publish a Funding Strategy Statement as part of the three-yearly actuarial valuation process. The statement has been prepared in consultation with scheme employers and with advice from the actuary in light of the results from the 2010 Actuarial Valuation. The full Statement is shown at Appendix 2 within the Fund Policy Document.

4.4 Governance Policy Statement

There is a statutory requirement for administering authorities to prepare and publish a Governance Policy Statement, and to report the extent of compliance against a set of best practice principles to be published by Communities and Local Government. The full Statement is shown at Appendix 2 within the Fund Policy Document.

5. Performance of the Fund

The Fund increased in value in the year to 31st March 2011 from £1,278 million to £1,400 million, an increase of £122 million. The bulk of this increase came from the rise in value of investments (£78 million) and investment income (£25 million net of tax), offset by investment management expenses (£3 million). The net result of the contributions less the benefits paid increased the value of the Fund by £22 million.

Details of fund managers' performance for the year to 31st March 2011 are as follows (returns are shown gross of fees):

Manager	Asset Class	Portfolio Return %	Benchmark Return %	Excess Return %
Black Rock	Alternatives	5.7	0.7	5.0
Schroder Asset Mgt	UK Equity	11.4	8.7	2.7
Aberdeen	Property Manager	11.8	10.7	1.1
Insight Investments	Fixed Interest	6.5	5.9	0.6
GMO UK Ltd	International Equity	7.9	8.2	-0.3
Newton	Global Equity	7.4	8.2	-0.8

Source: WM Company.

Legal and General also manage approximately 36% of the funds assets on a passive basis, the mandate being to match various indices. Their investment funds have shown small positive deviations from the indices over the year to 31st March 2011.

The Cumbria Fund's performance in the local authority league table of pension funds is as follows:

	1 Year to 31st March 2011 %	3 Years to 31st March 2011 %	10 Years to 31st March 2011 %
Fund Return	8.0	5.3	5.7
Cumbria's own benchmark	7.7	6.3	5.6
WMLocal Authority Universe return average	8.2	5.4	5.4
Ranking 1 to 100 in Local Authourity Universe	51st	48th	17th

Source: WM Company.

For this year, UK equity rose by 8.7% (FTSE All Share) and global equity by 8.2% (FTSE World); a much less significant increase than the previous years of 52% and 47% respectively. Although there have been no massive gains this year, the majority of the asset classes have risen in value by just under or just over 10%, with longer term performance ahead of the benchmark. The bond mandate with Insight Investments has terminated in April 2011.

6. Management Arrangements

Administering Authority
Cumbria County Council

Pensions Committee Members 2010/11

County Council Elected Members:
Mr MH Worth (Chair)
Mr J Airey
Mr A L Barry
Mr S Collins
Mr DS Fairbairn
Mr NH Marriner (Vice Chair)
Mr D Roberts
Mr I Stewart

District Council Elected Member
Mr S Simpson

Trades Union Non Voting Member
Ms G Troughton

Independent Advisers
Mr TJA Gardener, Global Head of Consultant Relations, AXA Investment Management

Mr AJ Sutherland, Consulting Director, Deloitte Total Rewards and Benefits Limited

Other Management Arrangements

Fund Managers
Aberdeen Property Investment Management
BlackRock Investment Management
BNY Mellon Asset Management (to December 2010)
GMO UK Limited
Insight Investments (to April 2011)
Legal and General Investment Management
Newton Investment Management Limited
Schroder Investment Management

Custodian
State Street Bank and Trust Company

Actuary
Mr J Livesey FIA, Mercer

Bankers
National Westminster Bank PLC

Auditor
The Audit Commission

Legal Adviser
Cumbria County Council Legal Services

Corporate Director of Resources
Mrs DP Wood, Corporate Director of Resources, Cumbria County Council

7. Financial Statements and Notes to the Accounts

The Statement of Accounts for the Cumbria Local Government Pension Scheme is presented in its entirety and separately from the general fund in the Cumbria County Council's Accounts, in keeping with its significance and the fact that, although the County Council is the administering authority, the fund covers both County Council employees and those of other scheduled and admitted bodies. The accounts (financial statements and certain sections) are summarised to form part of Cumbria County Council's Annual Accounts.

7.1 Overview

The Fund increased in value in the year to 31st March 2011 from £1,278 million to £1,400 million, an increase of £122 million. The bulk of this increase came from the rise in value of investments (£78 million) and investment income (£25 million net of tax), offset by investment management expenses (£3 million). The net result of the contributions less the benefits paid to pensioners and dependants increased the value of the Fund by £22 million. The employer contributions are unusually large for this year due to the exit from the scheme of Capita, an admission body, and the inclusion of the subsequent capital payment to offset their deficit of £10.2 million, shown as income. Also shown this year is the completion of the arrangements transferring the Cumbria Magistrates Courts to central government, and therefore income of £2.8 million is recognised this year.

7.2 International Financial Reporting Standards

Introduced this year is the full implementation of International Financial Reporting. From 2010/11, Local Government Pension Scheme Accounts must comply with International Financial Reporting Standards (IFRS); these aim to standardise the reporting and information disclosed in the accounts of companies and other organisations globally.

No restatement of opening balance sheet figures is needed to comply with IFRS. For comparative purposes 2008/09 figures are shown to meet reporting requirements, but the figures are unchanged from those previously reported for 2008/09.

7.3 The Use of Estimates and Uncertainties

One increased requirement is to set out the assumptions and uncertainties contained within figures in the accounts, and the use of estimates. Pension Fund Accounts contain estimated figures, taking into account historical experience, current trends and other relevant factors, as detailed below:

Item	Uncertainties	Effect if actual differs from assumptions
Market Value of Investments	Valuations depend on market forces impacting the current price of stocks, shares and other investment instruments. Investments have been valued at the IFRS accepted method of 'Fair Value' since 2008/09, this being the 'bid price' where possible.	For every 1% increase in market value, the value of the Fund will increase by £14 million, with a decrease having the opposite effect.
Pensions Liability	Assumptions such as mortality expectations, future inflation, returns on investments, and rate of pay increases.	The effects on the funding level of changes in the individual assumptions can be measured, but interact in complex ways. For instance, a 1 year increase in life expectancy would result in a 2% decrease in Funding Level to 77%. The Actuarial Valuation at March 2010 contains further information.
Long-term Debt	Income received in instalments over many years is time discounted to reflect the time value of money.	A discount rate of 3.5% was used, a rate of 4.5% reduces the income recognised this year by £0.1 million.
Bad Debt Provision	Assumptions about ability of debtor to pay and likelihood of debt recovery.	Less income is recovered than predicted. Alternatively, debt can be recovered after being written off.

The Accounts are as at 31st March 2011, one point in time, and all the assets and liabilities of the fund are valued as at that date using the best estimate possible of 'fair value' and equal to carrying value, as detailed in 7.4.4 Basis of Valuation of Investments.

For investments, the use of estimates is greatest for those assets without active and open markets, ie. unquoted or pooled investments, property, and alternatives. The Pension Committee at their quarterly meetings scrutinise the Fund Managers' Investment Reports, and question the managers about the nature of the investments and associated risks, valuations of underlying holdings, and performance during presentations to the Committee. Officers also maintain an ongoing review of valuations month to month, and a dialogue with managers on portfolio holdings and performance beyond Committee meetings. Further detail on the procedures for managing investment risk is given in Sections 7.7.2 Financial Instruments through to 7.7.5 Unquoted Investments.

Some additional information required by IFRS, is the International Accounting Standard IAS19 whole Fund valuation. Previously, under Financial Reporting Standard FRS17, individual employer positions were determined by the Actuary, but from this year the actuarial present value of promised retirement benefits must be disclosed at total Fund level. See Section 7.5 Actuarial Position of the Fund for further details.

7.4 Financial Statements and Notes to the Accounts

The preparation of these accounts by the administering authority is a requirement of the "Code of Practice on Local Authority Accounting in the United Kingdom 2010/11".

7.4.1 Pension Scheme Fund Account

Fund Account for the year to 31st March	Notes	2010		2011	
		£000's	£000's	£000's	£000's
Contributions and Benefits					
Contributions Receiveble					
From Employers					
Normal Contributions		49,754		49,754	
Augmentation Receipts		1,474		679	
Capital Payments		0		13,668	
Actuarial Strain		2,877		3,592	
	7.6.1		54,105		67,684
From Employees					
Normal Contributions	7.6.1		17,690		17,527
Receipts on Account of Joiners					
Transfers In			5,282		5,553
Other Income			58		19
Total Contributions			**77,135**		**90,783**
Less:					
Benefits payable					
Pensions	7.6.1	44,573		46,673	
Lump Sum Retirement Benefits	7.6.1	13,797		14,011	
Death Benefits	7.6.1	980		2,011	
			59,350		62,695
Payments to and onaccount of leavers					
Refund of contributions		2		4	
Group transfers to the other Schemes		1,797		0	
Individual transfers to other Schemes		4,108		5,118	
			5,907		5,122
Bad Debt Written Off			(52)		(3)
Administrative Expenses	7.4.7		1,134		1,251
Total Payments and Deductions			**66,339**		**69,065**
Net Additions from Dealing with Members			**10,796**		**21,718**
Return on Investments					
Investment Income	7.4.9	24,019		25,619	
Less: Irrecoverable tax on dividends	7.4.9	(394)		(348)	
Change in Market Value of Investments	7.4.8	254,446		77,537	
Less: Investment Management Expenses		(2,977)		(3,019)	
Net Return on Investments			**275,094**		**99,789**
Net Increase in the Fund during the Year			**285,890**		**121,507**
Add: Opening Net Assets of the Scheme			**992,530**		**1,278,420**
Closing Net Assets of the Scheme			**1,278,420**		**1,399,927**

7.4.2 Net Asset Statement

Net Assets as at 31 March	Notes	2009	2010	2011
		£000's	£000's	£000's
Investment Assets				
Fixed Interest Securities				
Public Sector	7.7.1	43,272	43,317	62,682
Other	7.7.1	70,352	74,381	64,924
		113,624	**117,698**	**127,606**
Equities (including convertible shares)	7.7.1	321,492	463,438	507,516
Pooled Investment Vehicles				
Unitised Insurance Policies	7.7.1	344,532	458,885	500,137
Unit Trusts	7.7.1	19.834	25,588	30,026
Managed Funds	7.7.1	106.850	110,026	119,035
		471,216	**595,499**	**649,198**
Property	7.7.1	62,515	74,075	84,285
Derivative Contracts	7.7.4	5,600	4,796	631
Cash & Money Market Instruments	7.7.1	11,044	14,736	11,790
Investment Liabilities				
Derivative Contracts	7.7.4	(3,086)	(3,338)	(3,343)
Total Investments held	7.4.8	**982,405**	**1,267,910**	**1,377,263**
Other Investment Balances				
Investment Debtors	7.7.4	6,017	10,120	6,880
Investment Creditors	7.4.6	(3,117)	(3,338)	(3,343)
		2,900	6,782	3,537
Total Investments Assets with Fund Managers		**985,305**	**1,274,692**	**1,380,800**
Other Scheme Current Assets				
Debtors	7.7.5	3,653	3,737	19,637
Cash with Administering Authority		5,167	2,423	0
Cash at bank		0	0	1,669
Other Schemes Current Liabilities				
Creditors	7.7.6	(1,595)	(2,432)	(2,179)
Other Scheme Net Current Assets		**7,225**	**3,728**	**19,127**
Total Net Assets of the Scheme		**992,530**	**1,278,420**	**1,399,927**

The above shows a statement of net assets available for benefits. The Fund complies with all additional reporting requirements' introduced this year with the implementation of International Financial Reporting. From 2010/11, Local Government Pension Scheme Accounts must comply with IAS26 'Retirement Benefit Plans' and this requires the actuarial present value of promised retirement benefits to be disclosed. This information can be found at Section 7.5 Actuarial Position of the Fund.

7.4.3 Accounting Policies

The general principles adopted in the preparation of the full Annual Report and Accounts are those recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). They meet the requirements of the Local Government Pension Fund Regulations and the recommendations of the "Code of Practice on Local Authority Accounting in the United Kingdom 2010/11" (the Code) based on International Financial Reporting Standards. The disclosure requirements for the summarised pension fund accounts are, however, limited to those recommended by the Code.

Accounting policies adopted are detailed further in the relevant sections, and other than the first two here have not changed from the previous year's accounting policies.

The following policies are significant to the statements:

- The Scheme has its own bank account which held the scheme's cash balance at 31st March 2011. This is to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Prior to this, the scheme's cash balance was held within the administering authority's bank accounts.
- The income received in instalments over many years from long-term debtors has been discounted to reflect the time value of money in accordance with IFRS, where significant.
- Contributions, benefits and investment income due at 31st March are included on an accruals basis.
- Investments are included in the accounts at fair value, usually bid price.
- Debtors and creditors are raised for all amounts outstanding at 31st March.
- Transfer values received and paid out, and lump sum payments, have been accounted for on a cash basis.
- The financial statements do not take account of liabilities to pay pensions and other benefits after the reported accounting period.
- Investment management expenses are shown separately from scheme administration in the Fund Account and include the fees paid and due to the fund managers and custodian, actuarial fees, performance measurement and investment consultant fees.
- Acquisition costs of investments include all direct transaction costs. Property acquisition costs are capitalised and become part of the book cost.
- Derivative contracts outstanding at the year end are stated at fair value as either investment assets or liabilities.

Accounting disclosures of Financial Instruments

IFRS requires disclosure of the Financial Instruments of the Pension Fund into several categories: all the investment assets are 'financial assets at fair value through profit and loss'. The investment liabilities consist of creditors and derivative liabilities, and are classified as 'financial liabilities at fair value through profit and loss'. The Fund does not hold 'loans and receivables' or 'available for sale assets'. Financial assets and liabilities at fair value are initially recognised at cost and carried at fair value without any deduction for transaction costs that would be incurred on sale or disposal. As all investments are disclosed at fair value, carrying value and fair value are therefore the same.

Critical judgements in applying accounting policies

In applying the policies, the authority has had to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the Fund will continue in operational existence for the foreseeable future as a going concern;
- no investments are impaired (further detail on the investment strategy and approach to managing risk in 7.7.2 Financial Instruments).

Accounting Standards issued but have not yet been adopted
The Fund is required to disclose information relating to the impact of Accounting Standards that have been issued but have not yet been adopted. There has been no such change in accounting policy issued.

7.4.4 Basis of Valuation of Investments

Investments are shown in the accounts at market value. The independent custodian, State Street Bank and Trust, values the assets other than direct property investments. This scrutiny provides an extra level of independence. All classes of investment are valued at Fair Value, and equals carrying value, which is usually the bid price (this valuation method was implemented during 2008/09 and therefore does not represent a change to previous years).

Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31st March. Unquoted investments are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers. More detail on unquoted investments is at Section 7.7.5.

State Street Bank and Trust value all overseas securities and foreign currency balances in local currency then convert to sterling using the WM Reuters 16:00 exchange rates at 31st March.

Further details of the pricing policy are as follows:

Equities

Pricing accuracy on equities is ensured by a series of data quality verifications that occur on a daily basis. Prices are reviewed beginning at the vendor file level to ensure that the appropriate number of prices are received at the expected time. From there, all U.S. and Non-U.S. traded equity prices are reviewed by comparison to a second price source using a zero tolerance threshold. By verifying the prices from two major vendor sources, daily price exceptions can be accurately identified. All discrepancies are researched with the primary source and secondary sources for validation, and updated accordingly.

