Cumbria County Council

Cumbria County Council

Cumbria Local Government Pension Scheme 2012/13

Annual Report and Accounts 2012/13

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Contents

1 Chairman's introduction

It is my pleasure to introduce the Cumbria Local Government Pension Scheme (LGPS) Annual Report for 2012/13, on behalf of the Cumbria Pensions Committee. 2012/13 has been another busy year for Cumbria LGPS - as the summary of key activities in section 2 of this report indicates - however the focus has remained on delivering the target investment returns, improving governance and securing an enhanced administration service for our members.

It has been another turbulent year in the financial markets, with volatile equity markets and continuing Eurozone issues. There have been some positive signs, including strong global equity returns, however, whilst economic data releases in the US were strong, they were weak elsewhere with many governments maintaining austerity strategies.

Against this background of market volatility Cumbria LGPS has again achieved an increase in Scheme value (from £1,466.418m (31/03/12) to £1,659.065m (31/03/13) – an increase of £192.647m). As detailed in section 2.4 of this report the Scheme has outperformed its own benchmark over the year and three year timeframes (by 1.5% and 0.4% respectively), ranking it 22nd out of 100 Local Government Schemes in the country over the three year period. Over the longer term timeframe of ten years, the Scheme achieved a return of 9.2% (a marginal underperformance of 0.2% per year against its own benchmark).

In line with other LGPS, the exceptionally low level of bond yields has impacted on the valuation of liabilities of Cumbria LGPS. At the last triennial Actuarial Valuation (31 March 2010) the funding level was 79% however the interim valuation as at 31 March 2013 assessed that the funding level of the Scheme had dropped to 69%; the key driver in the decrease being underlying gilt yields. The next triennial valuation will take place as at 31st March 2013 and Officers and the Committee are working closely with the Scheme's actuary to complete the valuation.

In addition to asset performance key achievements of the Scheme during 2012/13 (as set out in sections 2.3, 2.7 and 2.9 of the report) include:

- Progression of the implementation of the 2012 Investment Strategy Review– including the awarding of a mandate for £130m of corporate bonds to Standard Life, and the commencement of the procurement process to restructure (£350m to £400m) of the global equities asset allocation;
- The introduction of member online 'self-service'; and
- The commencement of the employer covenant review in preparation for the 2013 triennial valuation.

Looking forwards we face challenging times in the coming years both in terms of administration and fund management. As detailed at 2.10 these include the completion of the implementation of the Investment Strategy Review, the triennial valuation, and preparation for the 2014 Scheme which will commence from 1st April 2014.

The economic outlook remains a significant concern - 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 refreshed investment strategy leaves us in a good position to deal with such short term fluctuations and I am confident that the Scheme is in a strong position to deliver the changes that will be required throughout 2013/14 and on into the future in a timely and efficient manner.

We trust you find the report informative and as we are always seeking to make improvements we would welcome any constructive comments on its content and presentation. Further information is available from the contact points shown on page 138.

The Committee's thanks go to the staff in the Pension Team in Finance 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 2012/13.

Cllr. Melvyn Worth
Chairman
July 2013

2 Overview of the year

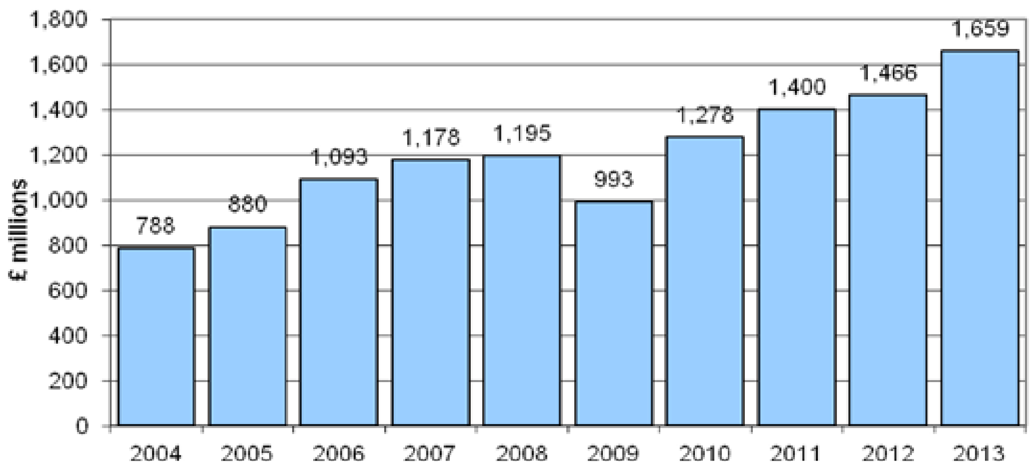
2.1 Economic and market overview

During the 12 months to 31st March 2013, confidence returned to many stock markets around the world, leading to strong returns for investors in most areas. Even in economies where uncertainty persisted, market performance was generally positive. The European Central Bank implemented a series of measures which brought some stability to the Eurozone. However, underlying issues persisted, with Greece and Spain in particular remaining some way from reaching a resolution to their economic situation, while Cyprus – despite its size and limited economic impact – became the latest source of concern. An inconclusive election in Italy added to the nervousness. Meanwhile, confidence in US growth returned gradually, underpinned by signs of recovery in the housing market and a partial solution to the problem of the so-called 'fiscal cliff'. The UK equity market also performed well.

2.2 Scheme funding level

The changes in the Fund's asset value over the past ten years are shown in the chart below.

Fund Asset Value: 31 March



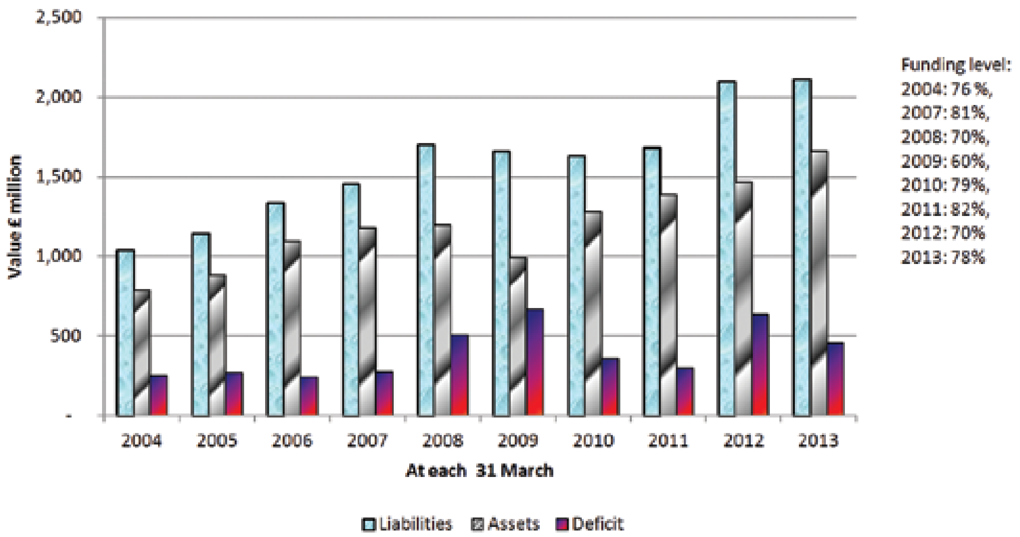
A key objective of the Scheme is to become fully funded, at a sustainable cost, and Cumbria LGPS continues to work closely with Mercers Consulting (the Scheme's Actuaries) to meet this objective. While the Scheme's performance is credible given market conditions, the increase in the Scheme's assets has to be set alongside increasing liabilities.

In line with regulations, Cumbria LGPS's actuary undertakes a triennial valuation of the Scheme, measuring the gap between the Scheme's assets and its' liabilities (ie the Schemes deficit). At the last triennial Actuarial Valuation (31 March 2010) this showed that the funding level had fallen slightly from 81% in March 2007 to 79% at 31 March 2010. The next triennial valuation will take place as at 31st March 2013 and Officers and the Committee are working closely with the Scheme's actuary to complete the valuation.

In between full triennial valuations high level monitoring of the funding position of Cumbria LGPS is undertaken. The interim valuation as at 31st March 2013 assessed that the funding level of the Scheme had dropped to 69% calculated using the 2010 actuarial assumptions. This is an indication of the impact on the Scheme of the ongoing difficult and uncertain state of the global markets and, in particular, the impact on the Scheme liabilities of exceptionally low bond yields. These results are comparable to expectations across LGPS as a whole.

The table below clearly shows the effect that, among other things, the record prices in the bond markets and increasing pensioner longevity is having on the Scheme's liabilities. Over the last ten years, with the exception of 2009 when the banking crisis affected all fund values, asset values have continued to rise steadily. However, this growth has been outstripped by the increase in liabilities thus leading to an overall increase in the Schemes' deficit.

Cumbria Local Government Pension Scheme: liabilities compared to assets



2.3 Investment management – asset allocation

The Pension Committee is charged with the responsibility for the governance and stewardship of the Scheme. The Scheme has a prudent, risk averse strategy, which is kept continually under review through an annual evaluation of the Funding Strategy.

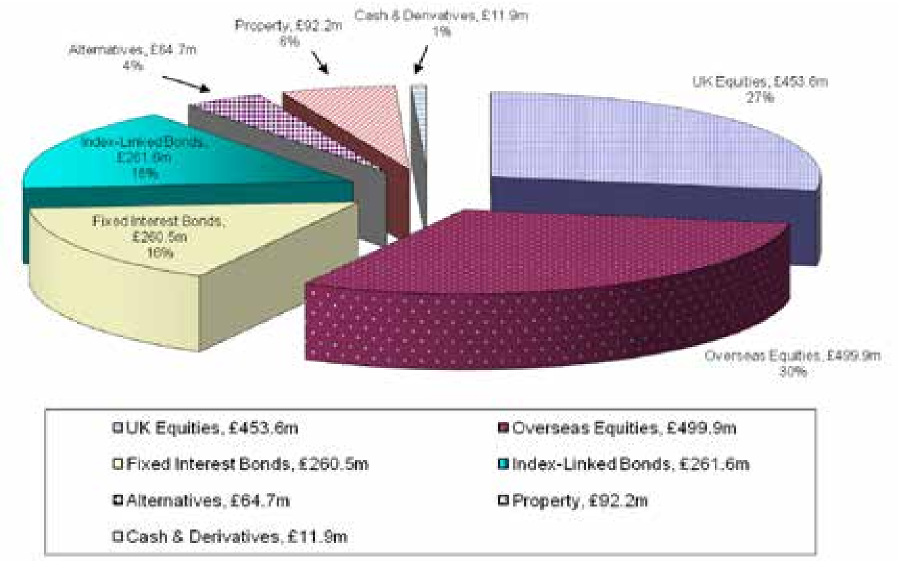
A more in depth review is undertaken by the Scheme every three to seven years. The investment strategy (including the core investment objectives and asset allocations) must be capable of being flexible enough to meet prevailing market conditions. Therefore to ensure the current strategy is fit for purpose under the current and future market conditions the strategy was stress tested under different market scenarios.