Bonds

Prices are received daily from vendors in electronic transmissions and posted to a centralised database. In order to be loaded to the price database, asset identifier information is verified versus State Street’s security master file. As price file loading occurs, daily tolerance verification is completed at the security level. Each security is automatically compared to the previous day’s price. Changes exceeding a percentage of 5% are posted to a tolerance exception report and verified via secondary sources. If price exceptions cannot be validated by a secondary source, a challenge will be submitted to the appropriate vendor. Prices proven to be invalid are manually updated by GPS. Additional tolerance exception reporting can also be completed at the holdings level.

Sources of Prices are Bloomberg, FRI, FT Interactive Data, IBOXX, Moneymate, Prudential American, Reuters. This information is a summary from a detailed pricing document which is available upon request.

Direct Property Investments

Direct property is valued annually at the 31st March by an independent valuer CB Richard Ellis, Chartered Surveyors, 77 Grosvenor Street, London. Property is valued at “market value” and the definition is: “The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s - length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”. Interest on property developments would be capitalised and become part of the book cost.

Derivative Contracts

Forward foreign exchange contracts outstanding at the year end are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract. The contracts are valued using the WM/Reuters 4pm closing spot/forwards rates. Derivatives are covered in more detail in Section 7.7.4.

7.4.5 Debtors

Revenue transactions are recorded on a system of receipts and payments. Debtors have been introduced in respect of major items of income due but not received at 31st March. The fund's financial statements do not take account of liabilities to pay pensions, lump sums and other benefits after the financial year-end.

The debtors can be summarised to comply with International Financial Reporting Standards as follows:

	2008/09 £000's	2009/10 £000's	2010/11 £000's
Investment Debtors			
Other entities and individuals	6,017	10,120	6,880
Total Investment Debtors	**6,017**	**10,120**	**6,880**
Administering Authority			
Central Government bodies	0	0	3,615
Local authorities	1,770	2,070	4,814
Other entities and individuals	1,883	1,667	11,208
Total Administering Authority Debtors	**3,653**	**3,737**	**19,637**

Debtors can be further analysed as follows:

	2008/09 £000's	2009/10 £000's	2010/11 £000's
Investment Debtors			
Securities sold awaiting settlement	1,201	4,212	1,644
Investment Income Accrued	3,937	4,236	4,310
Property Debtors	879	1,672	926
Total Investment Debtors	**6,017**	**10,120**	**6,880**
Administering Authority			
Pension increase and additional lump sums	0	304	0
Contributions due	2,397	2,300	5,080
Long Term Debtors - Contributions	68	65	52
Employer exit from scheme due < 1 year	0	0	10,689
Long Term Debtors - Employer exit	0	0	2,957
Due from Investment Manager	0	921	0
Miscellaneous	1,188	147	859
Total Administering Authority Debtors	**3,653**	**3,737**	**19,637**

The debtors are unusually large for this year due to the exit from the scheme of Capita, an admission body, and the capital payment to offset their deficit of £10.2 million is shown within 'Employer exit from the scheme due < 1 year'.

Also shown is the debt due from the Ministry of Justice in transferring the Cumbria Magistrates Courts to central government, and as these payments will be received in ten annual instalments beginning April 2011, the first instalment of £0.3 million is shown within 'Employer exit from the scheme due < 1 year' and the remainder of £2.9 million shown as 'Long Term Debtors – Employer exit'. The Environment Agency debt of £0.2 million also appears in the heading 'Employer exit from the scheme due < 1 year'.

7.4.6 Creditors

Payments during the year have been converted to an expenditure basis by the introduction of creditors, to record significant amounts owing at 31st March.

The creditors can be summarised to comply with International Financial Reporting Standards as follows:

	2008/09 £000's	2009/10 £000's	2010/11 £000's
Investment Creditors			
Other entities and individuals	3,117	3,338	3,343
Total Investment Creditors	**3,117**	**3,338**	**3,343**
Administering Authority			
Central Government bodies	587	1,440	490
Local authorities	0	0	167
Other entities and individuals	1,008	992	1,522
Total Administering Authority Creditors	**1,595**	**2,432**	**2,179**

Creditors can be further analysed as follows:

	2008/09 £000's	2009/10 £000's	2010/11 £000's
Investment Creditors			
Purchases awaiting settlement	1,480	261	1,422
Property Creditors	1,637	3,077	1,921
Total Investment Creditors	**3,117**	**3,338**	**3,343**
Administering Authority			
Investment Managers Fees	621	900	845
Tax/NI Payable	587	519	490
VAT Payable	0	921	0
Interest Provision on Long-term Debt	0	0	457
Miscellaneous	387	92	387
Total Administering Authority Creditors	**1,595**	**2,432**	**2,179**

To comply with IFRS, if the settlement of transfers are phased over more than one year then the value must be discounted.

The discounted element of the future cash stream from the Ministry of Justice in transferring the Cumbria Magistrates Courts to central government is shown as 'Interest Provision on Long-term Debt' and will be unwound over the life of the settlement. The discounted income of £2.8 million is recognised as a capital payment in 2010/11.

7.4.7 Allocation of Administration Expenses

A proportion of relevant officers' salaries has been charged to the Pension Scheme. In addition the cost of maintaining the employee contribution records, paying benefits and provision of other services has also been charged to the Scheme. This accords with the government regulations on the management of local government pension schemes. From 1st February 2011, the provision of pension administration service changed from Capita to Your Pension Service, and is operated in accordance with a service level agreement with Lancashire County Council.

Further details of administration expenses are as follows:

	Basis of Allocation	2009/10 £000's	2010/11 £000's
Corporate Finance	Time recording system	208	249
Internal Audit	Time recording system	10	10
Bank Charges	Cash Flow of the Authority	7	7
Creditor Payments	Number of invoices	5	4
Debtors System	Number of accounts	4	3
Your Pension Service	Payment under SLA	0	115
Capita Pensions	Payment under contract	785	699
		1,019	1,087
Other Fees & Purchases		115	164
Total Administration Expenses		**1,134**	**1,251**

Investment management expenses are shown separately from scheme administration in the Fund Account at 7.4.1, and include the fees paid to the fund managers and custodian, actuarial fees, performance measurement and investment consultant fees.

7.4.8 Change in Value of Investments

During the financial year the following purchases and sales of investments were made. Purchases and sales also include transfers of investments, and cash transfers from and to the Administering Authority.

	Value at 1st April 2010 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Realised gains/losses £'000	Unrealised gains/losses £'000	Value at 31st March 2011 £'000
Fixed Interest Securities	117,698	256,418	(247,944)	1,623	(189)	127,606
Equities						
UK Equities	171,495	32,470	(29,219)	6,318	7,766	188,830
Overseas Equities	291,943	147,388	(138,089)	14,917	2,527	318,686
Total Equities	463,438	179,858	(167,308)	21,235	10,293	507,516
Index-Linked Securities	0					0
Pooled Investment Vehicles	458,885	93,611	(86,402)	25,074	8,969	500,137
Unit Trusts	25,588	4,438				30,026
Managed Funds	110,026	129,614	(122,809)	6,375	(4,171)	119,035
Property	74,075	11,415	(5,013)	288	3,520	84,285
Derivatives (Forward FX Contracts)	3,464	851	(11,967)	13,278	(8,758)	(3,132)
Total excluding cash	**1,253,174**	**676,205**	**(641,443)**	**67,873**	**9,664**	**1,365,473**
Cash Deposits	14,736					11,790
Total Investments	**1,267,910**					**1,377,263**

Direct transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and any other trading fees. Transaction costs incurred during the year amounted to £0.346 million, which is 0.03% of the purchases and sales proceeds (for comparison the costs in 2009/10 were £0.377 million, 0.03% of trades).

In addition to the direct 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.

7.4.9 Investment Income

Investment income includes share dividends and interest on investments, net property rental income, stock lending and class action income received. Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £25.3 million, net of £0.3 million irrecoverable tax on dividends, can be analysed as follows:

	2009/10 £000's	2009/10 %	2010/11 £000's	2010/11 %
Fixed Interest Securities	6,005	25.4%	6,313	25.0%
Equities				
UK Equities	4,735	20.0%	4,870	19.3%
Overseas Equities	7,477	31.6%	8,221	32.5%
Total Equities	12,212	51.7%	13,091	51.8%
Index-Linked Securities	0	0.0%		0.0%
Pooled Investment Vehicles	1,332	5.6%	371	1.5%
Property	4,000	16.9%	5,493	21.7%
Cash Deposits	76	0.3%	3	0.0%
	23,625	**100.0%**	**25,271**	**100.0%**

7.4.10 Stock Lending

Stock lending is the loan of specific securities from one investor to another that entitles the lender to continue receiving income generated by the stock plus an additional payment by the borrower. Exposure to risk is reduced by the borrower providing high quality collateral (cash, securities or gilts). A programme began during April 2005 through the custodian, State Street Bank and Trust, to earn additional income for the scheme from stock lending.

Securities on loan at the 31st March 2011 of £21.1 million are included in the net asset statement to reflect the scheme's continuing economic interest in the securities, and consist of £16.7 million UK Treasury Gilts, £2.8 million UK equities, and £1.6 million overseas equities. The related collateral totalled £21.8 million, consisting of £13.9 million overseas bonds, £6.9 million gilts, and £1.0 million UK equities.

For the year to 31st March 2011, the scheme earned income of £0.055 million through stock lending of the various assets, included in 7.4.9 above.

7.4.11 Related Parties

In day-to-day operations the scheme has many transactions with Cumbria County Council as the administering authority of the scheme, including the pension contributions as an employer, payments on the scheme's behalf for manager fees and administration, and recharges for services provided. There are no material transactions in respect of related parties requiring separate reporting. The fund does not invest for example in schemes of economic regeneration sponsored by any of the employing bodies including Cumbria County Council.

There are of course normal transactions with all the employers who have members in the scheme, who may be regarded as related parties, predominantly relating to employee and employer contributions. These transactions are reported as part of the income and expenditure statements.

Executive Board Members and senior employees of all Employers within the Cumbria Local Government Pension Scheme (LGPS) were asked to complete a declaration in addition to all members of the Pensions Committee. Eight of Cumbria County Council's Councillors form the membership of the Cumbria Pensions Committee together with one co-opted District Councillor representing the six District Councils in Cumbria and an employee representative as a non-voting member. An examination of the returns for 2010/11 reveals that there were no material transactions between the Council and the members/officers and their families affecting involvement with the Pension Fund. Each member of the Pension Committee formally considers conflicts of interest at each meeting. Such transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

7.4.12 Post Balance Sheet Events

The management of the active bond portfolio with Insight Investment Management Ltd was terminated in April 2011. The assets have been transferred to Legal and General on a passive basis while a full procurement process can be undertaken to appoint a new manager.

Following the year end, the financial markets saw a period of significant turmoil and volatility in August 2011, as fears of a double recession and a lack of confidence in governments ability to deal with high debt caused major falls in the equity markets in the US, UK, and Europe. The equity markets saw significant falls in August 2011 -6.9% in the FTSE UK All-Share index and -6.4% globally in the FTSE World index, with conversely the bond and gilt values increasing. At the time of writing, indications are that the Cumbria Fund value at 31 August 2011 is £1,355 million, showing a decrease in value of around -1.8% since 1 April 2011. The Fund is invested across a diversified range of assets to ensure the risk of exposure to such volatility is minimised.

7.4.13 Contingent Assets

The Fund is a member of two group litigation actions to reclaim tax credits on foreign income dividends on the basis that the original denial of a full tax credit was in contravention of EU non-discrimination law. If successful, the estimated potential income to the Fund is in the region of £3.5 million. The estimated fees payable regardless of the outcome are approximately £0.3 million. The issue is progressing with the various courts overseas.

7.4.14 Voluntary Contributions

The administering authority operates an additional voluntary contribution scheme. Employees are allowed to pay voluntary contributions to one of two independent AVC scheme providers. To comply with regulation 5(2) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 the transactions are treated separately to these accounts and do not form part of them.

The two providers offered are Standard Life and Scottish Widows. The authority gives no guarantee of investment performance of the providers and makes no contribution to the employees' funds. The previous scheme on offer to employees was the Equitable Life Assurance Society but in December 2000 it stopped writing new business. The Financial Statements of the two schemes for Cumbria LGPS, along with those of Equitable Life, are shown below:

	Standard Life £000's	Scottish Widows £000's	Equitable Life £000's	TOTAL £000's
Opening Net Assets	984	1,118	1,418	3,520
Income				
Contributions Received	50	87	17	154
Transfers In	0	3	0	3
Expenditure				
Retirement Benefits	(78)	(8)	(200)	(286)
Transfers Out	(17)	(60)	(7)	(84)
Change in Market Value	56	50	57	163
Closing Net Assets	**995**	**1,190**	**1,285**	**3,470**

Members have the option of contributing to the various funds offered by their chosen provider. The ultimate destination for the investment contributions paid by a member is the securing of a pension at retirement, usually by buying an annuity or transferring the investment into the main Scheme assets under Regulation 66. The investment could be realisable earlier in the event of a member's death before retirement.

7.5 Actuarial Position of the Fund

At Annex 1 at the end of the accounts is shown a statement from the scheme actuary as required by the Local Government Pension Scheme (Administration Regulations) 2008. This statement shows both the actuarial valuation result and the actuarial value of the Fund's past service liabilities calculated in a manner consistent with International Accounting Standard 19 (IAS 19). The statement also complies with the requirements of IAS 26.

The full Actuarial Valuation Report as at 31 March 2010 is available on the County Council's website, at www.cumbria.gov.uk/finance.

The County Council (excluding schools) and ten other employers have adopted an alternative approach to the employer contributions from 1st April 2011 and are paying a lump sum employer contribution in addition to a fixed rate, increasing over the three years. This prevents contributions falling due to reductions in staff numbers, which would adversely impact the 2013 valuations. The County Council's schools contribution rate has been set at a flat rate of 19.0%. This can be compared to the average contribution rate for the English Shire Counties of 19.2%.

The actuary also carries out quarterly updates of the funding position. This showed the funding position had increased from 79% funded at 31 March 2010, to 82% as at 31 March 2011.

7.6 Participating Employers of the Scheme

As at 31st March 2011 the scheduled and admitted bodies covered by the Cumbria Local Government Pension Scheme are shown at Annex 2 at the end of the Accounts.

7.6.1 Analysis of Contributions and Benefits

	2009/10 £000's	2010/11 £000's
Employer Contributions to the Fund		
Cumbria County Council	30,518	30,610
Scheduled Bodies	19,118	18,763
Admitted Bodies - see 7.1	4,469	18,311
	54,105	**67,684**
Employee Contributions to the Fund		
Cumbria County Council	9,975	10,068
Scheduled Bodies	5,915	5,777
Admitted Bodies	1,800	1,682
	17,690	**17,527**
Net Pensions Paid		
Cumbria County Council	24,345	25,184
Scheduled Bodies	17,989	18,902
Admitted Bodies	2,239	2,587
	44,573	**46,673**
Net Lump Sum on Retirement		
Cumbria County Council	6,507	6,820
Scheduled Bodies	5,829	5,277
Admitted Bodies	1,461	1,914
	13,797	**14,011**
Net Lump Sum on Death		
Cumbria County Council	498	1,038
Scheduled Bodies	418	823
Admitted Bodies	64	150
	980	**2,011**

7.6.2 Analysis of Retirements During the Year

	NUMBER 2009/10	PERCENTAGE %	NUMBER 2010/11	PERCENTAGE %
Type of Retirement				
Normal	499	82%	315	64%
Ill Health	48	10%	31	6%
Redundancy & Early Retirement	102	8%	147	30%
	649	**100%**	**493**	**100%**

7.7 Investment Assets of the Fund

7.7.1 Assests Split Between UK, Overseas, Quoted and Unquoted

	Asset Value at 31st March 2009 £000's	Percentage at 31st March 2009 %	Asset Value at 31st March 2010 £000's	Percentage at 31st March 2010 %	Asset Value at 31st March 2011 £000's	Percentage at 31st March 2011 %
Investment Assets						
Fixed Interest Securities						
Public Sector / Government						
UK Quoted	34,963	3.6%	42,182	3.3%	62,682	4.6%
Overseas Quoted	8,309	0.8%	1,135	0.1%	0	0.0%
	43,272	4.4%	43,317	3.4%	62,682	4.6%
Corporate Bonds						
UK Quoted	52,607	5.4%	63,925	5.0%	53,810	3.9%
Overseas Quoted	17,745	1.8%	10,456	0.8%	8,970	0.7%
Overseas Unquoted (Note 7.7.5)	0	0.0%	0	0.0%	2,144	0.2%
	70,352	7.2%	74,381	5.9%	64,924	4.7%
Total	**113,624**	**11.6%**	**117,698**	**9.3%**	**127,606**	**9.3%**
Equities						
UK Equities						
Quoted	113,478	11.6%	170,943	13.5%	188,123	13.7%
Unquoted (Note 7.7.5)	335	0.0%	552	0.0%	707	0.1%
	113,813	11.6%	171,495	13.5%	188,830	13.7%
Overseas Equities						
Quoted	207,679	21.1%	291,943	23.0%	318,686	23.1%
	207,679	21.1%	291,943	23.0%	318,686	23.1%
Total	**321,492**	**32.7%**	**463,438**	**36.6%**	**507,516**	**36.8%**
Pooled Investment Vehicles						
Unitised Insurance Policies - Unquoted (Note 7.7.5)						
UK Equity	129,146	13.1%	166,912	13.2%	157,026	11.4%
Overseas Equity	27,355	2.8%	25,971	2.0%	27,100	2.0%
Public Sector Bonds - UK	53,136	5.4%	81,580	6.4%	24,248	1.8%
Corporate Bonds - UK	30,504	3.1%	55,181	4.4%	139,038	10.1%
Index-Linked Securities - UK	104,391	10.6%	129,241	10.2%	152,725	11.1%
	344,532	35.1%	458,885	36.2%	500,137	36.3%
Unit Trusts - Quoted						
UK Equity	7,863	0.8%	9,643	0.8%	12,646	0.9%
Overseas Equity	11,971	1.2%	15,945	1.3%	17,380	1.3%
	19,834	2.0%	25,588	2.0%	30,026	2.2%
Managed Funds						
Property	13,080	1.3%	9,645	0.8%	8,548	0.6%
Other	93,770	9.5%	100,381	7.9%	110,487	8.0%
	106,850	10.9%	110,026	8.7%	119,035	8.6%
Total	**471,216**	**48.0%**	**594,499**	**46.9%**	**649,198**	**47.1%**
Property						
Freehold	47,740	4.9%	58,250	4.6%	71,300	5.2%
Long Leasehold	12,025	1.2%	12,575	1.0%	12,985	0.9%
Short Leasehold	2,750	0.3%	3,250	0.3%	0	0.0%
Total	**62,515**	**6.4%**	**74,075**	**5.8%**	**84,285**	**6.1%**
Derivative Contracts						
Forward Foreign Exchange Contracts (Note 7.7.4)	**5,600**	**0.6%**	**4,796**	**0.4%**	**631**	**0.0%**
Cash & Money Market Instruments	**11,044**	**1.1%**	**14,736**	**1.2%**	**11,790**	**0.9%**
Investment Liabilities - Derivative Contracts						
Forward Foreign Exchange Contracts (Note 7.7.4)	**(3,086)**	**-0.3%**	**(1,332)**	**-0.1%**	**(3,763)**	**-0.3%**
	982,405	**100.0%**	**1,267,910**	**100.0%**	**1,377,263**	**100.0%**

7.7.2 Nature and Extent of Risks Arising from Financial Instruments

The Pension Fund maintains positions in a variety of financial instruments including bank deposits, equity instruments, fixed interest securities and derivatives. This exposes it to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk.

7.7.3 Overall Procedures for Managing Risk

The principal powers to invest are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and require an Administering Authority to invest any pension fund money that is not needed immediately to make payments from the Pension Fund. These regulations require the Pension Fund to formulate a policy for the investment of its fund money.

The Administering Authority's overall risk management procedures focus on the unpredictability of financial markets and implementing restrictions to minimise these risks.

The Pension Fund annually reviews its Statement of Investment Principles and corresponding Investment Strategy which sets out the Pension Fund's policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed.

The Statement of Investment Principles and the Cash Investment Policy can both be found in the Scheme Policy Document published on-line at www.cumbria.gov.uk/finance.

Investment performance by external Investment Managers is reported to the Pensions Committee quarterly. Performance of the Pension Fund investments managed by external Investment Managers is compared to Benchmark returns.

Liquidity Risk

Liquidity Risk is the risk that the Pension Fund will not be able to meet its financial obligations when they fall due.

The main risk for the Pension Fund is not having the funds available to meet its commitments to make pension payments to its members. The Administering Authority with its Actuaries frequently reviews the overall cash flow position of the Fund to ensure all its obligations can be suitably covered.

It also holds through its managers a large value of very liquid securities which could be very easily be realised if the requirement to do so ever arose.

External Investment Managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions. The Pension Fund's investments are largely made up of listed securities on major stock exchanges and are therefore considered readily realisable.

Market Risk

Market risk is the risk that the fair value or future cashflows of a financial institution will fluctuate because of changes in market price.

The Pension Fund is exposed to the risk of financial loss from a change in the value of its investments and the risk that the Pension Fund's assets fail to deliver returns in lines with the anticipated returns underpinning the valuation of its liabilities over the long term.

In order to manage market value risk, the Pension Fund has set restrictions on the type of investment it can hold, subject to investment limits, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Details can be found in the Pension Funds Statement of Investment Principles. The Pensions Fund has adopted a specific benchmark and the weightings of the various asset classes within the benchmark from the basis for asset allocation within the Pension Fund. This allocation is designed to diversify the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of investments across both the main asset classes (quoted equities, bonds, private equity and property) and geographic regions within each asset class.

Market risk is also managed by constructing a diversified portfolio across multiple Investment Managers and regularly reviewing the Investment Strategy and performance of the Pension Fund. On a daily basis, Investment Managers will manage risk in line with policies and procedures put in place in the Investment Manager Mandates and ensure that the agreed limit on maximum exposure to any issuer or class is not breached.

The Pension Funds funding position is sensitive to changes in equities (which affect the net assets available to fund benefits) and bond yields (which affect the value placed on the Pension Funds liabilities).

Foreign Exchange Risk

The Pension Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31 March 2011, the Pension Fund had overseas investments (excluding forward foreign exchange contract) of £385 million and £4 million cash denominated in currencies other than sterling. The impact of a 5% movement in the value of foreign currencies against sterling would be to increase (or decrease) the fund value by approximately £19 million.

7.7.4 Foreign Exchange – Derivative Contracts

One way for pension funds to reduce the volatility from their foreign currency exposures is to convert these exposures back to the domestic currency – this process is known as currency hedging. It is common for investors to hedge 50% of their foreign currency exposure to 'minimise the regret' of getting it wrong.

The Cumbria Fund has 50% of the investments denominated in overseas currencies hedged into sterling in accordance with the passive currency overlay program. The purpose is to reduce the Fund's exposure to the fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets. This is carried out using derivatives called forward foreign exchange contracts.

As at 31st March 2011 the fund had 100 open forward foreign exchange contracts. These are over-the-counter contracts, the fund held no exchange traded derivatives. In aggregate the forward foreign exchange contracts are summarised as follows:

Currency	Purchase Contracts at 31st March 2011 in Sterling £000	Sales Contracts at 31st March 2011 in Sterling £000	Unrealised Profit/(Loss) in Sterling £000
Australian Dollar	4,071	0	113
Canadian Dollar	0	277	(4)
Danish Krone	0	1,466	(76)
Euro Currency	629	72,442	(2,068)
Hong Kong Dollar	4,914	0	2
Japanese Yen	1,584	25,564	133
Norwegian Krone	145	141	(4)
Singapore Dollar	3,723	0	62
Swedish Krona	2,086	0	52
Swiss Franc	2,401	0	144
US Dollar	20,285	184,158	(1,486)
TOTAL VALUE	39,838	284,048	(3,132)
Number of Deals	36	65	

Credit Risk

Credit Risk is the risk that counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Pension Fund.

The Pension Fund reviews its exposure to credit and counterparty risk through its external Investment Managers by the review of the Managers annual internal control reports to ensure that Members exercise reasonable care and due diligence in its activities for the Pension Fund. All derivative transactions incorporate a degree of credit risk. The longer the term of a transaction, the greater the potential for change in market value, and the greater the credit risk. In relation to forward currency contracts there are two elements to this: counterparty risk and settlement risk.

Counterparty risk

The investment manager transacts foreign exchange (FX) trades as an agent, pursuant to umbrella IFEMA Agreements (International Foreign Exchange Master Agreements) entered into with each FX counterparty. The FX trades are uncollaterised, as is common practice in the FX market, so each party has potential counterparty risk for the mark-to-market value/profit on the trade for the duration of that trade. If an FX counterparty fails after the trade has been executed the relevant close out provisions of the broker terms/ IFEMA agreement would apply. For example, the close-out mechanism of an IFEMA allows one party to net down its exposure to a failing counterparty across all transactions entered into under the agreement. The non-defaulting party then either owes or is owed a single sum. The loss is likely to be confined to the cost of replacing the failed trades, which may be greater where the trade was in profit.

The principal mitigation of the counterparty risk on an FX trade is the rigour of the counterparty selection and monitoring process. Trades are only executed with approved counterparties, who have satisfied requirements in terms of market capability and credit standing. The list of potential counterparties is subject to approval and monitoring by the managers Counterparty Credit Risk Sub-Committee as part of their oversight of risks. Subject to overriding requirements for best execution, they will assess and choose the preferred counterparty from the list for any particular trade against the following criteria:

- Previous dealing experience of the counterparty,
- Level of confidence in the counterparty's ability to absorb a trade of that size, based on ongoing research into the capabilities of the main counterparty banks,
- Bank's position in the market for sourcing PFI, corporate, utility and other non-government sources of inflation-linked debt.

Neither the investment manager nor any of its related companies would act as counterparty.

As part of the managers credit and counterparty risk framework, the creditworthiness of all counterparties is reviewed on a regular basis and discussed in detail at Credit Review Group meetings. In addition, more formal review takes place via the Counterparty Sub-Committee meetings, which are currently held quarterly. They can be convened at very short notice to meet any particular demands (as was the case, for example, in the Lehman crisis, when it met daily).

Settlement risk

If the counterparty fails on the settlement date itself, and more specifically if it fails after the Fund has delivered payment but before the counterparty has delivered its payment then there would be a daylight risk of payment vs non-payment. The manager applies operational settlement netting in respect of all client account numbers, thus allowing clients to reduce their settlement exposures by having smaller amounts due to or from them.

There is no movement of principal capital, the credit exposure to either party is represented by the profit or loss on the positions at that point in time i.e. £3.1m loss at 31 March 2011.

As currency movements can be quite volatile positions can change from day to day quite significantly. It is difficult to approximate the size of the risk using historical currency movements, as these cannot be relied upon as a guide to future movements.

7.7.5 Unquoted Investments

The fund holds significant amounts of unquoted securities. This is mainly due to the fact that the unitised insurance policy held by the passive manager, Legal and General, is invested in unquoted, unitised, index-tracking funds, used as an efficient low risk method of investing in the asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as bonds and equity. The investment managers may also choose to invest in unquoted investments, mainly as managed funds as a preferred method of investing in smaller asset classes or less easily accessed markets.

Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31st March. Unquoted investments are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers. The valuations are audited for each investment manager by their respective auditors and reported to us as clients.

More details of the unquoted investments held at 31st March 2011 are as follows:

Unquoted Investments - Heading	Asset Value at 31st March 2011 £000's	Manager	Details
Fixed Interest Securities			
Corporate Bonds			
Overseas Unquoted	2,144	BlackRock	A bond issued by Credit Suisse Bank to BlackRock, to give a return on the bond derived from a basket of commodities in China.
Equities			
UK Equities			
Unquoted	707	Schroders	Northern Investors, a holding in a venture capital fund (remnants of investments made in 1984-1990) with no market for exit, held on care and maintenance basis.
Pooled Investment Vehicles			
Unitised Insurance Policies	500,137	Legal & General	Unquoted, unitised, index-tracking funds
Managed Funds			
Property	8,548	BlackRock	Alternatives funds - overseas property, hedge funds, private equity, commodities. A mix of in-house funds and funds external to BlackRock.
Other	110,487		
Total Unquoted Investments	**622,023**		

7.7.6 Valuation of Assets Managed by Fund Managers

Manager	Mandate	Asset Value at 31st March 2009 £000's	Percentage at 31st March 2009 %	Asset Value at 31st March 2010 £000's	Percentage at 31st March 2010 %	Asset Value at 31st March 2011 £000's	Percentage at 31st March 2011 %
Legal & General	Passive	344,533	35.1%	458,885	36.2%	500,137	36.3%
GMO UK	Overseas Equity	119,310	12.1%	171,867	13.6%	185,350	13.5%
Schroders Investment Management	UK Equity	107,750	11.0%	164,494	13.0%	182,962	13.3%
Newton Investment Management	Global Equity	117,614	12.0%	158,490	12.5%	170,288	12.4%
Insight Investments	Bonds	105,282	10.7%	121,843	9.6%	130,138	9.4%
BlackRock	Alternatives	113,610	11.6%	111,193	8.8%	121,389	8.8%
Aberdeen Property Investors	Property	66,484	6.8%	79,507	6.3%	88,398	6.4%
Legal & General (BNY Mellon to 31/12/10)	Currency	7,822	0.8%	1,631	0.1%	(1,399)	-0.1%
Total		**982,405**	**100.0%**	**1,267,910**	**100.0%**	**1,377,263**	**100.0%**

7.7.7 Top 10 Holdings

Holding	Manager	£000's	% of Total
Unitised Insurance Policy	Legal & General	500,137	36.3%
BlackRock Multi-strategy Fund	BlackRock	18,919	1.4%
BlackRock DIV PEP IV App	BlackRock	16,495	1.2%
Global Emerging Markets Index Fund	GMO	16,094	1.2%
UK Treasury Gilt 4.5% 07/12/2042	Insight	14,090	1.0%
Instl Cash Series GBP Liq Fund	BlackRock	13,437	1.0%
BlackRock Global Horizons	BlackRock	11,411	0.8%
UK Treasury Gilt 4.25% 07/12/2027	Insight	11,009	0.8%
Anglo American Plc	Schroders/Newton	10,607	0.8%
UK Treasury Gilt 4.5% 09/2034	Insight	10,480	0.8%

7.7.8 Individual Investments Valued at Greater Than 5% of the Total Scheme

The only individual investment with a market value greater than 5% of the fund value is the unitised insurance policy held with Legal and General.

Annex 1: Cumbria Local Government Pension Scheme

Accounts for the year ended 31 March 2011.