The conclusion of the review completed in May 2012 determined that the high level strategic asset allocation to bonds and growth assets (bonds 32% and growth assets 68%) is still appropriate. However it was agreed that in volatile markets protecting downside losses was as important as chasing upside gains and a number of changes within the asset allocations in the growth element of the portfolio were agreed.

The process of implementing the resultant changes in asset allocation commenced in 2012/13 and continues into 2013/14. Progress to May 2013 is as follows:

- a mandate for £130m of corporate bonds has been awarded to Standard Life (July 2012),
- £79.9m fixed interest gilts, held under the passive mandate with Legal and General, were converted to index linked in March 2012,
- a mandate for the commitment of £30m of real estate debt was completed in May 2013,
- the procurement process to restructure (£350m to £400m) global equities asset allocation is underway and due to complete with the appointment of two managers in the autumn of 2013, and
- the selection of a suitable infrastructure investment is underway and expected to be finalised by the end of 2013.

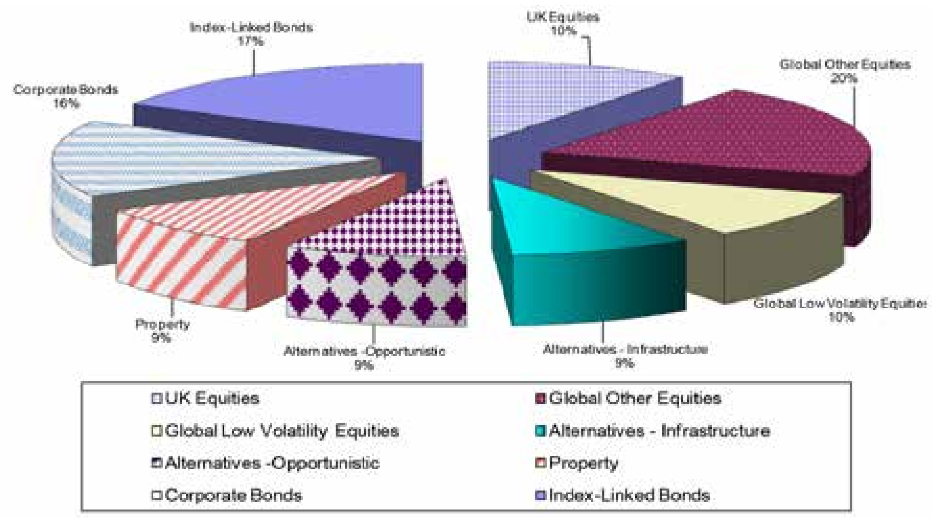
Investment assets as at 31st March 2013:
The following chart shows the distribution of the total investment assets held by the investment managers across all the asset classes at the year-end:



The opening percentage (%) asset allocation as at 1st April 2012 was as above excepting overseas equities which were 26% of the Scheme assets and Alternatives which were 8% of the Scheme assets. As can be seen from the chart below showing the allocation of investment assets once the Investment Strategy has been fully implemented, this move between alternative assets and overseas equities is temporary and has occurred as the Scheme moves between investment managers.

In addition to the more traditional asset classes the Cumbria LGPS has a 4% holding of mixed assets that are grouped together under the heading 'Alternatives'. This covers a broad range of products - mainly to describe holdings in financial assets such as commodities, private equity, hedge funds, venture capital, debt and other return-seeking derivative funds.

Investment asset allocation once Investment Strategy has been fully implemented:
The following chart shows the target investment asset allocation to be held by the Scheme once the Investment Strategy has been fully implemented:



2.4 Investment management – asset performance

During the year to 31st March 2013 the Cumbria LGPS value increased by £192.647m from £1,466.418m (31st March 2012) to £1,659.065m (31st March 2013). The best performing assets over the year were equities, in particular North America, which made strong gains ranging from 14.3% (FT Japan) and 19.3% (FT North America). After their very strong performance in 2011/12 the returns on UK bonds during 2012/13 ranged between 5.2% (UK Gilts All Stocks) and 10.2% (UK index linked All Stocks).

For the year ended 31st March 2013 the Scheme outperformed its benchmark; achieving an investment return of +13.9% against its benchmark of +12.4%. This represents a return of 0.1% greater than the WM Local Authority Universe average. Over a three year time frame the Scheme has achieved an outperformance against its return benchmark of 0.4% (achieving returns of 9.1% compared to a benchmark of 8.7%). This performance ranks it 22nd out of 100 Local Government Schemes in the country over the three year period and this is largely attributable to Cumbria LGPS's strategy of holding a higher than the average LGPS allocation to bonds (32% compared with an LGPS average of 18%).

Pension schemes are by their nature long term investment vehicles and, looking at the medium to longer term, the Scheme has marginally underperformed against its own benchmark (by 0.2% per year over the last five years and by 0.2% per year over the last ten years). This performance ranks it 51st and 53rd out of 100 Local Government Schemes in the country for the 5 year and 10 year periods respectively.

Period	One year to 31 March 2013 Year	Three Years to 31 March 2013 Year	Five Years to 31 March 2013 Year	Ten Years to 31 March 2013 Year
Scheme Return	13.9%	9.1%	6.4%	9.2%
Cumbria's own benchmark	12.4%	8.7%	6.6%	9.4%
WM Local Authority Universe return average	13.8%	8.1%	6.5%	9.4%
Ranking 1 to 100 in local authority universe	52nd	22nd	51st	53rd

2.5 Investment management – investment manager performance

Manager performance against benchmark:
The Pension Committee take an active role in monitoring fund manager performance, and are keen to ensure the Scheme achieves 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 and the Fund's Independent Advisors during the intervening period.

Where appropriate each active Investment Manager / Asset class has both a benchmark return ie a comparison to a relevant market index and a target return ie benchmark plus an outperformance measure.

Over the one year period to 31st March 2013, those active managers who were with the Scheme throughout the year either matched or out-performed their benchmarks with the exception of the global equities manager. Over the rolling three year period however only the UK property manager achieved a return above benchmark.
The passive portfolio matched benchmark returns over both the one and three year periods.

All performance results are shown in the following table, as annualised figures (performance is as at 31st March 2013 and is shown net of fees):

Manager	Mandate	Benchmark	1 year		3 years		Since inception/10 years	
			Portfolio	B/mark	Portfolio	B/mark	Portfolio	B/mark
			%	%	%	%	%	%
Aberdeen	Direct UK Property	IPD Quarterly Universe	3.2	3.2	7.2	6.8	6.3	5.7
GMO	Overseas Equities	Cumbria overseas benchmark	14.5	18.5	6	7.6	9	9.9
Legal and General	Bonds & Equities (Passive)	Cumbria composite index	15.7	15.7	11.8	11.8	n/a	n/a
L&G Policy 3	Global Equities (Passive)	FTSE World Equity Index	n/a	n/a	n/a	n/a	n/a	n/a
Schroders	UK equities	FTSE all share	17.2	16.8	8.4	8.8	11.3	10.7
Standard Life (from Oct 2012)	Corporate Bonds	Bespoke	n/a	n/a	n/a	n/a	n/a	n/a

Source: WM Company

Performance for individual managers is assessed over a number of years, so that one year’s figures do not carry undue weight.

Manager performance against target:
Of the active managers only the property portfolio achieved its target over a rolling three year period to 31st March 2013. However over a five year rolling period both the property and the UK equities active managers achieved a performance above their target. As expected the passive manager achieved its target over a rolling three year period (the passive manager has not been in place long enough to assess five year performance).

2.6 Investment management - voting

The responsibility for the exercise of voting rights is delegated to the investment managers who are expected to approach the subject with the same care and attention as other matters which influence investment decisions. Where a resolution is put forward which is particularly controversial the manager is expected to liaise with the Scheme. Investment managers are required to report quarterly on their voting actions, and a full voting audit trail is available.

The Scheme has also engaged the services of a monitoring company, Manifest, to provide for UK shares exception report analysis between fund manager voting and the ‘industry standard’ voting template. This template is based upon UK best practice as established by the Stewardship Code, Myner’s Principles regarding shareholder activism, and takes account of the latest recommendations from other sources such as the UK Corporate Governance Code. Managers are then required to justify their voting actions where discrepancies occur.

The Scheme takes shareholder activism seriously and has exercised the Scheme’s voting rights on a number of matters throughout the year. For example the Scheme has shared general investor concerns regarding companies choosing to reward their executives with packages that were not directly linked to long term investor returns. At the Barclays AGM 31.5% of shareholders opposed the remuneration plan, with Legal and General voting against on our behalf, and noting in their report that they had held several meetings with the Company to discuss the issue in advance of the meeting.

Some examples outside of the banking sector include Schroders abstaining from approving the remuneration reports for 3i, BP, Cairn Energy, GlaxoSmithKline and Unilever; and voting against Xstrata and Carillion. While L&G voted against the remuneration reports of Centamin, Cookson, UBM, Pendragon and Royal Dutch Shell.

2.7 Pensions administration and communication

In February 2011 after an extensive selection process the Scheme 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.

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 LGPS, and the Corporate Director - Resources is responsible for securing the satisfactory provision of services through the agreement with the pensions' administration provider. Monitoring of the service provision is a continual process which includes quarterly Board Meetings between officers from Cumbria LGPS and YPS. A key part of these meetings is the review of performance against agreed key performance indicators.

The overall performance for 2012/13 against key pensions' administration indicators was 98% against a target of 90% - demonstrating that the service is operating at optimal levels following the transition and associated data cleansing - with the majority of indicators being significantly exceeded and only one target narrowly missed during the year. As the indicators suggest the arrangement with YPS continues to be very positive and as such improvements to service have continued to be made during 2012/13.