Statement by Consulting Actuary

This is the statement required under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the Cumbria Local Government Pension Scheme was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014. The results of the valuation are contained in our report dated 31 March 2011.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £1,278 million represented 79% of the Funding Target of £1,609 million at the valuation date. The valuation also showed that a common rate of contribution of 12.5% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 5.9% of pensionable pay for 22 years. This would imply an average employer contribution rate of 18.4% of pensionable pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 31 March 2011. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). In particular, there were variations in the approach adopted in setting the Funding Target for certain employees. Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rates are set out as follows :

	For past service liabilities	For future service liabilities
Rate of return on investments: - pre retirement - post retirement	 6.5% per annum 5.5% per annum	 6.75% per annum 6.75% per annum
Rate of pay increases:	4.75% per annum	4.75% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

Actuarial Present Value of Promised **Retirement Benefits for the Purposes** of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 was £1,709 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £1,584 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2011

Annex 2: Participating Employers of the Scheme

As at 31st March 2011 the scheduled and admitted bodies covered by the Cumbria Local Government Pension Scheme were:

Employers of the Scheme as at 31 March 2011	
Scheme Employers:	**Admitted Bodies (continued)**
Cumbria County Council	Barrow & District Soc for Blind
District Councils	Barrow Citizens Advice
Allerdale Borough Council	Bulloughs Cleaning Services Ltd
Barrow Borough Council	Carlisle Leisure Allerdale
Carlisle City Council	Carlisle Leisure Ltd
Copeland Borough Council	Commission for Social Care Inspection
Eden District Council	Cumbria Cerebral Palsy
South Lakeland District Council	Cumbria Deaf Association
Scheduled Bodies	Cumbria Sea Fisheries **(Transferring)**
Barrow Sixth Form College	Cumbria Tourism
Carlisle College	Cumbria Training Partnership
Cleator Moor Town Council	Cumbria Vision Renaissance Ltd
Cockermouth Town Council	Currock Community Centre
Cumbria Police Authority	Eden Housing Association
Cumbria Probation Service	Egremont & District Pool Trust
Cumbria Waste Management	FOCSA Services
Furness Academy	Glenmore Trust
Furness College	Graham Asset Management **(New)**
Kendal College Further Educ	Harraby Community Centre
Kendal Town Council	Higham Hall
Keswick Town Council	Home Group (Copeland)
Lake District National Park Authority	Kendal Brewery Arts Centre Trust Ltd
Lakes College (West Cumbria)	Kendal Citizens Advice
Queen Elizabeth School **(New)**	Longtown Memorial Hall Community Centre
Richard Rose Academies	Mellors Catering Services
Seaton Academy **(New)**	Morton Community Centre
South Lakeland Housing ALMO	North Country Leisure (Copeland)
Valuation Tribunal Service	Oaklea Trust
West Lakes Academy	Riverside Housing
Wigton Town Council	Soundwave
Scheduled Bodies No Actives	South Lakeland Leisure
Brampton Parish Council	TADEA
Charlotte Mason College	West House
Cumbria Primary Teacher Training	Wigton Joint Burial Committee
Dept Constit Affairs (Cumbria Magistrates)	**Admitted Bodies No Actives**
Health Authority	Barnardos **(Closing)**
Millom Town Council	Botcherby Community Centre
Port of Workington	Capita Business Services **(Closing)**
Practical Alternatives to Custody (Ltd)	Direct Training Services
Ulverston Town Council	Henry Lonsdale Trust
Cumbria Institute of the Arts	Howgill Family Centre **(Closing)**
Water Authority	Lake District Cheshire Homes
Admitted Bodies	NRCS Ltd (Neighbourhood Revitalisation)
Agilisys	Project Homeless
Amey Infrastructure Services	Troutbeck Bridge Swim Pool Ltd
Attendo Monitoring (Mobile Response)	

8. Glossary

Active Management – Approach to investment management which aims to outperform a particular market index or benchmark through asset allocation and/or stock selection decisions. (Also see Passive Management).

Actuary – An independent consultant who advises the Fund and every three years formally reviews the assets and liabilities of the Fund and produces a report on the Fund's financial position, known as the Actuarial Valuation.

Benchmark – A yardstick against which the investment policy or performance of a fund manager can be compared, usually the index relating to the particular assets held. (Also see Target).

Bonds – Certificate of debt issued by a government or company, promising regularpayments on a specified date or range of dates, usually with final capital payment at redemption.

Custodian – Organisation which is responsible for the safekeeping of asset, income collection and settlement of trades for a portfolio, independent from the asset management function.

Derivative – Financial instrument whose value is dependent on the value of an underlying index, currency, commodity or other asset.

Emerging Markets – Developing economies in Latin America, Africa, Asia and the Middle East as well as areas of Europe and the Far East. Investment returns within these markets tend to be more volatile than those in more established markets.

Equities – Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Fixed Interest Securities – Investments mainly in government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

Funding Level – The ratio of a pension fund's assets to its liabilities. Normally relates to defined benefit pension funds and used as a measure of the fund's ability to meet its future liabilities.

IFRS – International Financial Reporting Standards. Aim to standardise the reporting and information disclosed in the financial accounts of companies and other organisations globally.

Index-linked Gilts – UK government stock where the interest payments and the final redemption proceeds are linked to the Retail Price Index. Such stocks provide protection against inflation.

Index-Tracking Fund (Managed Fund) – Pooled investment vehicle which aims to match the returns on a particular market index. The fund may hold all stocks in the index or select a sample that will perform closely to the index. Investors can buy and sell units of the fund on an on-going basis.

Investment Strategy – Investor's long-term distribution of assets among various asset classes taking into consideration, for example, goals of the investor, attitude to risk and timescale etc.

Market Value – The price at which an investment can be bought or sold at a given date.

Myners Review – Review carried out by Paul Myners on behalf of the Chancellor of the UK government. The review, published in March 2001, investigated the challenges facing institutional investment decision making.

Passive Management – Portfolio which aims to replicate a particular market index or benchmark and does not attempt to actively manage the portfolio. (Also see Active Management).

Portfolio – Block of assets generally managed under the same mandate.

Private Equity – Shares in unquoted companies. Usually high risk, high return in nature.

Retail Price Index – Measure of price inflation in the UK used as a guide for pensions updating. A basket of representative goods in the market is priced on a regular basis to monitor the rate of inflation. (The Government is also publishing details of the Consumer Prices Index).

Return – Increase in value of an investment over a period of time, expressed as a percentage of the value of the investment at the start of the period.

Risk – Likelihood of a return different from that expected and the possible extent of the difference. Also used to indicate the volatility of different assets.

Settlement – Payment or collection of proceeds after trading a security. Settlement usually takes place some time after the deal and price are agreed.

Statement of Investment Principles – The SIP sets out details of the investment policy being followed by a pension scheme. Includes certain specific statements such as the kinds of investments held and the balance between them, risk and expected returns, realisations of investments, socially responsible investments and corporate governance policy.

Stock Lending – Lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

Target – Managers are set a target for investment performance such as 1% above benchmark per year over three year rolling periods.

Unit Trust – A specific type of pooled investment fund.

Unquoted (Unlisted) Stock – A company share that is not available for purchase or sale through the stock market.

Venture Capital – Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange.

Appendix 1 – Actuarial Certificate

MERCER

Rates and Adjustments Certificate issued in accordance with Regulation 36 of the Administration Regulations

Name of Fund: **Cumbria Local Government Pension Scheme**

Primary Contribution Requirements

I hereby certify that, in my opinion, the common rate of employers' contributions payable in each year of the period of three years beginning 1 April 2011 should be at the rate of 12.5 per cent of Pensionable Pay.

I hereby certify that, in my opinion, the amount of the employers' contributions payable in each year of the period of three years beginning with 1 April 2011, as set out above, should be individually adjusted as set out in the attached schedule.

Contributions will be payable monthly in arrears with each payment normally being due by the 19th of the following month. Pensionable Pay is pay as determined under the LGPS regulations for the calculation of employee contributions.

Further Adjustments

For employers where no allowance for non ill-health early retirement costs is included in the valuation a further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of three years covered by this certificate. In addition, there will be an individual adjustment for each ill-health early retirement from Cumbria County Council during that three year period. These individual adjustments will be calculated in accordance with methods agreed from time to time between the Fund's actuary and the Administering Authority.

The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer. Additional contributions may be paid if requested by the employer concerned.

The contributions may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party.

In cases where an element of an existing Scheme employer's deficit is transferred to a new employer on its inception, the Scheme employer's deficit recovery contributions, as shown on the schedule to this Certificate in Appendix I, may be reallocated between the Scheme employer and the new employer to reflect this, on advice of the Actuary and as agreed with the Administering Authority.

Regulation 36(8)

For Cumbria County Council I have shown on the attached Schedule the allowance made for non-ill health early retirements over the period of three years beginning 1 April 2011 taken into account when setting this employer's contribution rate.

No allowance for non-ill health early retirements has been made in determining the results of the valuation for other employers, on the basis that the costs arising will be met by additional contributions.

Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

Signature:

Name: John Livesey

Date of signing: 31 March 2011

Qualification: Fellow of the Institute and Faculty of Actuaries

Appendix 1

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	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14
Employers	**Individual Adjustment**	**Total Contribution Rate**	**Individual Adjustment**	**Total Contribution Rate**	**Individual Adjustment**	**Total Contribution Rate**	**Amount £**
Agilisys	1.5%	14.0%	1.5%	14.0%	1.5%	14.0%	
Allerdale Borough Council	9.8%	22.3%	9.8%	22.3%	9.8%	22.3%	
Amey Construction	2.6%	15.1%	2.6%	15.1%	2.6%	15.1%	
Attendo Monitoring Ltd	15.3%	27.8%	15.3%	27.8%	15.3%	27.8%	
Barrow and District Society for the Blind	4.9% plus £5,300	17.4% plus £5,300	4.9% plus £5,600	17.4% plus £5,600	4.9% plus £5,800	17.4% plus £5,800	
Barrow Borough Council	£941,000	12.5% plus £941,000	£986,000	12.5% plus £986,000	£1,033,000	12.5% plus £1,033,000	
Barrow Citizens Advice Bureau	12.9%	25.4%	12.9%	25.4%	12.9%	25.4%	
Barrow Sixth Form College	3.8%	16.3%	3.8%	16.3%	3.8%	16.3%	
Brampton Parish Council	n/a	£540	n/a	£540	n/a	£540	
Bulloughs Cleaning Services Police	4.4%	16.9%	4.4%	16.9%	4.4%	16.9%	
Care Quality Commission	4.5% plus £80,000	17.0% plus £80,000	4.5% plus £84,000	17.0% plus £84,000	4.5% plus £88,000	17.0% plus £88,000	
Carlisle City Council	-0.7% plus £1,003,000	11.8% plus £1,003,000	-0.7% plus £1,051,000	11.8% plus £1,051,000	-0.7% plus £1,101,000	11.8% plus £1,101,000	
Carlisle College	4.4%	16.9%	4.4%	16.9%	4.4%	16.9%	
Carlisle Housing	6.0%	18.5%	6.0%	18.5%	6.0%	18.5%	
Carlisle Leisure	-0.6%	11.9%	-0.6%	11.9%	-0.6%	11.9%	
Carlisle Leisure Allerdale	2.7%	15.2%	2.7%	15.2%	2.7%	15.2%	
Cleator Moor Town Council	-4.6%	7.9%	-4.6%	7.9%	-4.6%	7.9%	
Cockermouth Town Council	-0.3%	12.2%	-0.3%	12.2%	-0.3%	12.2%	
Copeland Borough Council	7.6%	20.1%	7.6%	20.1%	7.6%	20.1%	
Cumbria Cerebral Palsy	10.4%	22.9%	10.4%	22.9%	10.4%	22.9%	
Cumbria County Council (excluding schools)	0.4% plus £7,587,000	12.9% plus £7,587,000	0.4% plus £7,947,000	12.9% plus £7,947,000	0.4% plus £8,325,000	12.9% plus £8,325,000	£8,000,000
Cumbria County Council schools	6.5%	19.0%	6.5%	19.0%	6.5%	19.0%	
Cumbria Deaf Association	5.8%	18.3%	5.8%	18.3%	5.8%	18.3%	
Cumbria Local Valuation Panel	-3.1% plus £7,000	9.4% plus £7,000	-3.1% plus £7,000	9.4% plus £7,000	-3.1% plus £7,000	9.4% plus £8,000	
Cumbria Police Authority	-1.4% plus £728,000	11.1% plus £728,000	-1.4% plus £763,000	11.1% plus £763,000	-1.4% plus £799,000	11.1% plus £799,000	
Cumbria Probation Service	7.2%	19.7%	7.2%	19.7%	7.2%	19.7%	
Cumbria Sea Fisheries Committee	5.9%	18.4%	5.9%	18.4%	5.9%	18.4%	
Cumbria Tourist Board	4.9% plus £35,000	17.4% plus £35,000	4.9% plus £37,000	17.4% plus £37,000	4.9% plus £38,000	17.4% plus £38,000	
Cumbria Training Partnership	3.3%	15.8%	3.3%	15.8%	3.3%	15.8%	
Cumbria Waste Management	32.3%	44.8%	32.3%	44.8%	32.3%	44.8%	
Currock Community Centre	-12.5%	0.0%	-12.5%	0.0%	-12.5%	0.0%	
Eden District Council	5.7%	18.2%	5.7%	18.2%	5.7%	18.2%	

MERCER

	2011/12		2012/13		2013/14		Non-ill health early retire-ment allow-ance included for the 3 years 2011/14
Employers	**Individual Adjustment**	**Total Contribution Rate**	**Individual Adjustment**	**Total Contribution Rate**	**Individual Adjustment**	**Total Contribution Rate**	**Amount £**
Egremont & District Pool Trust	9.3%	21.8%	9.3%	21.8%	9.3%	21.8%	
FOCSA Services (UK) Ltd	24.8%	37.3%	24.8%	37.3%	24.8%	37.3%	
Furness Academy	6.9%	19.4%	6.9%	19.4%	6.9%	19.4%	
Furness College	2.0%	14.5%	2.0%	14.5%	2.0%	14.5%	
Glenmore Trust	22.8%	35.3%	22.8%	35.3%	22.8%	35.3%	
Graham Asset Management	4.9%	17.4%	4.9%	17.4%	4.9%	17.4%	
Harraby Community Centre	9.1%	21.6%	9.1%	21.6%	9.1%	21.6%	
Higham Hall College	2.5%	15.0%	2.5%	15.0%	2.5%	15.0%	
Home Group Ltd (Copeland Homes)	-1.0%	11.5%	-1.0%	11.5%	-1.0%	11.5%	
Kendal Brewery Arts Centre Trust Limited	5.1% plus £11,500	17.6% plus £11,500	5.1% plus £12,000	17.6% plus £12,000	5.1% plus £12,600	17.6% plus £12,600	
Kendal Citizens Advice Bureau	5.9% plus £6,000	18.4% plus £6,000	5.9% plus £6,000	18.4% plus £6,000	5.9% plus £7,000	18.4% plus £7,000	
Kendal College	2.0%	14.5%	2.0%	14.5%	2.0%	14.5%	
Kendal Town Council	-1.0%	11.5%	-1.0%	11.5%	-1.0%	11.5%	
Keswick Town Council	2.9%	15.4%	2.9%	15.4%	2.9%	15.4%	
Lake District National Park Authority	5.6%	18.1%	5.6%	18.1%	5.6%	18.1%	
Lakes College West Cumbria	2.5%	15.0%	2.5%	15.0%	2.5%	15.0%	
Longtown Community Centre	7.6%	20.1%	7.6%	20.1%	7.6%	20.1%	
Maryport Town Council	-2.0%	10.5%	-2.0%	10.5%	-2.0%	10.5%	
Mellors Police Catering Services	12.0%	24.5%	12.0%	24.5%	12.0%	24.5%	
Morton Community Centre	-0.4%	12.1%	-0.4%	12.1%	-0.4%	12.1%	
North Country Leisure	-3.5%	9.0%	-3.5%	9.0%	-3.5%	9.0%	
Oaklea Trust	35.7%	48.2%	35.7%	48.2%	35.7%	48.2%	
Richard Rose Academy	5.6%	18.1%	5.6%	18.1%	5.6%	18.1%	
Soundwave	2.6%	15.1%	2.6%	15.1%	2.6%	15.1%	
South Lakeland District Council	0.6% plus £772,000	13.1% plus £772,000	0.6% plus £923,000	13.1% plus £923,000	0.6% plus £1,076,000	13.1% plus £1,076,000	
South Lakeland Leisure	-1.0%	11.5%	-1.0%	11.5%	-1.0%	11.5%	
South Lakes Housing Association	0.6% plus £237,000	13.1% plus £237,000	0.6% plus £222,000	13.1% plus £222,000	0.6% plus £233,000	13.1% plus £233,000	
TADEA	-3.8%	8.7%	-3.8%	8.7%	-3.8%	8.7%	
Tullie House Museum and Art Gallery Trust	1.4%	13.9%	1.4%	13.9%	1.4%	13.9%	
West House	0.4%	12.9%	0.4%	12.9%	0.4%	12.9%	
West Lakes Academy	6.5%	19.0%	6.5%	19.0%	6.5%	19.0%	
Wigton Joint Burial Committee	1.1%	13.6%	1.1%	13.6%	1.1%	13.6%	
Wigton Town Council	2.6%	15.1%	2.6%	15.1%	2.6%	15.1%	

Former Employers	Proportion of Pension Increases to be Recharged %
Charlotte Mason College	100
Project Homeless (Cumbria) Limited	100
Workington Port Health Authority	100
Lake District Cheshire Homes	100
National Water Authority	100

Notes:

The total contributions payable by each employer will be subject to a minimum of zero.

In cases where an element of an existing Scheme employer's deficit is transferred to a new employer on its inception, the Scheme employer's deficit recovery contributions shown on this certificate may be reallocated between the Scheme employer and the new employer to reflect this, on advice of the Actuary.

The admission of Cumbria Vision Renaissance terminates on 31 March 2011. A termination assessment is therefore required in respect of this employer and any additional contributions required will be notified separately.

The Administering Authority will monitor the additional liabilities arising in respect of non-ill health early retirements actually occurring over the three years beginning 1 April 2011 for each employer where an allowance is shown above. Where the total additional liabilities for an employer exceed the allowance set out above, the employer will be required to pay additional capital contributions to meet the additional liabilities.

Appendix 2 – Scheme Policy Document

Contents

		Page
1	**Introduction**	**40**
2.	**Governance Policy Statement**	**47**
3.	**Administration and Communications Policy**	**46**
4.	**Statement of Investment Principles**	**47**
5.	**Cash Investment Policy**	**54**
6.	**Funding Strategy Statement**	**56**
7.	**Admissions and Termination Policy**	**65**

1. Introduction

The Cumbria Local Government Pension Scheme is part of the Local Government Pension Scheme. The scheme is a funded pension scheme, which means that funds are set aside to meet future retirement needs of scheme members. The scheme is a statutory pension scheme governed by the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2007. Under these regulations Cumbria County Council is required to provide an administration service for the scheme within the geographical area of Cumbria.

The County Council administers the pension scheme on behalf of the majority of local government employees in Cumbria, further and higher education colleges, some voluntary and other non-profit making organisations, and a number of ‘Admitted Bodies’, i.e. organisations that have entered into an admission agreement with the County Council to participate in the Pension Fund.

The scheme is open to all local government employees within the County who are not covered by alternative pension arrangements. The main categories of employees covered by alternative arrangements are teachers, Fire Service uniformed personnel and police officers.

1.1 Governance

Governance in the public service context is the leadership, direction and control of public service organisations to ensure they achieve their agreed aims and objectives, and in doing so serve the public’s best interests. Good governance leads to good management, good performance and good stewardship of public money as well as being a legal requirement.

The management arrangements of the Cumbria Local Government Pension Scheme have three elements: Cumbria Pensions Committee, Cumbria Pensions Forum, Advisers and Officers.

To ensure good governance of the scheme the policy framework and all aspects of management of the Scheme are set out in the various Fund Policy Statements.

The purpose of each is summarised as follows:

Governance Policy Statement – sets out the roles and responsibilities, describes risk management, and reports compliance against a set of best practice principles.

Administration Strategy & Communications Policy – details the formal arrangements for pensions and benefits administration for the Scheme, and the communications with members, employers and pensioners.

Statement of Investment Principles – details how the fund’s assets are invested, the fund managers and benchmarks, and the fund’s compliance with Myners Principles.

Cash Investment Policy – the management of the pension fund cash, bank account and investment of surplus cash.

Funding Strategy Statement – identifies how the Scheme’s pension liabilities will be funded in the longer term and addresses solvency issues.

Admissions and Termination Policy – details the policy on employer admissions and the methodology on cessation from the Scheme.

1.2 Cumbria Pensions Committee

National guidance from the Local Authorities (Functions and Responsibilities) Regulations 2000 make it clear that "functions relating to local government pensions etc." are not executive functions. The Cumbria Pensions Committee acts as the County Council (rather than as part of the Executive) and is, therefore, not subject to scrutiny and call in of its individual decisions.

The committee has 10 members (8 County Councillors, 1 District Councillor and one non-voting employee representative).

Advice is given by Cumbria County Council's Corporate Director - Resources, the Council's finance team and by two independent advisers. The current advisers are appointed for their knowledge of investments and of pension funds; one adviser being primarily an investment specialist, the other complementing these investment skills with actuarial knowledge of the liability profile of the Fund.

Services are also provided by the scheme actuary Mercers, and by other consultants for investment management services.

1.3 Cumbria Pensions Forum

The Cumbria Pensions Forum has been set up to seek the views of the representative bodies, employees and pensioners and discuss items of common interest in relation to pensions.

2. Governance Policy Statement - March 2011

This current version of the Governance Policy Statement was presented to the Pensions Committee for approval at the Pensions Committee held on 1 March 2011.

2.1 Terms of Reference of the Pensions Committee

National guidance from the Local Authorities (Functions and Responsibilities) Regulations 2000 make it clear that "functions relating to local government pensions etc." are not executive functions. The Cumbria Pensions Committee acts as the County Council (rather than as part of the Executive) and is, therefore, not subject to scrutiny and call in of its individual decisions.

The committee has 10 members (8 County Councillors, 1 District Councillor and one non-voting employee representative).

Advice is given by Cumbria County Council's Corporate Director - Resources, the Council's finance team and by two independent advisers. The current advisers are appointed for their knowledge of investments and of pension funds; one adviser being primarily an investment specialist, the other complementing these investment skills with actuarial knowledge of the liability profile of the Fund.

Services are also provided by the scheme actuary Mercers, and by other consultants for investment management services.

The formal Terms of Reference of the Pensions Committee are as follows:-

(a) To exercise the Council's responsibility as administering authority for the management of Cumbria Local Government Pension Scheme (the "Pension Fund").

(b) To appoint the Investment Manager(s) for the Pension Fund.

(c) To approve advice to the Investment Managers on future policy for the investment of the Pension Fund.

(d) To submit the Accounts to the Audit and Assurance Committee for approval.

(e) To communicate with the other employers of the Scheme.

(f) To submit update reports to the Council on the state of the Fund and investment activities following meetings of the Committee.

(g) To invite appropriate professional representation as required, affecting the general management of the scheme.

The Pensions Committee will meet four times a year to consider the investment activities of the appointed fund managers and other matters relating to the management of the local government pension scheme. An annual Performance Review meeting will also be held to review the annual and longer-term investment performance of the scheme.

All meetings have proper agendas, records and minutes. Each quarter the Pensions Committee reports to full County Council on the activities and decisions of the last quarter (including any meetings of the Pensions Forum). Training in current pension topics is given internally and externally. Training is also provided for the Pension Forum members on an annual basis.

The policies in relation to voting and reimbursement of expenses of Committee members are inherited from Cumbria County Council, and form part of its Constitution. (Further details can be found on the Council's website at http://www.cumbria.gov.uk)

All facility time is paid by Cumbria County Council, as set out in the Trade Union Facilities Agreement.

2.2 Terms of Reference of the Pensions Forum

The Constitution of the Cumbria Pensions Forum is:

Employers:
(a) County Council: Nine Members (9)
(b) District Councils: One member nominated by each Council (including member of the Pensions Committee) (6)
(c) Statutory Bodies: Two member representatives (2)
(d) Admitted Bodies: Three representatives (3)

Employees:
(a) County Council: Eight employee representatives appointed by UNISON, of whom two shall be current pensioners (8)
(b) District Councils: Two employees representatives for each District appointed by UNISON, together with two current pensioners (14)
(c) Statutory Bodies: Two employee representatives (2)
(d) Admitted Bodies: Three employee representatives (3)

The terms of reference of the Cumbria Pensions Forum are:

To seek the views of the representative bodies, employees and pensioners and discuss items of common interest in relation to pensions including: -

(a) Administration of pensions and information to employees and pensioners in Cumbria;
(b) Discretionary benefits under the Scheme;
(c) The state of the Fund (The Annual Report and Accounts shall be submitted to the Forum);
(d) Investment policy;
(e) Developments in public sector pension matters and to make appropriate recommendations to the County Council;
(f) The Chairman of the Pension Forum shall be a Member of the County Council;
(g) The Forum shall meet at least once per year.
(h) A special meeting of the Forum may be called by the Chairman, and he/she shall call a meeting within 21 days if requested in writing by three District Councils or by five employee representatives.
(i) The Forum members will have access to public Pension Committee papers, and are invited to comment where appropriate.

The Cumbria Pensions Forum normally meets bi-annually to inform and consult with the wider representation of employing organisations, and employee and pensioner representatives. The dates of these meetings are synchronised with those held by the Pensions Committee to allow for Forum input.

The policies in relation to voting and reimbursement of expenses of Committee members are inherited from Cumbria County Council, and form part of its Constitution. (Further details can be found on the Council's website at http://www.cumbria.gov.uk)

All facility time is paid by Cumbria County Council, as set out in the Trade Union Facilities Agreement.

2.3 Corporate Director - Resources

The Corporate Director - Resources has:

- To make safe and efficient arrangements for the receipt and collection of monies paid or due to the Council, and the issue of monies payable by the Council.

- To secure the satisfactory provision of services through the contract with the pensions administration provider.

2.4 Risk Management

The Pensions Committee considers risk management periodically. The latest review was at the Pensions Committee meeting held on 1 March 2011. The major risks facing the scheme are shown in the table below:

Pension scheme risks March 2011

No	Risk	Impact	Likelihood	Overall Risk Rating
1	The fund deficit is unaffordable (Corporate Risk)	4	3 (5)	12
2	Significant financial downturn occurs – '1 in 20' year event	4	3	12
3	Investment strategy insufficiently flexible to exploit market opportunities	3	4	12
10	Pressure due to significant reductions in scheme membership due to contribution increases	3	3	9
6	Market risk as a result of an investment failure which may be relatively small compared to the Fund overall but large in absolute terms	2	4	8
11	Risk of a legal challenge to the switch from RPI to CPI.	2	4	8
4	A loss occurs due to fraud or financial irregularity damaging the financial standing and reputation of the Scheme	2 (3)	3	6
7	Annual report and accounts criticised by Audit Commission	3	2	6
8	Pensions administration does not deliver effective service due to implementation problems when transferring to "My Pensions Service" from February 2011	3	2	6
9	Global epidemic	4	1	4

Risk Matrix

Impact					
5. Most severe	amber	amber	amber	red	red
4. Major	9	amber	2 amber	red	1 red
3. Moderate		7, 8	4, 5	3 amber	amber
2. Minor				6	
1. Insignificant					
	1. Very unlikely	2. Unlikely	3. Possible	4. Likely	5. Very likely
					Likelihood

For all the risks shown above mitigation action has been identified and action taken. A progress report setting out details was also presented to the Committee.

2.5 Governance Compliance Statement

The Local Government Pension Scheme Regulations 1997 were amended on the 30 June 2007 (Regulation 73A(1)(c) to require Administering Authorities to report the extent of their compliance against a set of best practice governance principles published by Communities and Local Government (CLG).

Principle	Compliance	
Principle A - Structure	**Not Compliant**	**Fully Compliant**
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. 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. c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. 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.		✓ ✓ ✓ ✓
Principle B - Representation	**Not Compliant**	**Fully Compliant**
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 non-scheme employers, eg, admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) independent professional observers, and iv) expert advisors (on an ad-hoc basis). 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.		✓ ✓
Principle C - Selection and role of lay members	**Not Compliant**	**Fully Compliant**
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. 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.		✓ ✓
Principle D - Voting	**Not Compliant**	**Fully Compliant**
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.		✓
Principle E - Training facility time expenses	**Not Compliant**	**Fully Compliant**
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. 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. c) That the administering authority considers the adoption of annual training plans for the committee members and maintains a log of all such training undertaken.		✓ ✓ ✓

Principle	Compliance	
Principle F - Meeting frequency forum	**Not Compliant**	**Fully Compliant**
a) That an administering authority's main committee or committees meet at least quarterly. 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. c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.		✓ ✓ ✓
Principle G - Access	**Not Compliant**	**Fully Compliant**
a) That subject to any rules in the council' 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.		✓
Principle H - Scope	**Not Compliant**	**Fully Compliant**
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements		✓
Principle I - Publicity	**Not Compliant**	**Fully Compliant**
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.		✓

3. Administration and Communications Policy

As stated in the Governance Policy Statement, it is the responsibility of the Pensions Committee to exercise the Council's responsibility as administering authority for the management of Cumbria Local Government Pension Scheme, and the Corporate Director - Resources is responsible for securing the satisfactory provision of services through the contract with the pensions administration provider.

The Administering Authority has externalised the administrative pensions function from 1st February 2011 to Your Pension Service, at Lancashire County Council. The details are contained in a Service Level Agreement (SLA) drawn up between the administering authority and Lancashire County Council.

3.1 External Administration Provider

An annual administration report will be presented to the Pensions Committee at least annually.

This report will include:

- Actual performance against key performance indicators.
- Details of over and under payments.
- Communications activity including copies of newsletters to members.
- Details of current staffing levels and changes implemented or planned.
- Details of estimates provided, hits on the pensions website and developments to the website.

Communications Policy

The external administration provider is contractually bound to:

- Provide a full explanatory guide for the pensions scheme, on commencement of employment or subsequent request from an individual employee. Issue a supply of brief guides to each employer (as required) for distribution to new employees with the contract of employment.
- Ensure all employers are informed of changes to relevant pensions legislation and advise on best practice (eg via seminars if necessary, and by providing an Employers Guide).
- Issue explanatory booklets and material upon request of employer or individuals.
- Provide and issue explanatory booklets on Additional Voluntary Contributions (AVCs) ensuring that these are accurate and up to date.
- Each year distribute to all AVC contributors the statement provided by the AVC provider.
- Each financial year-end arrange for a P60 form to be dispatched to all pensioners.
- Paper payslips will be provided to members in receipt of pensions when payment alters by over £5.00.
- Each year provide to all current scheme members a statement of benefits, with accompanying explanatory notes (in plain English and reflecting latest statutory position) and provide a telephone help line for queries.
- Distribute to the employing bodies a copy of the actuary's report and notify to each their specific employers contribution rate.
- Upon written request provide details of any aspect of relevant pension schemes including copies of legislation and interpretation.
- Upon request from groups of scheme members provide appropriate attendance at seminars (eg. pre retirement or induction course) and provide sessions on pension scheme aspects if required.
- Provide and maintain an up to date Employers' Guide to assist employing bodies perform their role in relation to administration of pension scheme matters.
- Provide a full help line (telephone) service to all past, present and future members of pension schemes, and to their employing bodies, to advise on all aspects. Maintain the Cumbria Local Government Pension Scheme website and update the contents as required.
- Produce Pension Newsletters as and when required to explain to members any change in the scheme (and in full compliance with statutory requirements)

The Administering Authority, Cumbria County Council, will:

- Prepare an Annual Report and Accounts. This will be distributed to all employers in the scheme and published on the Cumbria County Council website: **www.cumbria.gov.uk/Finance.**
- Prepare a members report annually, which will contain summary accounting detail and other relevant information. This will be distributed where practicable to all members of the pension scheme.
- Maintain a Statement of Investment Principles, keep it under review at least every year, and publish it. A Funding Strategy Statement will be produced every three years along with the Actuarial Valuation. Copies of the Actuarial Valuation and Funding Strategy Statement will be distributed to all employers who are members of the scheme.