This is an ongoing process and we are continuing to work together to build on the achievements realised to date thereby ensuring that members receive a high quality service at a reasonable cost. Improvement work during 2012/13 included data cleansing which is being undertaken in preparation for the 2013 valuation and continues into 2013/14.

Key performance indicators

Indicator	Target	2012/13	2011/12
	%	%	%
Estimate benfits within 10 working days	90	96	87
Payment of retirement benfits within 10 working days	90	99	98
Payment of death benfits within 10 working days	90	96	91
Implement change in pensioner circumstance by payment due date	95	99	100
Respond to general correspondence within 10 working days of receipt	90	92	85
Action transfers out within 15 working days	90	96	87
Action transfers in within 15 working days	90	97	93
Pay refunds within 10 working days	90	87	83
Provide leaver statement within 15 days	90	94	64
Amend personal records within 10 working days	90	91	95
	90	98	93

2.7.1 Communications

A core focus has been on extending access to the administration team: be that face to face, electronically or over the phone. Clear and concise member communication and access to information will remain important as we move towards the major changes affecting members and their choices regarding future pensions planning eg auto enrolment and the introduction of the 2014 Scheme.

The YPS website **(yourpensionservice.org.uk/local_government)** includes detailed documents and information on the following areas:

- The Scheme's Policy documents
- The Actuary's triennial valuation at March 2007 and March 2010
- Annual Reports for 2011 and 2012
- A range of guides, factsheets and forms
- Online copies of the various forms members may wish to use in connection with their scheme membership
- Updates on latest developments affecting the pension scheme & Scheme newsletters
- Information on the Annual Benefits Statements.
- Employers' pages.

Alternatively this information can be obtained by calling YPS on **01772 530530** or by writing to Your Pension Service, PO Box 100, County Hall, Preston, Lancashire, PR1 0LD.

During 2012/13 online systems have been developed at YPS to enable Member 'self service' online. Members are now able to go online at the YPS website **(yourpensionservice.org.uk/)** and, once logged in, to view documents and to access and amend information, including:

- Do their own pension forecasts
- Check and amend their contact details and address details
- Check their pension scheme membership and their records
- View their nomination(s) and download forms to amend their nominations
- View their annual pension benefit statement
- View and download Scheme documents, guides, factsheets and leaflets.

Work is currently ongoing to develop employer online self service.

Additions to online services and communications, during 2012/13 with members and employers included:

- October 2012 Practitioner Conferences: two conferences for practitioners (one directed at schools and one general) were held. The conferences updated practitioners on issues such as the YPS client team, the YPS employer-specific area on the website, Auto Enrolment and the new 2014 Scheme.
- December 2012 Scheme Talk publication sent to members and employers: this included details of how to access member self service online, an update on auto enrolment and the new 2014 Scheme, details of the forthcoming pensions surgeries and an overview of changes in pensions tax allowances.
- February & March 2013 Pension Surgeries: a series of surgeries were held across Cumbria during which staff from YPS were available for members to speak to on a one to one basis regarding issues such as annual benefit statements, LGPS pension queries or about joining the scheme.
- February 2013 Well-being road shows: a series of drop-in sessions were held across Cumbria during which staff from the Pensions Team were available for employees from the County Council and Districts to talk to about pension queries and concerns.

Further details of administrative processes, including communications with Scheme members and employers, can be found in the Administration Strategy and Communications Policy for Cumbria LGPS at section 7.5 of this report.

2.7.2 Internal dispute resolution procedure

Although the majority of problems relating to members benefits are normally the result of misunderstandings or incorrect information and can therefore be dealt with informally, the LGPS Regulations provide a formal complaint procedure known as the Internal Dispute Resolution Procedure (IDRP). This formal process consists of two stages, although most of the complaints received are resolved during the first stage. More detailed information can be found by going to the Active Members section of the Your Pension Service website at the following web address:

yourpensionservice.org.uk/local_government/
and downloading the guide entitled 'Appeals – Internal Dispute Resolution Procedure' under the 'Guides, factsheets and forms' section. Alternatively you can contact Your Pension Service by telephoning: **01772 530530**

The scheme has undertaken approximately 26,000 contact points with members during the year. During 2012/13 the scheme had 14 new IDRP appeals, 6 of which were resolved, 3 are taking further advice and 5 of which are pending further information.

2.8 Performance against budget

The budget for administering the Cumbria LGPS for 2012/13 was £4.699m (£3.371m Investment management expenses; £1.328m Administrative expenditure). The outturn for 2012/13 was £4.095m resulting in an under spend of £0.604m as detailed below.

	2012/13 Actuals £'000	2012/13 Budget £'000	Variance £'000
Investment Management Expenses	2,797	3,371	(574)
Adminstrative Expenses	1,298	1,328	(30)
	4,095	**4,699**	**(604)**

2.8.1 Investment management expenses

INVESTMENT MANAGEMENT EXPENSES	2012/13 Actuals £'000	2012/13 Budget £'000	Variance £'000
Fund management fees	2,532	2,990	(458)
Custody fees	103	121	(18)
Performance monitoring service	32	24	8
Investment consultancy fees	130	236	(106)
	2,797	**3,371**	**(574)**

Investment manager fees account for £0.458m of the total £0.574m under spend against the investment management expenses budget. Investment manager fees are difficult to predict and influence due to the link with asset performance and the volume of manager change that has occurred throughout 2012/13. The key driver for this under spend in 2012/13 was the temporary move of assets from active management to passive during the implementation of the revised investment strategy. Passive fees are much lower than for active management however, this must always be evaluated against the expected additional active management performance that may have been forgone.

The (£0.106m) variance against investment consultancy fees was primarily due to the lengthy process for the selection of the global equities managers. This process was ongoing as at 31st March 2013 and, at the March 2013 Committee meeting, the Pensions Committee approved carry forward of £0.085m into 2013/14 for the completion of the selection. Whilst the majority of the variance was due to timing of expenditure, modest savings were achieved by the two manager searches being progressed together rather than separately.

2.8.2 Administrative expenses

ADMINISTRATIVE EXPENSES	2012/13 Actuals £'000	2012/13 Budget £'000	Variance £'000
Employee costs	310	310	-
Support services, including Pensions Administration	896	898	(2)
Pension fund committee	4	4	-
External audit fees	16	37	(21)
Internal audit fees	2	10	(8)
Actuarial fees	70	69	1
	1,298	**1,328**	**(30)**

Tight cost control and active performance management of contracted out and shared services has ensured that services across all professional and administration areas have been delivered within or under budget. The 2012/13 budget for support services included additional one-off budget of £0.065m for data maintenance work. The under spend against external audit arose primarily from changes in the provider of external audit services with effect from October 2012.

2.9 Other achievements in 2012/13

In addition to the progress made in 2012/13 in implementing the asset allocation changes arising from the 2012 investment strategy review and the system developments and data maintenance on the administrative side of the Scheme as detailed above, other key achievements in 2012/13 include:

- Commencement of the employer covenant review in preparation for the 2013 triennial valuation,
- Production of the 2011/12 Cumbria LGPS Accounts and Annual Report including the introduction of substantial changes to both the layout and the content whilst achieving a clean audit opinion, and
- Undertaking a governance review and update of several major policies, procedures and contracts.

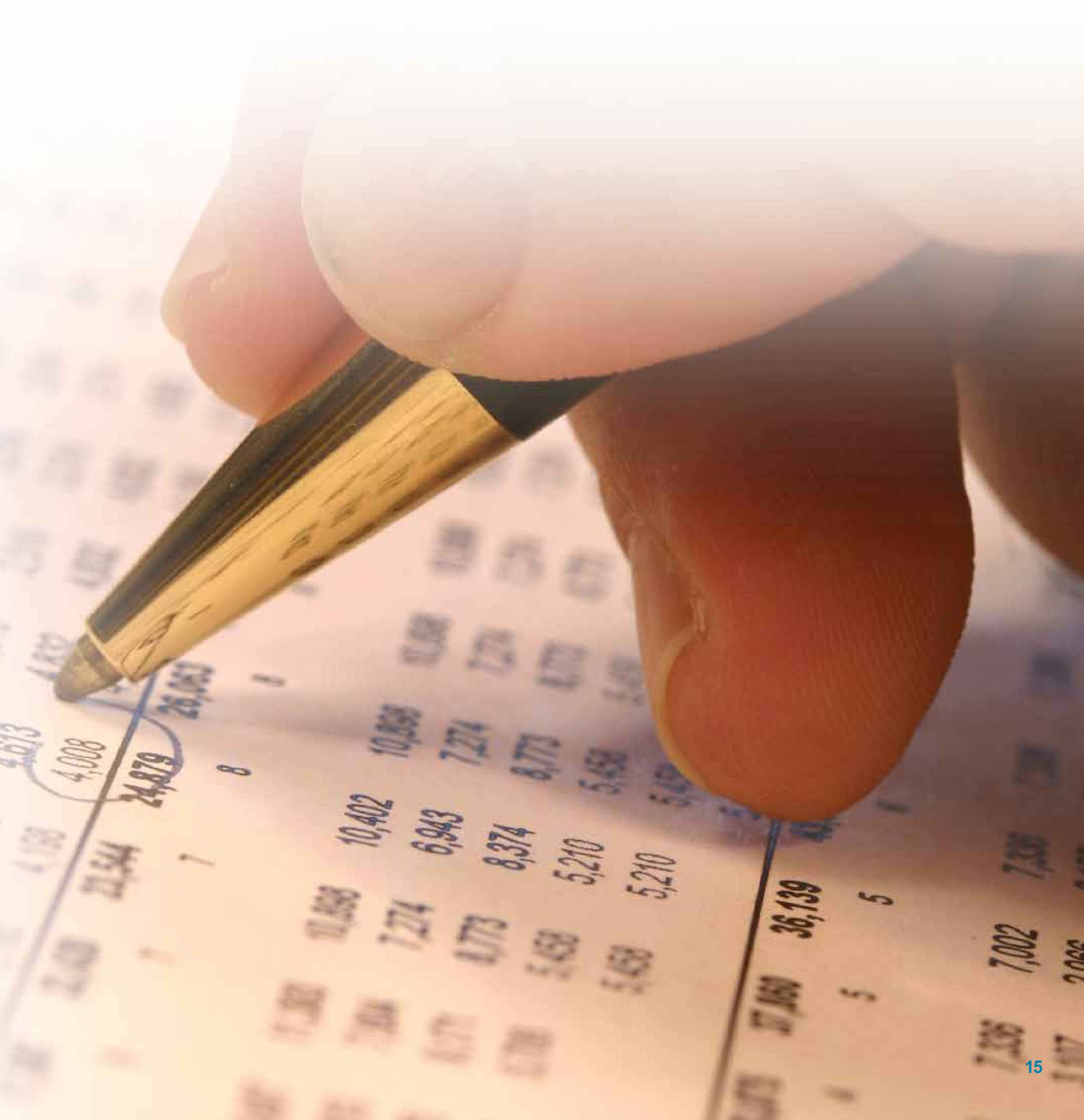
2.10 Looking ahead

Looking forwards we face challenging times in the coming years both in terms of administration and fund management including:

- Completion of the Investment Strategy Review - this will include completion of the restructure of the global equities asset allocation and procurement to appoint managers for the opportunistic and infrastructure element of the portfolio (18% of the total asset allocation),
- Establishing and embedding an Investment Sub Group,
- Completion of the triennial valuation (including consultation with employers on their individual results),
- Auto enrolment,
- Preparation for the 2014 Scheme (including any revisions to policy, procedure and governance that will be required),
- Enhancements to the administration system including the further roll out of self service,
- Development and enhancement of contract review procedures and performance monitoring at both Committee and Officer level, and
- Delivery of training to both new and continuing Members.