4. Statement of Investment Principles

4.1 Introduction

Administering Authorities have to prepare, maintain and publish Statements of Investment Principles under the Local Government Pension Scheme Management and Investment of Funds (Amendment) Regulations 2009.

The Statement of Investment Principles (SIP) outlines the Fund's investment strategy, and how the risk and return issues have been managed relative to the Fund's investment objectives. It should be read in conjunction with the Funding Strategy Statement (FSS) which sets out how solvency and risks will be managed with regard to the underlying pension liabilities. The SIP will be reviewed at least annually.

The SIP covers the following:

- Background
- Types of investments
- Balance between investments
- Assets managed by investment fund managers
- The strategic benchmark
- Items outside the strategic benchmark
- Limits on investments
- Risk
- Investment objectives
- Realisation of investments
- Corporate Governance and Ethical Investment
- Compliance of Cumbria Fund with the Updated Myners Principles

4.2 Background

The Cumbria Pensions Committee exercises Cumbria County Council's responsibility as administering authority for the management of Cumbria Local Government Pension Scheme. The Terms of Reference are set out in the Scheme's Governance Policy, and include appointing investment managers and approving the investment policy for the Pension Fund.

The Cumbria Fund was restructured following a Strategic Investment Review in 2006, and further alternations to the investment structure were decided by the Pensions Committee in early 2010. The latest SIP was approved by the Pensions Committee held on 1 March 2011.

4.3 The investment objectives of the fund

- The very long-term objective is to achieve an investment return in the order of 6.5 % per annum (to match the actuary's long term assumptions for future service) over a twenty-five year period from April 2007. This target may be reviewed after periodic actuarial valuations and consultation with scheme employers.

- The funding level of the scheme to move towards 100 % over a maximum fund recovery period of twenty-five years from April 2007. This target may be reviewed after periodic actuarial valuations and consultation with scheme employers.

- The target investment return for the fund as a whole is to be 0.6 % per annum ahead of the fund's customised benchmark return over rolling five-year periods.

- As the fund has adopted a scheme specific benchmark, it is not appropriate to compare the fund directly with the WM Local Authority Universe return. Nevertheless, regard will still be paid to this Universe over the longer term.

4.4 Types of investments to be held

The fund will hold UK Equities, overseas equities, index-linked securities, fixed interest securities, managed funds (in particular unit and investment trusts), alternatives (e.g. venture capital, hedge funds, infrastructure, commodities, forestry, emerging market debt), certain derivatives, direct property, cash and other assets as determined from time to time by the Pensions Committee.

4.5 Balance between different types of investments

The fund employs seven managers to diversify the investment manager risk. The percentage allocated to each manager is reviewed periodically by the Pensions Committee, including a specific allocation to the property manager and the alternatives manager. The fund maintains long-term allocations to various asset classes, including property and alternatives.

The actual asset split of the Fund overall as at 31st December 2010 is shown below along with the benchmark allocation.

Asset Class	Benchmark Asset Allocation	Percentage as at 31/12/10
UK Equities	25	25
Overseas Equities North American Europe ex UK Japan Pacific ex Japan Emerging Markets	25	26
Fixed Interest UK Fixed Interest Corporate Bonds Fixed Interest total	 6 16 22	 8 13 21
Index-Linked	11	11
Alternatives	9	9
Property	8	6
Cash/debtors/creditors	0	2
TOTAL	100	100

4.6 Assets managed by pension fund investment managers

Asset Class	Benchmark Asset Allocation	Percentage as at 31/12/10
Schroder (UK Equities)	13.3	To outperform the FTSE All Share Index by 1% after fees over rolling three-year periods.
Insight (Bonds)	9.7	To outperform by 0.75% after fees a weighted bond index over rolling three-year periods.
Newton (Global Equities)	12.3	To outperform the FTSE World index by 2% gross of fees over rolling three-year periods.
GMO (Overseas Equities)	13.3	To outperform by 2% after fees an overseas equity weighted index over rolling three-year periods.
BlackRock (Alternatives)	8.7	To achieve an absolute return of three month sterling LIBOR plus 3% net of fees on an annualised basis over rolling three year periods.
Legal and General Passive (Multi Asset) excluding property and alternatives	36.5	To keep tracking error within set limits per annum to the appropriate index, two years in three. (UK equities 2.0%, overseas equity 2.0%, gilts 1.0%, corporate bonds 1.0%, index-linked bonds 1.5%) Excludes property and alternatives.
Aberdeen (UK Property)	6.2	To outperform the IPD Quarterly Universe after fees over rolling three-year periods.
Total	100	

Investment managers are paid fees and are expected to achieve an investment target. As fees are based on the value of funds under management, growth in the portfolio would lead to an increase in fee, providing an element of performance incentive. Where performance is unsatisfactory and targets are not met, fees may be renegotiated and where performance remains unsatisfactory, managers can be removed and the mandates awarded to other managers. The above allocation will be reviewed at least annually and as necessary. The most recently appointed managers Newton and BlackRock are also remunerated according to performance.

4.7 The strategic benchmark

The Strategic Investment Review recommended that the Scheme adopt a scheme-specific benchmark for the investments, with long-term allocations to the various traditional asset classes, excluding property and alternatives, which reflect the circumstances of the Scheme.

Legal and General maintain this balance between certain of the fund's assets within the control ranges, by rebalancing their unit fund holdings. The property and alternatives portfolios are not included in the rebalancing of the assets to the strategic benchmark.

Further refinements to the strategic benchmark were decided by the Pensions Committee in March 2010. The customised benchmark in place at 31st December 2010, excluding the direct property allocation and alternatives portfolio, was as follows:

Asset Class	Percentage at 31/12/10	Control Range + or - %	Index
UK Equities	30	2.0	FTSE All Share
Overseas Equities	30	2.0	
North American			FTSE World North America
Europe ex UK			FTSE World Europe ex UK
Japan			FTSE World Japan
Pacific ex Japan			FTSE Developed Asia Pacific ex Japan
Emerging Markets			S&P IFC Investable Composite
Fixed Interest			
UK Fixed Interest	7		FTSE-A Govt (Over 15 yr)
Corporate Bonds	19.5		iBoxx £ Non-Gilt
Fixed Interest total	26.5	2.0	
Index-Linked	13.5	1.5	FTSE-A Index-Linked (Over 5 year)
Total	100		

Investment managers are paid fees and are expected to achieve an investment target. As fees are based on the value of funds under management, growth in the portfolio would lead to an increase in fee, providing an element of performance incentive. Where performance is unsatisfactory and targets are not met, fees may be renegotiated and where performance remains unsatisfactory, managers can be removed and the mandates awarded to other managers. The above allocation will be reviewed at least annually and as necessary. The most recently appointed managers Newton and BlackRock are also remunerated according to performance.

4.8 Items managed outside the strategic benchmark

Property has a monetary target held separately from the strategic benchmark and compared to the IPD Monthly Property Index. The Pensions Committee decided in March 2010 that the allocation to property should be increased to around 8% of the Fund, funded from equity holdings. The portfolio at 31st December 2010 was £85.0 million. The alternatives portfolio managed by BlackRock is benchmarked against the LIBOR plus 3% and was valued at £118.9 million (31/12/10). Legal & General are engaged to passively hedge up to 50% of the overseas currency exposure.

4.9 Limits on investments

The powers and duties of the fund to invest monies are set out in the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2003. The amended regulations provide the opportunity to increase exposure to certain types of investments specified in Schedule 1 of the regulations where proper advice has been obtained.

The Pension Committee of the Cumbria Local Government Pension Scheme has decided, having taken proper advice, to adopt increased limits as follows:

1. Effective from 20 November 2007 and in accordance with Regulation 11(2A) and item 10 of Part 1 of Schedule 1 of the regulations, the limit on the amount invested in any single insurance contract is 35%. This allows increased flexibility to the fund in respect of passive investments.

2. Effective from 18 August 2009 and in accordance with Regulation 11(2A) and items 2 and 3 of Part 1 of Schedule 1 of the Regulations, the limit on all contributions to any single partnership is 3% (of total Fund) and the limit on all contributions to partnerships is 6% (of total Fund). The increased limits enable the Fund to implement its management structure at a time of falling asset values.

These decisions comply with the requirements of the Regulations and are subject to periodic review.

4.10 Risk

The return of the fund is to be achieved by the investment managers without exposing the Fund to excessive risk and with regard to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Risk is managed by diversification by:

- The appointment of more than one manager, and managers with different investment styles.
- The use of different asset classes including alternatives.
- For each manager, where appropriate, reviewing the achieved variation in investment return from the benchmark, and also the forecast range of return for each future quarter.

Managers' performance targets are set to avoid undue exposure to risk and investment performance is measured over a three year period, but it is monitored quarterly with managers attending the Pensions Committee regularly and normally at least once in a twelve month period. The benchmark asset allocation, as revised in light of the Strategic Investment Review, is a key indicator of the level of risk that is acceptable.

Mercer have estimated the Value at Risk of the fund. The One-year Value at Risk of the fund (95th percentile) is the potential worst-case scenario (with a 5 % probability) increase in the deficit over a one-year period. The Value at Risk is estimated at £244 million as at 31 December 2010. (Funding review by Mercer)

4.11 Realisation of investments

Investment managers are free to realise investments to maximise the benefit to the Fund. Transactions have, however, to be reported quarterly to the Pensions Committee.
The property manager is instructed to notify the Corporate Director of Resources before they make any sales or purchases.

4.12 Corporate Governance

The overriding objective of the fund is to obtain its stated performance targets. However, investment managers are expected to combine the primary aim of out-performance with the need to take a responsible attitude as longer-term shareholders in companies, and to maximise long term shareholder value.

Where, however, two investments are evenly balanced environmental or ethical considerations could be a deciding factor.

The responsibility for the exercise of rights (including voting rights) attaching to investments is delegated to the investment managers who are expected to approach the subject of voting with the same care and attention as other matters which influence investment decisions. Voting should be undertaken where it is believed it to be in the best interests of the Fund.

Where a resolution is put forward which is particularly controversial the manager should liaise with the authority as appropriate. Investment managers need not vote on routine issues.

The investment managers are required to report quarterly on their voting actions for every appropriate investment. Any responses received from companies concerned should also be reported. A full voting audit trail should be available. The outcome of voting actions should also be shown if possible. In endeavouring to invest in the best financial interests of the beneficiaries, the Trustees have also elected to invest in pooled indexed funds and cannot therefore directly influence the social, environmental and ethical policies and practices of the companies in which the pooled funds invest. The Trustees are satisfied that the Fund Managers Corporate Governance policy reflects the key principles of Socially Responsible Investment.

4.13 Social, Environmental and Ethical Investment

Ethical investment is defined as “the practice of selecting or deselecting investments by reference to any criteria other than financial ones” (1).

The investment guidelines issued to managers of the Cumbria scheme’s investments stress the overriding importance of financial considerations in selecting investments. Social environmental and ethical considerations are important where, in the view of the manager, such considerations may add to the risk of comparative under-performance perhaps because of change to the regulatory regime of an industry in which a particular company operates.

Equally, where a manager has a view, that a positive social, environmental and ethical stance by a company will add to its relative performance, that would be an appropriate factor for the manager to take into account in stock selection.

The legal duties of trustees and elected members are not clear-cut. However, following legal advice the fund believes the above statement complies with the legal duty placed on pension fund trustees.

NOTE (1) CIPFA PENSIONS PANEL: MANAGEMENT AND INVESTMENT OF FUNDS SHAREHOLDER RESPONSIBILITIES.

4.14 Compliance of Cumbria Fund with the Updated Myners Principles

Principle	Compliance	
Principle 1 : Effective Decision Making	**Not Compliant**	**Fully Compliant**
Administering authorities should ensure that • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and • those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. The fund has a clear scheme of delegation and arrangements for provision of management and advice. Investment funds are managed by seven national or international organisations with offices in London. The members of the Pensions Committee perform duties similar to private trustees and are elected councillors of the County Council and District Councils. The Members' Allowance Scheme operates for the remuneration of the Pension Committee. The Pension Committee have their skills and experience developed through training events, external seminars and fund manager visits on a regular basis. Two independent Investment Advisers normally attend Pension Committee meetings. A small team of professional investment and support staff is provided. Officers of the Council provide advice on a day-to-day basis. The Chairman and members can contact officers and independent advisers on an ad hoc basis as and when required. Expert consultants and Actuaries are also used by the fund as required. There is a forward looking business plan and progress is regularly evaluated. This includes a three-yearly strategic investment review, following the Actuarial Valuation.		✓ ✓
Principle 2 : Clear Objectives	**Not Compliant**	**Fully Compliant**
• An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.		✓
The investment objectives are detailed in the Statement of Investment Principles, and the Funding Strategy Statement details the funding objectives. Both are updated as required. The fund has its own investment benchmark although regard is paid to the Local Authority Universe allocation to comply with Best Value methodology. The fund's liability profile will normally be considered in relation to its benchmark every three years, with annual interim reviews. All fund managers have clear written mandates, governed by the Fund's strategic objectives and Pension Investment Regulations, and are reviewed regularly by officers and the Pension Committee. Performance contribution is reviewed quarterly and there is a detailed annual review of performance. The Fund operates on a three-year rolling review approach with regular fund manager presentations to the Pensions Committee on performance. Over the last six years, three managers have been terminated or replaced for under-performance. All significant investment opportunities are considered and taken where appropriate. Stock Lending was approved during 2004.		

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Principle	**Compliance**	
Principle 3 : Risk and Liabilities	**Not Compliant**	**Fully Compliant**
• In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.		✓ ✓
Strategic asset allocation receives a high level of attention and a full strategy review is undertaken every three years following the Actuarial Valuation. The Actuarial Valuation considers longevity risk and the affordability of contribution rates for the County Council, District Councils and other employers of the Scheme, taking a prudent longer-term view of funding the liabilities.		
Principle 4 : Performance Assessment	**Not Compliant**	**Fully Compliant**
• Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers. • Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.		✓ ✓
The fund carries this out through the performance measurement service supplied by SSIA/WM Company. Investment performance is reported to the Pension Committee each quarter, and at an Annual Performance Review with SSIA/WM Company. The Pensions Committee members are surveyed for their views on quality of advice given by the Investment Advisers. Effectiveness of Pension Committee decisions, such as strategy and manager selection, is discussed in the Annual Report and Accounts.		

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<table>
<tr><th>Principle</th><th colspan="2">Compliance</th></tr>
<tr><th>Principle 5 : Responsible Ownership</th><th>Not Compliant</th><th>Fully Compliant</th></tr>
<tr><td>Administering authorities should:
• adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

• include a statement of their policy on responsible ownership in the Statement of Investment Principles; and

• report periodically to scheme members on the discharge of such responsibilities.</td><td></td><td>✓

✓

✓</td></tr>
<tr><th>Principle 6 : Transparency and Reporting</th><th>Not Compliant</th><th>Fully Compliant</th></tr>
<tr><td>Administering authorities should
• act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and

• provide regular communication to members in the form they consider most appropriate.</td><td></td><td>✓

✓</td></tr>
<tr><td colspan="3">The Statement of Investment Principles (SIP) sets out
• The Fund's investment objective,
• The Fund's planned asset allocation strategy,
• Mandates given to advisors and managers.