The economic outlook remains a significant concern - the UK economy is particularly sensitive to world-wide political and economic events. However, while we cannot predict future outcomes the

Committee and Officers are confident that the refreshed investment strategy positions the Scheme well to deal with such short term fluctuations. In addition the Scheme's new operational structures will place it in a strong position to deliver the changes that will be required throughout 2013/14 and into the future in a timely and efficient manner.



3 Scheme membership

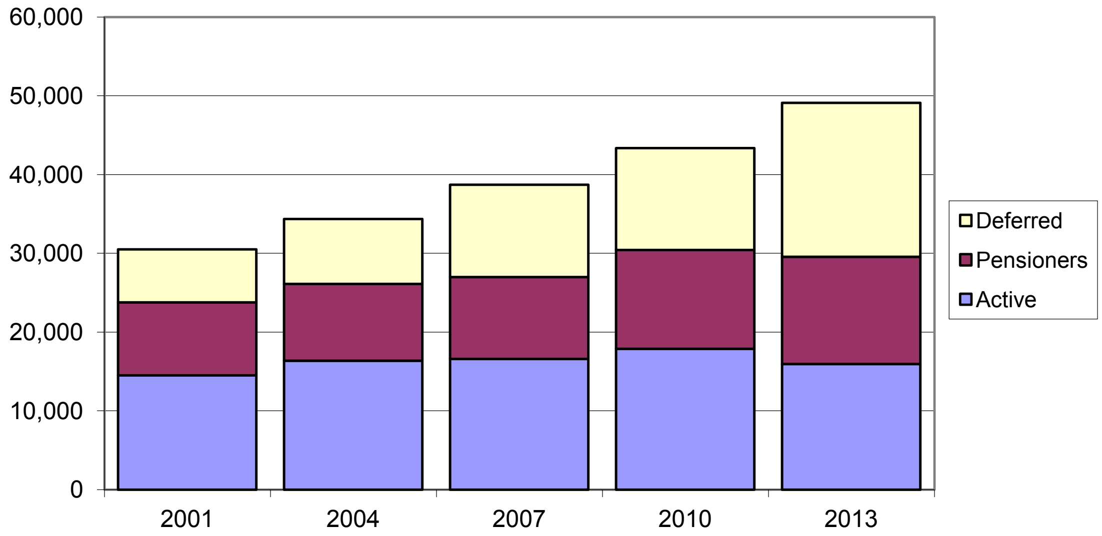
Cumbria County Council administers the Cumbria Local Government Pension Scheme on behalf of Scheme employers. As at 31st March 2013 there were 105 Scheme employers, consisting of:

- 63 'Scheduled Bodies' including Cumbria County Council, other local authorities, academies and further and higher education colleges; and
- 42 'Admitted Bodies' - these are organisations that have entered into an admission agreement with the County Council to participate in the Pension Scheme such as charities and other non-profit making organisations.

Of the 105 employer bodies in the Cumbria scheme 20 have no active members. A full list of the scheduled and admitted bodies currently in the Scheme is shown in Section 6 note 25 later in this report.

At the 31st March 2013 the Cumbria Local Government Pension Scheme had 49,088 members, consisting of 15,969 active members, 13,594 pensioners and dependants receiving benefits, and 19,525 preserved pensions. Over recent years the membership numbers at the time of each triennial valuation of the Scheme have increased as follows:

Membership numbers at actuarial valuations



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 length of 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 uplifted in line with inflation 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. Please see the 'Joining the Scheme' pages on the Your Pension Service website **(yourpensionservice.org.uk)** for further details. Alternatively you can contact Your Pension Service by post at: Your Pension Service, PO Box 100, County Hall, Preston PR1 0LD, or telephone them on: **01772 530530.**

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 £12,900 and the highest rate of 7.5% applies to salaries above £81,100.

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 the Schemes' funding position and therefore 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 1st April 2011 following the triennial Actuarial Valuation which was carried out as at 31st March 2010. The required Scheme composite employer contribution rate is 18.4% of pensionable pay (see note 23 to the Financial Statements in section 6 of this report). Individual employer rates vary from 7.9% to 48.2% dependent on their individual circumstances and member liability profiles (for a full listing of employer rates see section 7.1 of this report).

4 Fund management

The Cumbria LGPS collects contributions from the scheme employers and employees. As at 31st March 2013 six (31st March 2012: 6) external fund managers were employed by the Scheme 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 Scheme 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.

The Pension Committee monitors fund managers' performance at its quarterly meetings, with managers attending Committee meetings to present their report once per annum as a matter of course and on an ad hoc basis if their performance is below expectations and requires more in-depth consideration. The performance of the Scheme during 2012/13 is considered in more detail at section 2 of this report.

4.1 Risk management

Risk management is a key element of good governance for any organisation. Officers of the Scheme continually review and monitor risks bringing any significant emerging issues to members attention throughout the year. An annual risk report is considered by the Committee and, since June 2013, the historic process of ad hoc in-year reporting of risk has been replaced with quarterly reporting of risk in the Scheme's monitoring report. Risks identified as at June 2013 are set out below (section 7.3 of the Governance Policy Statement includes detail of the scoring of these risks). In addition to this note 14 to the Financial Statements (pages 68 to 76) details the nature and extent of risks arising from Financial Instruments.

Summary of risks identified at June 2013:

Risk	Summary of control mechanisms
The Scheme employer contribution rate is unaffordable.	This is a national LGPS issue with most pension Schemes facing deficits and ongoing Government commission on public sector pension provision. The affordability of employer contribution rates will be a key issue of the 2013 triennial valuation. Work on the valuation – including consideration of this issue - has commenced and work to assess the financial standing of all employers within the Scheme has been undertaken. Mitigation includes the move from RPI to CPI, the recent Investment Strategy review and the continuing monitoring by Pensions Committee of the Strategy and the overall level of funding. Overall pension arrangements and funding options are receiving attention from central government. Cost-sharing arrangements are also being developed with the intention of making public sector pensions more affordable.
Significant financial downturn occurs – '1 in 20' year event.	Mitigation includes: • The recent review of the Investment Strategy which has been stress tested under different likely future market outcomes. • The continual monitoring of the Investment Strategy and fund performance. • Rigorous manager selection process and close monitoring of investment manager activity.

Risk	Summary of control mechanisms
Investment Strategy insufficiently flexible to exploit market opportunities.	The flexibility of the Investment Strategy was considered as part of the Investment Strategy Review. It is envisaged that the final strategic allocation should be able to flex sufficiently to cope with the most likely economic conditions in the forthcoming years. However, continual review will still be ongoing. During the review the investment theme of "opportunistic investing" was identified as a way of achieving the required flexibility and Officers are currently working with Members to set up an Investment Sub Group to facilitate this.
Increasing pressure due to significant reductions in scheme membership following scheme benefit changes, egcontribution rate increases, or reduction in staff volumes.	This is a risk inherent to all LGPS Mitigations in place include in-year monitoring of levels of active members and cash flow to assess the maturity level of the Scheme plus liaison with the major Scheme employers on their current and future staffing levels. Scenario planning with both the Actuary and the Investment Consultants (as part of the strategy review) to gain better evidence of current trends in this area has been undertaken and will inform future planning.
Market risk as a result of an investment failure which may be relatively small compared to the Fund overall but large in absolute terms.	This is a risk inherent to all DB Pension Schemes. The probability of an individual investment failure is relatively high, but the financial impact for the Scheme would not be significant given the diverse portfolio of assets. The risk is accepted in return for an investment premium. As with fraud/financial irregularity, reputational damage may be a greater risk than the financial loss. Mitigation of the risk includes the application of the schemes governance policies and monitoring of the Scheme's investment managers. Considered response to media concerns will also help to preserve the Scheme's reputation.
A loss occurs, due to fraud or financial irregularity damaging the financial standing and reputation of the Scheme, or opportunity for recovery missed, egclass action, tax reclaim.	Mitigation is through fund manager due diligence processes and monitoring. Systems are in place to identify appropriate losses where legal action can be taken to seek recovery of the losses. Arrangements now exist with a leading US law firm on a contingency fee basis to explore recovery where appropriate.
Annual report and accounts criticised by external audit.	This is a risk inherent to all LGPS. The Council has well established procedures for preparing draft annual report and accounts and has a good track record in preparing the Pensions Accounts. Mitigation includes the financial closedown planning process and close liaison with the external auditors.
Significant errors in administration and historical data cause issues at the triennial valuation.	This is a risk inherent to all LGPS. As part of the transition to Your Pensions Service (YPS) a data maintenance exercise has been progressed this is now drawing to a conclusion in time for the detailed work on the 2013 actuarial valuation. The current service with YPS also has a data cleansing team which continually review all core data held by both Schemes. Regular and detailed meetings have been and will continue to be held with YPS to monitor all administration matters including data quality.

Risk	Summary of control mechanisms
Significant losses on the transition of investment assets due to the volume and timing of change in managers planned for 2012/13.	This is a risk inherent to all DB Pension Schemes Mitigation: use of professional advisers, selection of most appropriate transition manager, hedging techniques, and market scrutiny have all and will continue to be undertaken.
Financial standing of employers decreases with inadequate covenants or bonds to cover losses.	This is a risk inherent to all LGPS Mitigation: during 2011/12 the first stage of an employer body review was undertaken. This process has continued during 2012/13 and will continue going forwards.
That the 2014 Scheme is not implemented on time / correctly.	This is a risk inherent to all LGPS. Mitigation includes training attended by Officers and Committee Members and regular and detailed meetings with YPS to consider administrative issues including the implementation of the 2014 scheme and the required IT changes to enable full data collection.
That changes to the systems and processes required for the effective administration of automatic enrolment from a pension scheme perspective are not implemented on time / correctly.	This is a risk inherent to all LGPS. Auto enrolment is primarily an issue for employers rather than pension schemes. However, as administering authority Cumbria County Council needs to ensure that there are administrative systems and processes in place to handle the additional data collection and storage requirements that will arise as a result of automatic enrolment. Lancashire as administration service providers to both CLGPS and LLGPS, has progressed the procurement and implementation of the relevant system upgrades and changes required in administration processes. The upgrade work has been designed to ensure the system will not only be fit for purpose in terms of auto enrolment but also for the career average revalued earnings (CARE) basis of the new scheme due to be introduced in 2014. Officers from Cumbria have been kept abreast of progress throughout the process. Both administering authorities have worked closely with employers to ensure they are aware of and understand the changes.

4.2 Investing Scheme money

The investment weighting to the different asset classes is decided through the Investment Strategy. During 2012 a detailed review of the strategy was undertaken.

The review concluded that, while at a high level the strategic asset allocation between matching and growth assets is considered still to be appropriate, it was advantageous to change large elements of the growth portfolio. These changes are designed to “make these assets work harder while reducing risk”.

It is envisaged that the final strategic allocation should be able to flex sufficiently to cope with the most likely economic conditions in the forthcoming years. While the strategy and fund performance will be continually monitored changes to assets classifications are expensive and time consuming and should therefore not be undertaken frequently. Therefore it is not envisaged that a further fundamental review on this scale will be undertaken for several years.

Some of the CLGPS property portfolio.

The implementation of the revised Investment Strategy commenced during 2012/13 and continues into 2013/14.

The Cumbria Scheme has a diversified portfolio. This spreads the risk associated with any particular form of investment whilst facilitating the growth potential of the Scheme. 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 to complete within the boundaries as laid down in their individual Investment Manager Agreements.

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.

4.3 Voting rights

For details of the voting rights arrangements of the scheme please see section 2.6 of this report.

4.4 Management of admitted bodies

As part of the data cleansing exercise on transition to YPS and in preparation for the 2013 Triennial Actuarial Valuation we have undertaken an employers' covenant review and data maintenance exercise. All new admissions are now considered by the Committee and bonds or guarantees are required where appropriate to do so. During the year one small admitted body went into liquidation and officers continue to work with the liquidators during 2013/14 on maximum recovery of outstanding debts.

4.5 Management arrangements

For details of the management arrangements of the scheme please see section 5.2.3 of this report.

To ensure the Scheme is aware of best practice, can take advantages of enhanced training opportunities and can benchmark itself against other Schemes the Administering Authority was a subscriber to the following bodies during 2012/13:

- National Association of Pension Funds (NAPF)
- CIPFA Pensions Network
- CIPFA Benchmarking
- Local Government Chronicle (LGC)
- Local Government Employers (LGE)
- Local Government Authority (LGA)
- Society of County Treasurers (SCT)

5 Governance

5.1 Regulatory framework

5.1.1 The Annual Report

The Local Government Pension Scheme (Administration) Regulations 2008 require administering authorities to prepare a document known as the “the Pension Fund Annual Report”.

This report must contain information about the scheme on the following:

- the management and financial performance during the year of each of the pension Schemes’ maintained by the authority;
- the investment policy for each of those Schemes, and a review of their performance during the year;
- a report of the arrangements made during the year for the administration of each of those funds;
- a statement by the actuary of the level of funding disclosed by that valuation;
- the current version of the governance compliance statement;
- the fund account and net asset statement with supporting notes and disclosures, prepared in accordance with proper practice;
- the extent to which the authority has achieved any levels of performance set out in the pension administration strategy;
- the funding strategy statement;
- the statement of investment principles;
- statements of policy concerning communications with members and employing authorities; and
- any other material which the authority considers appropriate.

5.1.2 The Scheme and benefits available

The Local Government Pension Scheme is a statutory scheme, established by an Act of Parliament and governed by regulations made under the Superannuation Act 1972. The Local Government Pension Scheme (Administration) Regulations 2008 came into force on 1st April 2008.

Membership of the LGPS is open to all eligible employees of local government and other participating employers who are under 75 years of age. Details of scheme membership are set out in section 3 of this report.

5.1.3 The regulations relating to the Scheme’s assets

The regulations relating to the management and investment of the Scheme’s assets are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Under these regulations, we have to consider the different types of investments and their suitability, and to report regularly on all transactions. We must also get proper advice on investment matters.

The Pension Act 1995 applies to occupational pension schemes, from 6th April 1997. The local authority scheme, while described as an occupational pension scheme, is required to meet further standards. Local authorities are expected to follow examples of good practice, in particular to do with releasing information to pension scheme members.

5.1.4 Regulation changes

The following key changes to regulations (both to LGPS specific regulations and the wider pensions regulations) were announced during or impacted on 2012/13:

5.1.4.1 Public Services Pensions Act 2013

The Public Services Pensions (PSP) Act 2013 which was enacted into law on 24th April 2013 is the most significant piece of legislation to affect public service pensions in over 40 years. The provisions of the Act are designed to facilitate the introduction of changes to the governance arrangements; valuation methodology; scheme benefit structure; etc across all public sector pension schemes and for the first time bring all public sector pension schemes under a single statutory framework.

At the time of writing the implications of the Act's provisions with regard to scheme governance for the LGPS had not been fully finalised. The Act sets out two distinct roles for administering authorities:

- Scheme Manager - a hands on, decision making, management and investment function with the added task of ensuring there are no conflicts of interest for any pension board members; and
- Pension Board - this would appear to be a compliance and scrutiny role with a responsibility to ensure that the Scheme Manager is complying with its statutory responsibilities

A consultation is currently underway on the issue of how these two distinct roles for the administering authorities will be structured within the LGPS (ie either as two separate bodies or combined under the Pension Committee). As currently envisaged, it will not be a Scheme discretion on how to meet the PSP Act requirements in relation to these two roles, but set nationally for the LGPS as a whole following consultation with key stakeholders including Cumbria LGPS.

automatic enrolment

5.1.4.2 Automatic Enrolment
The Pensions Act 2008 established new duties for UK employers to automatically enrol their workforce in a pension scheme and make employer contributions. Automatic enrolment is a national statutory requirement both on the private and public sector employers to offer and enrol all eligible employees in an approved work place pension. The aim of this legislation is to increase the numbers of individuals saving for their retirement. This is primarily an issue for employers rather than pension scheme administration authorities however there will be implications to the scheme. From the Cumbria LGPS perspective there will be additional data collection and storage requirements for which enhancements to the current IT administration system have been procured and this will have an on-going cost to the scheme. The date by which employers must implement auto enrolment depends upon their size with the largest employers 'going live' first. Cumbria County Council (the largest employer within Cumbria LGPS) commenced automatic enrolment of its employees on 1st June 2013. The administration authority is working closely with employers to ensure they have access to current information and can take advantage of employee communications templates.

5.1.4.3 Investments in Partnerships
Effective from 1st April 2013 and in accordance with Regulation 11(2A) and item 3 of Part 1 of Schedule 1 of the Regulations (LGPS (Management and Investment of Funds) (Amendment) Regulations 2013), the limit on all contributions to partnerships has increased from 15% to 30%. From the Cumbria LGPS perspective these limits will be relevant to the real estate debt fund entered into in May 2013 (see section 2.3), future opportunistic investments (eg infrastructure) and some elements of the alternative portfolio which is in the process of being wound down. Current values of Cumbria LGPS investments in partnerships are well within the new limits.

5.1.4.4 Admissions and Termination Policy
The LGPS (Miscellaneous) Regulations 2012, which came into force on 1st October 2012, necessitated a review of the Admission & Termination policy (8.2), and amendments to ensure compliance with the revised regulations. The policy was extended to cover certain Scheduled Bodies. Where a transferee admission body is performing the functions of a Scheme employer under more than one contract there must be a separate admission agreement for each contract. The requirement for the provision of a bond or indemnity is now extended to community admission bodies. These changes to the policy were approved by the Committee in November 2012.

5.1.5 Proposed changes to LGPS in 2014

On 31st March 2012 the Local Government Association (LGA) and trade unions announced the outcome of their negotiations on new LGPS proposals (for England and Wales) to take effect from 1st April 2014.

In July 2012 these proposals were communicated to scheme members, employers, funds and other scheme interests. Unions consulted their members on these proposals and the LGA consulted employers. Government confirmed that a favourable outcome of these consultations would enable them to move directly to a statutory consultation later in Autumn 2012 to implement these proposals. At the time of writing (July 2013) a discussion paper on governance arrangements for the new Scheme had recently been issued, as had a third consultation on draft regulations (relating to membership, contributions and benefits) for the 2014 LGPS Scheme.

The main provisions of the proposed LGPS 2014 are as follows:

- A Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor (the current scheme is a final salary scheme).
- The accrual rate would be 1/49th (the current scheme is 1/60th).
- There would be no normal scheme pension age; instead each member's Normal Pension Age (NPA) would be their State Pension Age (the current scheme has an NPA of 65).
- Average member contributions to the scheme would be in the region of 6.5% (same as the current scheme) with the rate determined on actual pay (the current scheme determines part-time contribution rates on full time equivalent pay).
- While there would be no change to average member contributions, the lowest paid would pay the same or less and the highest paid would pay higher contributions on a more progressive scale after tax relief.
- Members who have already or are considering opting out of the scheme could instead elect to pay half contributions for half the pension, while still retaining the full value of other benefits. This is known as the 50/50 option (the current scheme has no such flexible option).
- For current scheme members, benefits for service prior to 1st April are protected, including remaining 'Rule of 85' protection. Protected past service continues to be based on final salary at retirement and current NPA.
- Where scheme members are outsourced they will be able to stay in the scheme on first and subsequent transfers (currently this is a choice for the new employer).

5.2 Governance arrangements within the Cumbria LGPS

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 matters as it leads to good management, good performance and good stewardship of public money as well as being a legal requirement.