The SIP is included in the Fund's Annual Report; this is sent to all employers and is available on the County council's website.
All members of the fund also receive a summarised copy of the Annual Report in the form of a leaflet, sent directly to them.
Investment performance is included in the Annual Report. Adviser performance measurement will be included.
The Cumbria Pensions Forum meets to inform and consult on wider pensions issues; the members receive the Annual Report, and have access to the public Pension Committee papers.

The Pension Committee Minutes and Agenda are available on the County Council website.
The Annual Report and Members' Report are also placed on the Council's website.</td></tr>
</table>

5. Cash Investment Policy
- March 2011

5.1 Introduction & Regulations

The Cash Investment Policy for Cumbria Local Government Pension Scheme was first approved by the Cumbria Pensions Committee on 26th February 2010, with an updated version approved on 1 March 2011. The Policy has been constructed and will be maintained by the Administering Authority with regard to the following regulations and guidance:

- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009,
- CLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and any revisions to that guidance,
- Audit Commission's report on Icelandic investments,
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code") revised in 2009.

5.2 Management of Pension Fund Cash

The Administering Authority will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1st Jan 2010, and from 1st April 2010 will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with the Administering Authority after 1 April 2010 will comply with the requirements of SI 2009 No 3093.

From 1st April 2011, Cumbria LGPS will operate its own bank account separately from Cumbria County Council.

5.3 Cash Investment Priorities

The Cumbria Pension Scheme's cash investment priorities are: -
(a) the security of capital and
(b) the liquidity of its investments.

As cash is not included in the Scheme's benchmark as an asset, the Administering Authority should aim to keep the cash balance held to a minimum, as surplus pension fund monies should be fully invested by the investment managers.

The Scheme will also aim to achieve a modest return on its cash investments commensurate with proper levels of security and liquidity. The risk appetite of this Scheme is low in order to give priority to security of its cash investments.

5.4 Investment and Counterparty Choice

The Cumbria LGPS will seek advice on its Investment Policy from the officers and advisers of Cumbria County Council. Investment instruments identified for pension cash must be allowable within the Council's own Investment Strategy from the 'Specified Investment' category. Counterparty choice for pension cash will be restricted to those with creditworthiness satisfying the Council's own Treasury Management criteria.

All credit ratings will be monitored through the Council's use of the Treasury Advisers' creditworthiness service. The Council will also use market data and information, information on government support for banks and the credit ratings of that government support.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its use for pension fund cash will be withdrawn immediately.

5.5 Investment Strategy for Pension Fund Cash

Subject to the aim to keep the cash balance held to a minimum as stated above, the investment of any fund money that is not needed immediately must be invested using the following strategy :

- Set a cap at £5 million for the NatWest Liquidity account and each Money Market Fund, and allow officers discretion to invest appropriately between them.

5.6 Role of the Section 151 Officer

The treasury management role of the section 151 officer with respect to pension fund cash will be -

- recommending the Cash Investment Policy for approval, reviewing the policy regularly, and monitoring compliance;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function and reporting activities to the Pension Committee, no less than annually;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.

5.7 Review of Policy

The Cash Investment Policy will be kept under regular review to accommodate any necessary changes due to regulations, changes in the UK banking support package, to bank creditworthiness, and any other necessary amendments, to maintain the security of capital and the liquidity of the pension fund cash invested.

6. Funding Strategy Statements (FSS)
- March 2011

This Statement has been prepared by Cumbria County Council (the Administering Authority) to set out the Scheme strategy for the Cumbria Local Government Pension Scheme ("the Scheme"), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

6.1 Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) ("the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement. The key requirements for preparing the FSS can be summarised as follows:

After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their funding strategy;

In preparing the FSS, the administering authority must have regard to:-

- the guidance issued by CIPFA for this purpose; and
- the Statement of Investment Principles (SIP) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);

The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, membership and contributions) Regulations 2007 (as amended). The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Administration Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Fund should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

6.2 Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

6.3 Aims and purpose of the Pension Fund

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies;
- manage employers' liabilities effectively;
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme Regulations 2008 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

6.4 Responsibilities of the key parties

The Administering Authority should:

- collect employer and employee contributions;
- invest surplus monies in accordance with the Regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP as and when appropriate.

The Individual Employer should:

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

6.5 Solvency Issues and Target Funding Levels

6.5.1 The funding objective

To meet the requirements of the Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing basis including allowance for projected final pay.

6.5.2 Determination of the funding target and recovery period

The principal method and assumptions to be used in the calculation of the funding target are set out in the Appendix. Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates:

- The fund will operate a default deficit recovery period of 19 years. However, in order to allow some flexibility for employers to maintain their current contribution rates, employers will normally have some limited options to extend the deficit recovery period. Nevertheless, in current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply where substantial deficits apply. As a result, all employers in deficit will be required to adopt a deficit recovery period in line with the default period (or shorter) before any reduction in overall contributions will be allowed.

- A maximum deficit recovery period of 25 years will apply in any event.

- Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted.
- Where increases in employer contribution rates are required from 1 April 2011, following completion of the 2010 actuarial valuation, the increase from the rates of contribution payable in the year 2010/11 may be implemented in steps, over a maximum period of 3 years.
- Where agreed by the Administering Authority, an employer may allocate a specific reserve to cover estimated early retirement costs over the three years commencing 1 April 2011. In such cases the amount of that reserve will be taken into account in determining the employer's contribution rate from 1 April 2011. The payment of additional contributions in respect of early retirements will be required once the specific reserve has been used up.
- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. Details of the approach to be adopted for such an assessment on termination are set out in the separate Admission and Termination Policy document.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles;
- relevant guidance issued by the CIPFA Pensions Panel;
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose,
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

6.5.3 Deficit recovery plan

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as lump sum £ amounts.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

6.5.4 The normal cost of the scheme *(future service contribution rate)*

In addition to any contributions required to rectify a shortfall of assets below the funding target contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in the Appendix.

6.6 Link to investment policy set out in the Statement of Investment Principles

The results of the 2010 valuation show the accrued liabilities to be 79% covered by the current assets, with the funding deficit of 21% being covered by future deficit contributions due from participating employers.

In assessing the value of the Fund's liabilities above, allowance has been made for asset out-performance as described in Section 5, taking into account the investment strategy adopted by the Fund, as set out in the Statement of Investment Principles (SIP).

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the Fund investments. On this basis of assessment, the assessed value of the Fund's liabilities at the 2010 valuation would have been significantly higher, by approximately 32% and the declared funding level would be correspondingly reduced to approximately 60%.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The Statement of Investment Principles is published in the Cumbria LGPS Annual Report and Accounts, and is available on-line at www.cumbria.gov.uk/Finance.

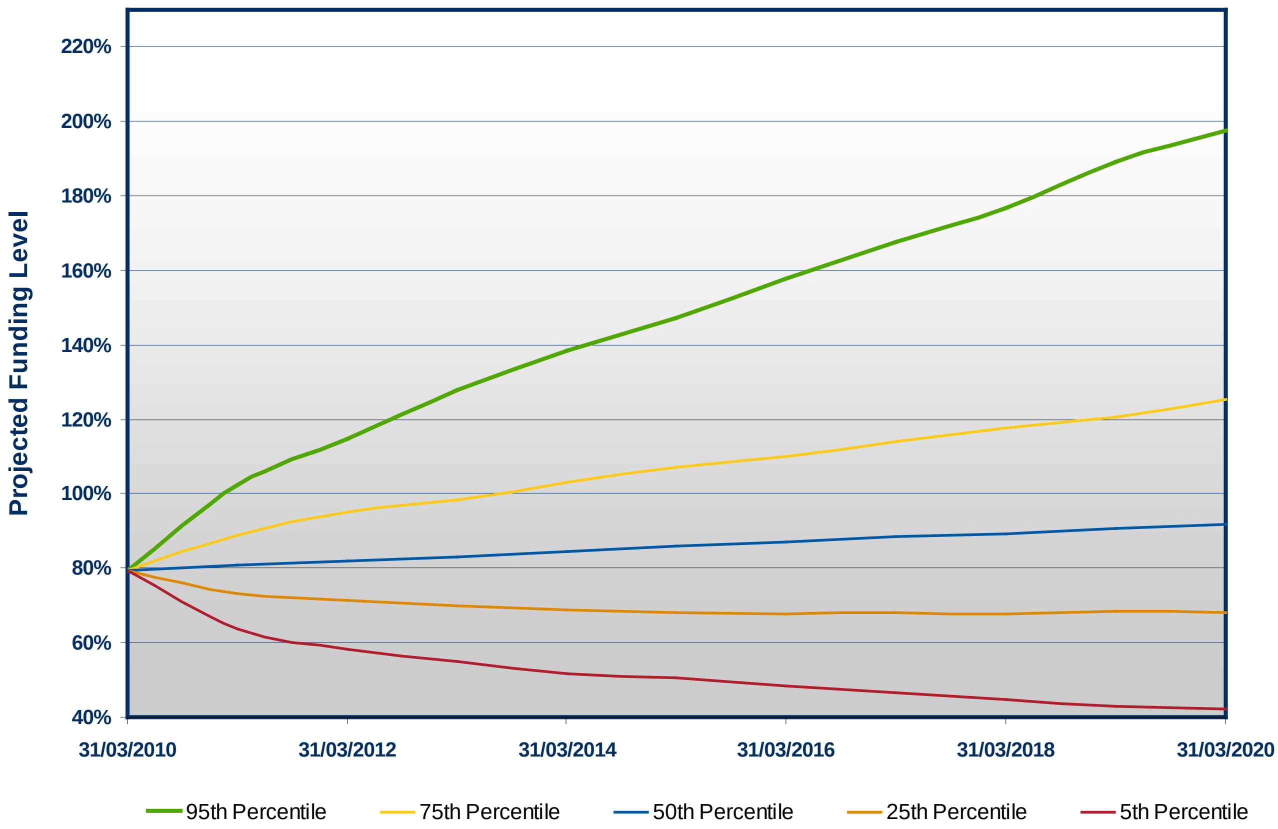
The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 1% in respect of post-retirement liabilities. Based on the liability profile of the Fund at the valuation, this equates to an overall long-term asset out-performance allowance to keep pace with the liabilities of 1.4% p.a. The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the investment strategy adopted as set out in the SIP.

6.7 Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the Fund's funding is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall 1.4% per annum currently required on the basis of the 2007 valuation assumptions.

The chart below shows a "funnel of doubt" funding level graph, which illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation. Using a simplified model, the chart shows the probability of exceeding a certain funding level over a 10 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower).



The CIPFA guide identifies the following key risks:

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements

Regulatory

- Changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.

Further details concerning the governance of the fund can be found in the Scheme's Governance Policy Statement, which is included in the Cumbria LGPS Annual Report and Accounts, and is available on-line at www.cumbria.gov.uk/Finance.

6.8 Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with the Fund's participating employers.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the Fund membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- if there have been any significant special contributions paid into the Fund.

6.9 Method used in calculating the funding target and recovery plan

The actuarial method to be used in the calculation of the funding target and recovery plan is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

6.10 Financial assumptions used in calculating the funding target and recovery plan

6.10.1 Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 2% p.a. for the period pre-retirement and 1% p.a. post-retirement.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date. The allowance for this out-performance is based on the liability profile of the Scheme, with a higher assumption in respect of the "pre-retirement" (i.e. active and deferred pensioner) liabilities than for the "post-retirement" (i.e. pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the Fund as the liability profile of the membership matures over time.

6.10.2 Individual Employers

Having determined the AOAs as above for the Fund overall, it is important to consider how the financial assumptions in particular impact on individual participating employers. As employers in the Fund will have different mixes of active, deferred and pensioner members, adopting a different pre/post retirement investment return approach is equivalent to hypothecating a different equity/bond mix investment strategy for each employer. Such an approach would be inconsistent with the Fund practice, as set out in the FSS, of allocating investment performance pro rata across all employers based on a "mirror image" investment strategy to the whole Fund. In completing the calculations for individual employers therefore, a single, composite, pre and post retirement asset out-performance assumption of 1.4% p.a. has been calculated which, for the Fund as a whole, gives the same value of the funding target as the separate pre and post retirement AOAs.

6.10.3 Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, subject to the following adjustments:

- An allowance for supply/demand distortions in the bond markets at the valuation date, and
- The change in future pension increases (and increases to deferred pensions) under the LGPS to be in line with Consumer Price Inflation (CPI) in place of Retail Price Inflation (RPI)as announced in the Chancellor's budget of 22 June 2010
- The overall reduction to RPI inflation at the valuation date is 0.8% p.a.

6.10.4 Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.75% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.

6.10.5 Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

6.10.6 Mortality

The mortality assumptions have been updated since the 2007 actuarial valuation in the light of an investigation carried out by the Fund's actuaries. For the 2010 actuarial valuation the mortality assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the characteristics of the scheme's membership. Future improvements are assumed to be in line with the CMI projections model, with longer-term improvements being set at 1% p.a.

Members who retire on the grounds of ill heath are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older.

6.10.7 Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1p.a. of pension given up.

6.10.8 Other demographics

Following an analysis of scheme experience carried out by the Actuary, the ill health and proportions married assumptions have been modified from the 2007 valuation. Other assumptions are as per the 2007 valuation.

6.11 Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.75% per annum, with a long term average assumption for price inflation of 3.0% per annum. These two assumptions give rise to an overall discount rate of 6.75% p.a.

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In market conditions at the effective date of the 2010 valuation this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

6.12 Summary of key whole Fund assumptions used for calculating funding target, recovery plan and cost of future accrual (the “normal cost”) for the 2010 actuarial valuation

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

Long-term gilt yields

Fixed interest	4.5% p.a.
Index linked	0.7% p.a.
Implied RPI price inflation	3.8% p.a.
Inflation adjustment	0.8% p.a.
Long term CPI inflation	3.0% p.a.

Past service funding target and recovery plan financial assumptions

Investment return pre-retirement	6.5% p.a.
Investment return post-retirement	5.5% p.a.
Salary increases	4.75% p.a.
Pension increases	3.0% p.a.

Future service accrual financial assumptions

Investment return	6.75% p.a.
Salary increases	4.75% p.a.
Pension increases	3.0% p.a.

Demographic assumptions

The mortality tables adopted for this valuation are as follows:

	Table	Adjustment
Males normal health pensioners	S1PMA CMI_2009_M [1%]	101%
Female normal health pensioners	S1PFA CMI_2009_F [1%]	94%
Males ill health pensioners	As for male normal health pensioners +3 years	
Female ill health pensioners	As for female normal health pensioners +3 years	
Male dependants	S1PMA CMI_2009_M [1%]	118%
Female dependants	S1DFA CMI_2009_F [1%]	103%
Male future dependants	S1PMA CMI_2009_M [1%]	105%
Female future dependants	S1DFA CMI_2009_F [1%]	99%

Other demographic assumptions are noted below:

Withdrawal ....As for 2007 valuation
Other demographics ....Based on LG scheme specific experience

7. Admission and Termination Policy Statement

- August 2010

This document details the Cumbria Local Government Pension Scheme's policy on admissions into the Scheme, the methodology for assessment of a termination payment on the cessation of an admission body's participation in the CLGPS, and considerations for current admission bodies. The Admissions and Termination Policy was approved by the Cumbria Pensions Committee held on 31st August 2010.