During 2012/13 the management arrangements of the Cumbria Local Government Pension Scheme consisted of three elements: Cumbria Pensions Committee (5.2.1), Cumbria Pensions Forum (5.2.2), Advisers and Officers (as set out in 'Details of the Fund's Management Arrangements' at 5.2.3).

To ensure good governance of the scheme the policy framework and all aspects of management of the Scheme are set out in the various Scheme Policy Statements. The purpose of each is summarised as follows:

- **Governance Policy Statement (see section 7.3) –** sets out the roles and responsibilities, describes risk management, and reports compliance against a set of best practice principles.
- **Administration Strategy & Communications Policy (see section 7.5) –** details the formal arrangements for pensions and benefits administration for the Scheme, and the communications with members, employers and pensioners.

- **Statement of Investment Principles (see section 7.4) –** details how the Scheme's assets are invested, the fund managers and benchmarks, and the Scheme's compliance with Myners Principles.
- **Cash Investment Policy (see section 8.1) –** the management of the pension Schemes cash, bank account and investment of surplus cash.
- **Funding Strategy Statement (see section 7.2) –** identifies how the Scheme's pension liabilities will be funded in the longer term and addresses solvency issues.
- **Admissions and Termination Policy (see section 8.2) –** details the policy on employer admissions and the methodology that will be used to calculate termination payments and policies applied on cessation from the Scheme.

Audit

The finance and operational arrangements of the Scheme are subject to review and audit both by Grant Thornton and the Cumbria's and Lancashire County Council's own internal audit services to increase effectiveness and efficiency. Reports issued by our auditors are subject to consideration by the Council's elected Members through scrutiny at the Council's Audit and Assurance Committee.

5.2.1 Cumbria Pensions Committee

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.

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 1 non-voting employee representative) and normally meets on a quarterly basis; although special meetings are called when required.

Advice is given by Cumbria County Council's Corporate Director of Resources and Assistant Director - Finance (s.151 Officer), the Council's Pensions Finance Team and by two independent advisers; Mr Tim Gardener and Mr Alistair Sutherland. The current advisers are appointed for their complementary knowledge and experience of both investments and wider pensions issues.

Advice is also provided by the Mercers Consulting as Scheme Actuary, DLA Piper as legal advisors to the Scheme, and by other experts where appropriate, eg for investment management services, specialist tax advice, etc.

Each Member of the Pension Committee formally considers conflicts of interest at each meeting and the outcome is declared in the public minutes. As detailed in note 16 to the accounts during 2012/13 any related party transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

For further details of Management arrangements see section 4.5 of this report.

5.2.1.1 Cumbria Pensions Committee Training 2012/13

Members and Officers are required to undertake training to satisfy the obligations placed upon them by the:

- Myners Principles (as detailed in the Statement of Investment Principles in section 7.4.13 of this report);
- Pensions Regulations and the Pensions Regulator;
- CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills;

- LGPS Governance Compliance Statement; and the
- Committees own Training Policy (see section 8.4 of this report).

The Cumbria Pensions Committee ensures that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements. This helps ensure the effective acquisition and retention of the relevant public sector pension scheme knowledge and skills for all those (Members and Officers) charged with governance; oversight; financial administration and decision-making for the Cumbria Local Government Pension Scheme (LGPS).

These policies and practices are guided principally by reference to a comprehensive framework of knowledge and skills requirements as set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks (KSF). The KSF has been produced to assist the improvement of governance arrangements of the LGPS. It is intended to improve the ability of elected representatives and paid employees to manage the scheme.

A training policy (see section 8.4 of this report) and an outline training plan designed to cover the Knowledge and Skills Framework is produced annually by Cumbria LGPS and is updated throughout the year as any knowledge and skills gaps are identified either through emerging events or changes to Committee Membership. To ensure the plan is appropriately focussed in 2012/13 a self assessment questionnaire was sent to Members at the start of the year to identify areas where further training was required. In light of the responses and the work schedule a series of targeted briefing sessions was arranged for all Members.

The formal training undertaken by Members and Officers during the 2012/13 financial year has consisted of:

- ad hoc attendance by individuals at externally run events where they have been identified as appropriate for the individual, and
- the provision a number of internally held (although delivered primarily by external experts) training sessions including:

  April 2012
  Asset allocation to infrastructure, opportunistic investing and investment governance structures;

  May 2012
  Infrastructure training;

  July 2012
  Consideration of Buy and Hold Bond Investment;

  October 2012
  2013 Actuarial Valuation Preparation and Budget Planning;

  November 2012
  Legal and Governance aspects of the LGPS;

  March 2013
  Custody and Performance Monitoring; and
  Opportunistic Investing – Real Estate Debt.

Summary of Committee attendance and formal training in 2012/13:

Committee Member	Voting rights?	Attendance at meetings	Training received (days)
Cllr. MH Worth (Chair)	Yes	6	4.2
Cllr. NH Marriner (Vice-Chair)	Yes	6	3.2
Cllr. J Airey	Yes	4	2.4
Cllr. AL Barry	Yes	6	2.2
Cllr. SB Collins	Yes	3	1.4
Cllr. DS Fairburn	Yes	5	3.2
Cllr. D Roberts	Yes	4	1.1
Cllr. DE Southward	Yes	5	2.4
Cllr. G Troughton (Co-opted District Councillor)	Yes	5	1.6
J Trueick (Employee representative)	No	4	1.6
Substitutes:			
Cllr. H Carrick	-	3	1.1
Cllr. TSA Lowther	-	2	0.5
Cllr. I Stewart	-	1	0.3

5.2.2 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. After reviewing questionnaire feedback from Forum members the Committee took the decision to extend the membership of the Forum from June 2012 to all employer bodies within the Scheme.

The Forum meets annually and during 2012/13 met on 5th October 2012.

5.2.3 Details of the Scheme's management arrangements

Administering authority: Cumbria County Council

This is the body responsible for administering the Cumbria Local Government Pension Scheme on behalf of its members (who may be drawn from a number of employers).

Pensions Committee:

Details of the membership of the Committee are set out below. For further details of the role of the Pensions Committee, please see section 5.2.1.

Pensions Committee members 2012/13:
County Council Elected Members

To May 2013
- Mr MH Worth (Chair)
- Mr J Airey
- Mr A L Barry
- Mr SB Collins
- Mr DS Fairbairn
- Mr NH Marriner (Vice Chair)
- Mr D Roberts
- Mr DE Southward

Following Local Authority elections post year end changes (from June 2013)
- Mr MH Worth (Chair)
- Mr J Airey
- Mr SB Collins (Vice Chair)
- Mr G Humes
- Mr NH Marriner
- Mr DE Southward
- Mr I Stewart
- Mr GB Strong

District Council Elected Member
- Ms G Troughton

Trade Union Non Voting Member
- Ms J Trueick

Independent Advisers
- Mr TJA Gardener, Global Head of Consultant Relations, AXA Investment Managers
- Mr AJ Sutherland, Consulting Director, Deloitte

Other management arrangements:
Fund Managers
- Aberdeen Property Investment Management
- BlackRock Investment Management (to June 2012 – funds being transitioned out)
- GMO UK Limited
- Legal and General Investment Management
- Newton Investment Management Limited (to May 2012)
- Schroder Investment Management
- Standard Life Investments Ltd (from October 2012)

Custodian
- State Street Bank and Trust Company

Actuary
- Mr J Livesey FIA, Mercer

Bankers
- National Westminster Bank PLC

Auditor
- Grant Thornton UK LLP

Legal Advisers
- Cumbria County Council Legal Services
- DLA Piper UK LLP
- Institutional Protection Services (IPS) / Spector, Roseman, Kodroff & Willis PC (class actions)

Performance Monitoring
- State Street Investment Analytics (WM Company)

Officers responsible for the Scheme
- Mrs PD Wood, Corporate Director of Resources, Cumbria County Council
- Mrs J W Crellin, Assistant Director – Finance (s.151 Officer), Cumbria County Council

Additional Voluntary contribution providers:
- Standard Life
- Scottish Widows

For further information/contact details for the above, please contact the Pensions team at:

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

Email **pensions@cumbria.gov.uk**

For further details of Local Government Pension Scheme benefits and administration, please contact:

Your Pension Service
Cumbria LGPS Team
PO Box 100
County Hall
Preston PR1 0LD
Email: **Connect2Pensions@oneconnectlimited.co.uk**
Telephone: **01772 530530**

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

GMO STATE STREET Legal & General INVESTMENT MANAGEMENT

Aberdeen Standard Life Investments Schroders

6 Financial Statements

Contents

Financial statements and notes to the accounts

The Statement of Accounts for the Cumbria Local Government Pension Scheme (LGPS) 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 Scheme covers both County Council employees and those of other scheduled, resolution and admitted bodies. These Accounts (financial statements and certain sections) are summarised to form part of Cumbria County Council's Annual Accounts.

The Accounts for the Cumbria LGPS summarise the Scheme's transactions for the financial year 2012/13 and the position at the year-end date, 31st March 2013. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

They do not take account of obligations to pay pensions, lump sums or other benefits which fall due after the financial year end. IAS26 'Retirement Benefit Plans' requires the actuarial present value of promised retirement benefits to be disclosed and this information can be found in Note 23 'Actuarial Position of the Fund'.

6.1 The Financial Statements

Pension Fund Account for the year ended 31st March 2013

	Notes	2011/12 £000's	2011/12 £000's	2012/13 £000's	2012/13 £000's
Dealings with members, employers and others directly involved in the fund					
Contributions	3		69,709		66,862
Transfers in from other pension funds	4		5,572		4,114
			75,281		**70,976**
Benefits	5		(73,332)		(70,184)
Payments to and on account of leavers	6		(4,586)		(5,196)
Administrative expenses	7		(1,204)		(1,298)
			(79,122)		**(76,678)**
Net additions / (deductions) from dealing with members			**(3,841)**		**(5,702)**
Returns on investments					
Investment Income		27,289		23,290	
Taxes on Income		(416)		(350)	
Net investment income	8	26,873		22,940	
Profit and losses on disposal of investments and changes in the market value of investments	10(d)	46,744		178,206	
Investment management expenses	9	(3,285)		(2,797)	
Net return on investments			**70,332**		**198,349**
Net increase in the net assets available for benefits during the year			**66,491**		**192,647**
Net assets at the start of the year			**1,399,927**		**1,466,418**
Net assets at the end of the year			**1,466,418**		**1,659,065**

Net Asset Statement as at 31st March 2013

	Notes	31 March 2012 £'000	31 March 2013 £'000
Investment assets		1,454,106	1,644,456
Investment liabilities		(285)	(454)
Total net investments	10	**1,453,821**	**1,644,002**
Long term assets	12a	2,651	1,981
Current assets	12b	15,021	19,172
Long term liabilities	13a	(424)	(392)
Current liabilities	13b	(4,651)	(5,698)
Net assets of the Fund available to fund benefits at the period end		**1,466,418**	**1,659,065**

6.2 Notes to the Financial Statements

Note 1 (a): Description of the fund

The purpose of the Scheme is to provide pension benefits for current and future Scheme Members through ensuring it can:

- pay out monies in respect of scheme benefits (pensions), transfer values, cost, charges and expenses, as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;
- receive monies in respect of contributions, transfer values and investment income, and
- invest all deposits and, whilst balancing both risk and return, consistently outperform against the Scheme's benchmark over the longer term.

Through balancing the strategic investment of the Scheme's assets to the liability profile of the membership, the aims of the Cumbria LGPS 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;
- maximise the returns from investments within reasonable risk parameters, and
- aim to close the scheme deficit by 2032.

Scheme membership 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 employers of the Scheme (usually this includes employers to whom contracts have been awarded for the provision of services).

All local government employees (except casual workers) are automatically entered into the Scheme. Employees may choose to opt out at any point in time.

Membership of the scheme at 31st March 2013 was made up as follows:

Contributors/Actives	**15,969**
Pensioners	**13,594**
Deferred Pensioners	**19,525**
TOTAL	**49,088**

At 31st March 2013 there were 105 (2011/12: 105) employer bodies in the Cumbria LGPS (for the full list see note 25).

Note 1 (b): Activity and performance during 2012/13

During the year to 31st March 2013 the Cumbria LGPS value increased by £192.647m from £1,466.418m (31/03/12) to £1,659.065m (31/03/13). The Scheme returned 13.9% for the year which outperformed the fund's bespoke benchmark for the year of 12.4%.

All asset classes performed well over the year, with equities in particular providing strong returns. The value of UK equity increased by 16.8% (FTSE All Share) and global equities by 18.5% (FTSE World). UK index linked bonds also made strong gains of 10.2%.

The Scheme's three-year return of 9.1% outperformed the bespoke hedged benchmark of 8.7% (per year). Over the longer term of ten years the Fund return was behind the benchmark showing a slight underperformance of 0.2% per year.

A final figure is available for the WM Local Authority average at 13.8% for the year, which results in a ranking of 52nd out of 100 for the Scheme. This was a year when equities saw better returns than bonds, so the ranking is reflective of the Scheme's overall asset allocation (higher than average allocation to bonds of 32% versus LGPS average of 18%). Longer term the Scheme's strong position has been maintained at 22nd for 3 year performance and only marginally outside the top 50% for the five and ten years. The table below shows the Cumbria Scheme's performance compared to the universe for 1, 3, 5 and 10 years:

Period	1 Year %	3 Years % per year	5 Years % per year	10 Years % per year
Cumbria Pension Scheme	13.9	9.1	6.3	9.2
Scheme benchmark	12.4	8.7	6.5	9.4
WM LA Universe average	13.8	8.1	6.5	9.4
Ranking	52nd	22nd	51st	53rd

The Scheme performance, while credible given the turbulent market conditions throughout the period, has marginally underperformed over the longer term ie 10 years. As such, Mercers Investment Consultants were commissioned to work with the Scheme's Independent Advisors and Officers on a detailed Investment Strategy review. The aim of the review was to ensure the strategic asset allocation was still relevant to future conditions. The review was completed in May 2012.

The outcome of the review determined that given the liability profile of the Scheme at a strategic level ie the asset allocation to growth seeking assets versus bonds (68% to 32%) the strategy was still appropriate.

However, it was evidenced that reduced risk (through better diversification) and marginally enhanced return may be achieved from an alternative allocation across the growth section of the portfolio.

The process of implementing the resultant changes in asset allocation is underway. To date:

- a mandate for £130m of corporate bonds was awarded to Standard Life in July 2012,
- £79.9m fixed interest gilts, held under the passive mandate with Legal and General were converted to index linked in March 2012,
- a mandate for the commitment of £30m of real estate debt was completed in May 2013,
- the procurement process to restructure (£350m to £400m) global equities asset allocation is due to complete with the appointment of two managers in the autumn of 2013,
- selection of a suitable infrastructure investment is underway and expected to be finalised by the end of 2013.

2012/13 was an exceptionally busy year for the Scheme, however, all the substantive work plan objectives laid down in the Cumbria LGPS Business Plan 2012/13 have either been achieved or are in the progress of completion.

The main achievements in 2012/13 have been:

- completion of the Strategic Investment Strategy Review,
- completion of tender process and transition of funds for the new corporate bond mandate (£130m),
- administration data cleansing review regarding both member and employers' data and completion of employer covenant review in preparation for the 2013 valuation,
- introduction of enhanced administration services egmember self service, immediate payments, secure data submission, etc,
- production of the Cumbria LGPS 2011/12 Accounts and Annual Report including the introduction of substantial changes to both layout and content whilst achieving a clean audit opinion,
- governance review and update of several major policies, procedures and contracts.

Looking forward, 2013/14 is also forecast to be a busy year for Local Government Pension Schemes as they respond to the changes in benefits structures being finalised nationally. This will involve the need for further preparatory work as the changes will impact on several different aspects of the Scheme. The Cumbria LGPS will also undertake the following:

- completion of the Investment Strategy Review,
- establishment and embedding an Investment Sub Group,
- Triennial Valuation (including consultation with employers on their individual results),
- auto enrolment,
- preparation for the 2014 Scheme (including any revisions to policy; procedure and governance that may be required),
- enhancements to the administration system including the further roll out of self service etc,
- development and enhancement of contract review procedures and performance monitoring at both Committee and Officer level,
- completion of the Pension Fund Annual Accounts, and Annual Report, incorporating any technical changes and requirements arising due to the change in External Auditors,
- delivery of training to both new and continuing Members.

The Annual Report and Accounts gives further details of the Scheme's performance, management structure and investment news. The Annual Report and Accounts 2012/13 will be published on-line when finalised (and at the latest by the statutory deadline of December 2013) at **cumbria.gov.uk/finance** where the previous year's report is also available.

Note 2: Summary of significant accounting policies

There have been no changes to accounting policies in 2012/13.

Fund account – revenue recognition

2.1 Contribution income
Normal contributions, both from the members and from the employers within the Scheme, are accounted for on an accruals basis at the rate recommended by the Scheme actuary for the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current debtor. Amounts not due until future years are classed as long-term debtors. Where an employer leaves the scheme, any contribution required on closure is accrued for in the year of departure. (See note 3 for further details).

2.2 Transfers to and from other schemes
Transfer values represent the amounts received and paid during the year for members who have either joined or left the Scheme during the financial year. These are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 4 and 6).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see 2.14) to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (see note 4).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

2.3 Investment income (note 8)

a) Interest income: is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.
b) Dividend income: is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current asset.
c) Distributions from pooled funds: are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current asset.
d) Property-related income: consists primarily of rental income. This is recognised on an accruals basis.
e) Movements in the net market value of investments: changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year. (See note 10(d)).

Fund account – expense items

2.4 Benefits payable (note 5)
Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

2.5 Taxation
The Scheme is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments is subject to withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Scheme expense as it arises, and is shown on the Fund Account as 'Taxes on income'.

2.6 Administrative expenses (note 7)
All administrative expenses are accounted for on an accruals basis. All staff costs of the County Council's pensions team are charged direct to the Scheme. Management, accommodation and other overheads are apportioned to the Scheme in accordance with general Council practices.

2.7 Investment management expenses (note 9)
All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition the Scheme has negotiated with one of its Investment Managers that an element of their fee will be performance related. None has been paid in 2012/13.

The cost of obtaining investment advice from external advisors is included in investment management charges.

Net assets statement

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

State Street Bank and Trust, as independent Custodian to the Scheme, values the assets other than direct property and unquoted investments. This is done on a daily basis by a series of data quality verifications. All discrepancies outside a tolerance level (zero tolerance for equities and 5% tolerance for bonds) are researched with a secondary source and resolved. This additional scrutiny provides an extra level of independence. The values on investments as shown in the net assets statement have been determined as follows:

a) Market-quoted investments: The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
b) Fixed interest securities: Fixed interest securities are recorded at net market value based on their current yields.
c) Unquoted investments: The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Scheme expects to receive on wind-up, less estimated realisation costs. There is one such investment at 31st March 2013 valued at £0.761m, (see note 14 'Unquoted investments').
- Directly held investments include investment in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools of directly held securities is undertaken by the investment manager or

responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement. (See note 14).

- Investments in private equity funds and unquoted limited partnerships are valued based on the Scheme's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association. (See note 14).

d) Limited partnerships: Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

e) Pooled investment vehicles: Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31st March 2013. Unquoted investments are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers. For further information on Pooled investment vehicles see note 10(a).

f) Freehold and leasehold properties: The properties are valued at open market value at 31st March 2013 by an independent valuer, CB Richard Ellis, Chartered Surveyors, 77 Grosvenor Street, London, in accordance with the Royal Institute of Chartered Surveyors' Valuation - Professional Standards. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms. For further information on Investment Properties see note 10(b).

g) Loans and receivables: these are non-derivative financial assets which have fixed or determinable payments and are not quoted in an active market. Financial Assets represented by loans and receivables are carried in the Balance Sheet at amortised cost basis ie. principal amount adjusted for any interest payable / receivable at the year-end date.

2.9 Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. State Street Bank and Trust value all overseas securities and foreign currency balances outstanding at year end in local currency then convert to sterling using the WM Reuters 4pm exchange rates at 31st March 2013.

2.10 Derivatives

The Scheme uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Scheme does not currently hold derivatives for speculative purposes.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract. The contracts are valued using the WM/Reuters 4pm closing spot/forward rates.

Fair value of Exchange Traded Futures contracts is determined using market quoted prices as at the reporting date. Fair value is the unrealised profit or loss at the market quoted price of the contract. Derivatives are covered in more detail in note 10(c).

2.11 Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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

2.12 Financial liabilities

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

2.13 Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Scheme has opted to disclose the actuarial present value of promise retirement benefits by way of a note to the net assets statement (see note 23).