A - ADMISSIONS POLICY

7.1.1 Admissions – Background

Admission bodies are a specific type of employer under the Regulations that govern the Local Government Pension Scheme. They do not automatically qualify for admission and must instead satisfy certain criteria as set out in the Regulations. They also need a written admission agreement to be admitted and participate in the Scheme.

The Council as administering authority may make an admission agreement with any admission body that satisfies the criteria under the Regulations. An admission agreement will enable all (or any specified class) of the admission body's employees to be members of the LGPS and participate in the LGPS.

Any application for admitted body status must be submitted to the Council as administering authority in good time to enable actuarial information to be obtained and the legalities associated with admission to be dealt with. Applications should preferably be submitted at least six months before the proposed transfer or admission date.

Admission bodies are divided into two basic types under the Regulations:-

(a) Community admission bodies;

(b) Transferee admission bodies.

7.1.2 Community Admission Bodies

These are the traditional type of admission bodies. They are bodies that usually operate in and/or are connected to local government.

The following are community admission bodies:-:

- a body, other than the governors or managers of a voluntary school (within the meaning of the School Standards and Framework Act 1998), which provides a public service in the United Kingdom otherwise than for the purposes of gain and which either—

  (a) has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise), or

  (b) is approved by the Secretary of State for the purposes of admission to the Scheme. Approval may be subject to such conditions as the Secretary of State thinks fit and he may withdraw approval at any time if such conditions are not met;

- a body, other than the governors or managers of a voluntary school, to the funds of which a Scheme employer contributes;
- a body representative of—

  (a) local authorities;

  (b) local authorities and officers of local authorities;

  (c) officers of local authorities where it is formed for the purpose of consultation on the common interests of local authorities and the discussion of matters relating to local government; or

  (d) Scheme employers;
- the Housing Corporation;
- the Commission for the New Towns;
- a company for the time being subject to the influence of a local authority (within the meaning of section 69 of the Local Government and Housing Act 1989 (companies subject to local authority influence)); and
- a company for the time being subject to the influence of a body listed in Part 1 of Schedule 2 of the Local Government Pension Scheme (Administration) Regulations 2008 (other than a local authority). For the purpose of determining whether a company is subject to the influence of a body as mentioned in paragraph (2)(g), section 69 of the Local Government and Housing Act 1989 shall have effect as if references in that section to a local authority were references to the body.

7.1.3 Transferee Admission Bodies

The Regulations also allow private contractors to be admitted into the LGPS subject to them meeting certain criteria. This type of admission body is known as a transferee admission body. The following are transferee admission bodies:-

- a body, other than a community admission body, that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—
  - (a) the transfer of the service or assets by means of a contract or other arrangement;
  - (b) a direction made under section 15 of the Local Government Act 1999 (directions imposed on failing local authority); or
  - (c) directions made under section 497A of the Education Act 1996 (directions imposed on a failing LEA).

- a body, other than a community admission body, that is providing or will provide a public service and which is approved by the Secretary of State for the purposes of admission to the Scheme. Approval may be subject to such conditions as the Secretary of State thinks fit and he may withdraw approval at any time if such conditions are not met.

7.2 Admissions Policy Statement

7.2.1 Community Admission Bodies

In addition to the requirements under the Regulations, the following principles will be adopted in relation to community admission bodies.-:

(a) Applications will be approved if all the conditions of participation set out in the appendix are met and;
- The body exists as a result of being specifically set up by a local authority(s).
- The body falls into the category of “community” admission highlighted within section 1 and does not have any of the disqualifying criteria set out below.

(b) Applications will not be approved if;
- The application falls into the “community” admission category and the body has one or more of the following disqualifying criteria attached to it:-

1. the body does not meet the conditions of participation detailed at the appendix; or
2. there is no guarantee from a local authority, or bond or indemnity (from an appropriate third party and to the satisfaction of the administering authority) in place to cover potential liabilities, or the admission body will not pre-fund for termination with contributions assessed using the least risk methodology and assumptions. (the administering authority on advice from the actuary will determine the most appropriate method described in (2.) to cover potential liabilities); or
3. there is a known limited lifespan or fixed contract term of admission to the fund; or
4. there is uncertainty over the security of the organisations funding sources e.g. the body is reliant on voluntary or charitable sources of income or has no external funding guarantee/reserves.
5. In exceptional circumstances the admission body’s application may be refused without the existence of any disqualifying criteria.
6. In exceptional circumstances, applications with disqualifying criteria may nevertheless be accepted, at the discretion of the administering authority, subject to any further requirements or restrictions that the administering authority may consider appropriate.

7.2.2 Transferee Admission Bodies

In addition to the requirements under the Regulations, the following principles will be adopted in relation to transferee admission bodies:-

(a) Applications will be approved if all the conditions of participation set out in the appendix are met and;
- The body falls into the category of "transferee admission body" highlighted in section 1 and does not have any of the disqualifying criteria set out below.

(b) Applications will not be approved if;
- The application falls into the "transferee" admission category and the body has one or more of the following disqualifying criteria attached to it:-

1. the body does not meet the conditions of participation detailed at the appendix; or
2. There is no bond or indemnity (of the amount determined to the satisfaction of the transferring Scheme employer in conjunction with the administering authority) in place to cover potential liabilities as detailed in the relevant actuarial assessment.
3. The transferring scheme employer is a participating employer within another LGPS Fund.

The deficit recovery periods for all admission bodies will normally be determined against the policy set out in the Funding Strategy Statement. However the administering authority reserves the right to determine that an employer specific deficit recovery period will apply.

Decisions regarding transferee and community admissions will be delegated to the Assistant Director - Finance.

B - TERMINATION FUNDING POLICY

7.3 Termination Funding – Background

When an admission agreement comes to its end, or is prematurely terminated for any reason, employees may transfer to another employer, either within the Scheme or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Scheme will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members.

In the event that unfunded liabilities arise that cannot be recovered from the admission body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

7.4 Termination Funding – Policy Statement

A termination assessment will always be carried out for "out going" admission bodies, the actuarial cost of which will be charged to the outgoing admission body, together with any other related costs of the termination.

Treatment of assets and liabilities at termination will be as follows:-

- **Community Admissions**

If potential liabilities are covered by a bond, then the amount of those liabilities will be recovered from the bond and/or the outgoing admission body.

Where a guarantor is in place all assets, liabilities and any funding deficit (not recovered from the outgoing body) will be subsumed by that guarantor assuming that they are also a Scheme employer within the Fund.

If there are surpluses at termination which cannot be refunded to the out going body then these will be subsumed by the Fund.

- **Transferee Admissions**

Transferee admission bodies generally will have a guarantor since the Regulations require that, in the event of any unfunded liabilities on the termination of the admission, the contribution rate for the relevant Scheme Employer should be revised.

On termination of a transferee admission, any orphan liabilities and the related assets in the Fund will be subsumed by the relevant Scheme Employer.

The Scheme Employer is required to carry out an assessment of the level of risk on premature termination of the contract. This assessment would normally be based on advice in the form of a “risk assessment report” provided by the actuary to the CLGPS. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the CLGPS the decision over the level (if any) of any bond requirement for the transferee admission body is the responsibility of the Scheme Employer.

- **Older Admissions prior to 31 August 2010**

In the case of older admissions not covered under transferee or community arrangements above, where there is no guarantor or bond in place, following the termination assessment any outstanding liabilities will be recovered from the outgoing body. Where this is not possible then this liability will be subsumed by the Fund as a whole. Any surplus identified will likewise be subsumed by the Fund.

- **Funding basis for termination calculations**

The CLGPS policy is that a termination assessment will be made based on a least risk funding basis, unless the admission body has a guarantor within the Fund or a successor body exists to take over the admission body’s liabilities (including those for former employees) This is to protect the other employers in the Fund as, at termination, the admitted body’s liabilities will become “orphan liabilities” within the Fund, and there will be no recourse to the admission body if a shortfall emerges in the future (after the admission has terminated).

If, instead, the admission body has a guarantor within the Fund or a successor body exists to take over the admission body’s liabilities the CLGPS policy is that the valuation funding basis will be used for the termination assessment. In the case of admissions prior to 31 August 2010 where the employer is in danger of insolvency the Assistant Director-Finance may use their discretion to use the valuation basis and/or allow the deficit to be paid by instalments.

The guarantor or successor body (or the fund in respect of older admissions) will then, following any termination payment made, subsume the assets and liabilities of the admission body within the Fund. This may, if agreed by the successor body, include the novation to the successor of any funding deficit on closure, in place of a termination payment being required of the admission body itself.

7.5 Notification of Termination

In many cases, termination of the admission is an event that can be foreseen, for example, because the organisation’s operations may be planned to be discontinued. In this case admission bodies are requested to open a dialogue with the Fund to commence planning for the termination as early as possible.

Where termination is disclosed in advance the Fund will liaise with the actuary to introduce procedures to reduce the volatility risks to the debt amount in the run up to actual termination of the admission.

7.6 Admission & Termination Policy Appendix: Conditions of Participation

PAYMENTS

The Admission Body shall pay to the Administering Authority for credit to the Fund such contributions and payments as are due under the Regulations in respect of those employees who are eligible to participate in the Fund.

The Admission Body shall pay to the Administering Authority for credit to the Fund the employee and employer pension contributions on a monthly basis in arrears. The payment must be paid to the Administering Authority within 19 calendar days of the end of each month in which the pension contributions have been deducted.

The employer contribution rate required to be paid by the Admission Body will be assessed by an actuary appointed by the Administering Authority.

The Admission Body shall pay to the Administering Authority for credit to the Fund any additional or revised contributions due as result of additional membership being awarded or as a result of outstanding liabilities due should the admission agreement terminate. Payment will be due within 30 calendar days of receipt of a written request from the Administering Authority.

Any employees' Additional Voluntary Contributions ("AVC's") or Shared Cost Additional Voluntary Contributions ("SCAVC's") are to be paid direct to such AVC body and/ or AVC insurance company selected by the Administering Authority. Contributions shall be paid within 19 calendar days of the end of each month in which the contributions have been deducted.

Where the Admission Body certifies that:

- an eligible employee is retiring by reason of redundancy or in the interests of efficiency; or
- an eligible employee is voluntarily retiring with the Admission Body's consent before age 60; or
- the deferred benefit of an eligible employee is brought into payment with the Admission Body's consent either (i) on or after age 55 and before age 60 where they were a member of the LGPS on or before 31st March 2008; or (ii) on or after age 55 and before age 65 where they became a member on or after 1st April 2008;

Immediate benefits are payable under the Regulations the Admission Body shall pay to the Administering Authority for credit to the Fund the sum notified to them in writing by the Administering Authority as representing the actuarial strain on the Fund resulting from the immediate payment of benefits. Such sum is to be paid within 30 calendar days of receipt of the written notification.

The Admission Body shall indemnify the Administering Authority against any financial penalty and associated costs and expenses incurred by the Administering Authority or by the Fund arising from any failure by the Admission Body to comply with the terms of the Admission Agreement entered into by it, the Regulations or any overriding legislation. Such payment is to be paid within 30 calendar days of receipt of a written request from the Administering Authority.

If any sum payable under this Agreement or the Regulations by the Admission Body to the Administering Authority or to the Fund has not been paid (in whole or in part) within the payment period specified (or otherwise in accordance with the Regulations) the Administering Authority may require the Admission Body to pay interest calculated in accordance with Regulations on the amount remaining unpaid.

ADMISSION BODY'S UNDERTAKINGS

The Admission Body undertakes:

- to provide or procure to be provided such information as is reasonably required by the Administering Authority relating to the Admission Body's participation in the Fund including (but not limited to) details of the pay and final pay of each eligible employee;
- to comply with the reasonable requests of the Administering Authority to enable it to comply with the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (as amended);
- to adopt the practices and procedures relating to the operation of the Scheme as set out in the Regulations and in any employer's guide published by the Administering Authority and provided by the Administering Authority to the Admission Body;
- to formulate and publish within 3 calendar months of commencement a statement concerning the Admission Body's policy on the exercise of its functions or discretions in accordance with the requirements of the Regulations and to keep such policy under review;

- to notify the Administering Authority of each occasion on which it exercises a discretion under the Regulations and the manner in which it exercises that discretion;
- to notify promptly the Administering Authority in writing of any material change in the terms and conditions of employment of any of the eligible employees which affects entitlement to benefits under the LGPS and of any termination of employment ;
- to immediately notify the Administering Authority and the Scheme employer in writing of any matter which may affect or is likely to affect its participation in the LGPS and of any actual or proposed change in its status which may give rise to a termination of the admission agreement or in the case of a transferee admission body which may give rise to a termination of the Contract between the admission body and the Scheme employer including but not limited to take-over reconstruction amalgamation liquidation receivership or a change in the nature of its business or constitution.

ACTUARIAL VALUATIONS

The Administering Authority may periodically and shall at least on a triennial basis obtain from an actuary a certificate specifying in the case of the Admission Body the percentage or amount by which in the actuary's opinion the employer's contribution rate should be increased or reduced. This is with a view to ensuring that as far as is reasonably possible the value of assets of the Fund in respect of current and former eligible employees is neither materially more nor materially less than the anticipated liabilities of the Fund.

Upon termination of this Agreement the Administering Authority must obtain:

- an actuarial valuation of the liabilities of the Fund in respect of current and former Eligible Employees as at the date of termination; and
- a revision of any rates and adjustments certificate within the meaning of the Regulations showing the revised contributions due from the Admission Body.

The costs of obtaining the actuarial valuation and certificates (or revisions to them) as required by the Administering Authority in respect of current and former eligible employees (other than the triennial valuation) shall be paid by the Admission Body within 30 calendar days of receipt of written notification of such costs from the Administering Authority.

TERMINATION

The Agreement shall terminate at the end of the notice period upon the Administering Authority or the Admission Body giving a minimum of three calendar months notice in writing to terminate this Agreement to the other party or parties to this Agreement.

This Agreement shall terminate automatically on the earlier of:

- the date of the expiry or earlier termination of the Contract (if the admission is of a fixed term); or
- the date the Admission Body ceases to be an Admission Body for the purposes of the Regulations; or

This Agreement may be terminated by the Administering Authority by notice in writing to the Admission Body taking immediate effect in the event of:

- the insolvency winding up or liquidation of the Admission Body;
- any breach by the Admission Body of any of its obligations under this Agreement provided that the Administering Authority shall if the breach is capable of remedy first afford to the Admission Body the opportunity of remedying that breach within such reasonable period as the Administering Authority may specify;
- the failure by the Admission Body to pay any sums due to the Administering Authority or to the Fund within the periods specified in this Agreement or in the Regulations or in any other case within 30 calendar days of receipt of a written notice from the Administering Authority requiring the Admission Body to do so;
- the failure by the Admission Body to renew or adjust the level of any bond/indemnity which is required to be in place.

Appendix 3 – Statement of Responsibilities

Responsibilities of the Administering Authority

The administering authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the chief financial officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

Responsibilities of the Assistant Director - Finance

The Assistant Director – Finance is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the chief financial officer has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

The chief financial officer has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts relate to the financial year ended 31 March 2011 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the pension scheme accounts.

Signed:

Kate McLaughlin-Flynn
Assistant Director – Finance
Cumbria County Council

Date: 12 September 2011

Appendix 4 – Independent Auditor's Report to the Members of Cumbria County Council

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Cumbria County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Assistant Director - Finance and Auditor

As explained more fully in the Statement of the Assistant Director- Finance's Responsibilities, the Assistant Director - Finance is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). 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 accounting statements sufficient to give reasonable assurance that the accounting 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 fund; and the overall presentation of the accounting statements. I read all the information in the annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.

Signed:

Karen Murray
District Auditor
Audit Commission
Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ

Date: 29 September 2011