2.14 Additional voluntary contributions
Cumbria LGPS provides an additional voluntary contributions (AVC) scheme for its members. The Scheme currently has two appointed AVC providers: Standard Life and Scottish Widows. The previous AVC scheme on offer to employees was operated by Equitable Life Assurance Society but in December 2000 it stopped accepting new business.

Employees / contributors AVCs are paid over to one of the two providers by the Schemes employers. These contributions are specifically for the purpose of providing additional benefits for individual contributors. Each AVC contributor receives an annual statement (from their provider) showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (see note 15).

Note 3: Contributions

Benefits (see Note 5) are funded by contributions and investment earnings. Contributions are received both from active members and employers of the Scheme. Contributions from active members are made in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended) while employers' contribution rates are based on triennial actuarial funding valuations (see note 23).

Contribution rates for 2012/13 are as follows:

- Employees - range from 5.5% to 7.5% of pensionable pay dependent on the full-time salary of the member.
- Employers - range from 7.9% to 48.2% of pensionable pay. Individual employer rates are set by the actuary on a three-yearly cycle, taking into account the employer's own attributes and particular circumstances; this includes the maturity profile of the membership, if the Admission is open or closed to new members, and the maximum deficit recovery period as determined by the Scheme Actuary in relation to the employer's covenant and membership profile.

The following table analyses the amount of total contributions receivable in the year, by category and by employer type:

By Category	2011/12 £'000	2012/13 £'000
Employer contributions to the fund	53,682	51,373
Employee contributions to the fund	16,027	15,489
	69,709	**66,862**
By Employer Type	**2011/12 £'000**	**2012/13 £'000**
Scheduled bodies	63,485	62,833
Admitted bodies	6,224	4,029
	69,709	**66,862**

Included in the scheduled bodies figure in the above table are administering authority contributions (Cumbria County Council) of £38.995m (£38.701m 2011/12). The majority of employees of both Amey and Agilisys transferred back into Cumbria County Council in 2012/13.

Total contributions to the Scheme were £2.847m lower in 2012/13 compared to 2011/12, this is a reflection of the volume of workforce downsizing that has taken place in recent years, as many Scheme employers within the LGPS seek to address reducing funding. In 2011/12 South Lakes Housing made a capital payment of £3.000m to offset their deficit; and in 2012/13 a payment on exit from the Scheme of £1.046m for Agilisys has been accrued for, and subsequently received in April 2013.

In addition to normal contributions and capital payments from employers, the contributions figure also includes the costs of pension strain arising from non ill-health early retirements and, where applicable, ill-health early retirements:

Non ill-health early retirements: Employers can make lump sum contributions toward pension strain costs or pay an additional employer contribution rate (as calculated by the actuary). These contributions are recognised in line with the agreement with the employer if there is no agreement, when the Scheme receives them.

Cumbria County Council is the only scheme employer who, in agreement with the Actuary, opted, from 1st April 2011, to make an additional employer contribution. The rate as determined by the Actuary includes an element for interest to compensate for delayed receipt of monies. The additional employer contribution from the County Council is to be used to offset the one-off costs of workforce restructuring to be undertaken in response to reductions in annual budgets. It is anticipated that this period of workforce reduction and restructuring will continue in the medium term. The additional contribution from Cumbria County Council will fund an allowance of up to £8m for non ill-health early retirements. From 1st April 2011 to 31st March 2013, £4.684m of this amount had been allocated.

Ill-health early retirements: Cumbria County Council also has a voluntary arrangement whereby part of the actuarial strain of ill-health retirements is paid immediately. Details of this and all other Cumbria LGPS employer's policies are contained in the full Actuarial Valuation Report as at 31st March 2010, available on the County Council's website, at **cumbria.gov.uk/finance**

Note 4: Transfers in from other pensions

Transfers in to the scheme have been made by individual members, where they decide to bring pensions benefits accrued from previous employment into their LGPS pension.

	2011/12 £'000	2012/13 £'000
Individual transfers	5,572	4,114
	5,572	**4,114**

Note 5: Benefits

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service. Members have access to one or both of the two schemes depending upon their employment ie whether their employment was pre and / or post 1st April 2008. Details of the main benefits of membership of these schemes are summarised in the following table:

	Service Pre 1 April 2008	Service Post 1 April 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Each year worked is worth 3/80 x final pensionable salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

The table following analyses the amount of total benefits paid in the year, by category and by employer type:

By Category	2011/12 £'000	2012/13 £'000
Net pensions paid	51,415	55,795
Net lump sum on retirement	20,103	12,619
Net lump sum on death	1,814	1,770
	73,332	**70,184**
By Employer Type	**2011/12 £'000**	**2012/13 £'000**
Scheduled bodies	68,534	64,699
Admitted bodies	4,798	5,485
	73,332	**70,184**

Included in the scheduled bodies figure in the above table are administering authority benefits of £36.928m (£41.753m 2011/12).

The unusually large value of lump sum payments in 2011/12 (and increased pensions paid in 2012/13) reflects the amount of restructuring that has taken place in recent years, as most Scheme employers within the LGPS seek to address reducing funding. Most employers within the Scheme have chosen to offer voluntary redundancy programmes, which by their nature tend to appeal to individuals whom are aged over 55 and are therefore entitled to access their pension. As such this has resulted in much higher than usual volumes of early retirements. It is anticipated that this trend may continue for the next couple of years.

Note 6: Payments to and on account of leavers

	2011/12 £'000	2012/13 £'000
Refund of contributions	5	4
Individual transfers to other Schemes	4,581	5,192
	4,586	**5,196**

Note 7: Administrative expenses

Officers employed by the County Council undertake the day to day management and administration of the Scheme. Employee time spent working on the Scheme and their associated costs eg office space and information technology are charged to the Scheme. In addition the cost of maintaining the employee and employer contribution records, paying benefits and provision of other pensions administration services, provided by YPS, are charged to the Scheme. This is in accordance with the government regulations on the management of local government pension schemes.

Further details of administrative expenses are as follows:

	2011/12 £'000	2012/13 £'000
Employee costs	294	310
Support services, including Pensions Administration	807	896
Printing and publications	1	-
Pension fund committee	2	4
External audit fees	37	16
Internal audit fees	10	2
Actuarial fees	53	70
	1,204	**1,298**

Investment management expenses are shown separately from scheme administration in the Fund Account and are analysed in Note 9.

Material variations on administrative spend between years include:

- Support services includes Pensions Administration costs, specialist Legal Advice (which has been used during 2012/13 to address many one-off and some other issues covering governance, contract and policy), subscriptions to national bodies, staff training and courses.
- Pensions Administration costs were reduced in 2011/12 on the transfer of administration provision to YPS (a shared service with Lancashire County Council). Additional expense has been incurred during 2012/13 to facilitate data cleansing work necessary in preparation for the Triennial Valuation, implementation of systems enhancements due to auto-enrolment, and in preparation for the new 2014 LGPS Scheme, and to bring forward developments such as on-line user tools which will enable future efficiencies and service improvements to be made.
- Printing Costs - the increased usage of on line web access for documents and publications has reduced printing charges.

Note 8: Net investment income

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £22.940m (2011/12 £26.873m), net of £0.350m (2011/12: £0.416m) irrecoverable tax on dividends, and including stock lending income of £0.118m (2011/12: £0.087m), can be analysed as follows:

	2011/12 £'000	2012/13 £'000
Interest from fixed interest securities	1,144	2,868
UK dividends	7,140	6,404
Overseas dividends	8,943	7,025
Distributions from pooled investment vehicles	3,385	434
Net rental income from investment properties (see note 10(b))	6,239	6,159
Bank Interest	22	50
	26,873	**22,940**

The Scheme completed an Investment Strategy Review in May 2012. One of the aims in implementing the outcomes of the review was to achieve more stable returns from fixed interest securities. To facilitate this, Standard Life were appointed as the Scheme's new corporate bond manager in 2012/13. This has resulted in increased income from fixed interest securities.

Due to poor performance and in line with the Investment Strategy review, one of the Scheme's active global equity mandates was transferred in September 2012 into pooled investment vehicles with the Scheme's passive manager. This resulted in a decrease in income from equity dividends in 2012/13, as the interest from the underlying investments of an index-tracking fund is reinvested and benefits the capital valuation of the funds, rather than income returns.

The Scheme benefitted in 2011/12 from an unusually large dividend payment from GMO's Emerging Market pooled fund. Distributions from pooled investments returned to a more average level in 2012/13.

Note 9: Investment management expenses

Investment Manager fees are lower in 2012/13 than in 2011/12 as the Scheme has had more assets held passively during the periods of transition between managers; this results in reduced Fund management fees compared to more average levels.

Investment consultancy fees increased for 2012/13 as the Scheme conducted a full Investment Strategy Review, which resulted in costs to procure a new bond manager, and the ongoing procurement processes for two new equity managers (due to complete in the autumn of 2013).

	2011/12 £'000	2012/13 £'000
Fund management fees	3,038	2,532
Custody fees	121	103
Performance monitoring service	31	32
Investment consultancy fees	95	130
	3,285	**2,797**

Note 10: Investment assets

		31 March 2012			31 March 2013		
		UK	Overseas	Total	UK	Overseas	Total
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
Investment Assets							
Equities							
Equities - quoted		182,391	304,596	**486,987**	200,908	185,151	**386,059**
Equities - unquoted		894	-	**894**	761	-	**761**
		183,285	304,596	**487,881**	201,669	185,151	**386,820**
Fixed interest securities							
Public Sector/Govt - quoted		-	-	**-**	-	-	**-**
Corporate bonds - quoted		-	-	**-**	125,398	4,611	**130,009**
Corporate bonds - unquoted		-	-	**-**	-	-	**-**
		-	-	**-**	125,398	4,611	**130,009**
Pooled investment vehicles							
Pooled investments - quoted		17,444	18,503	**35,947**	52,045	19,424	**71,469**
Pooled investments - unquoted		742,326	79,380	**821,706**	613,710	338,381	**952,091**
	10(a)	759,770	97,883	**857,653**	665,755	357,805	**1,023,560**
Investment properties							
Freehold		74,575	-	**74,575**	74,430	-	**74,430**
Long leasehold		19,050	-	**19,050**	17,725	-	**17,725**
Short leasehold		-		**-**	-		**-**
	10(b)	93,625	-	**93,625**	92,155	-	**92,155**
Derivative contracts	10(c)	2,999	-	**2,999**	4,720	-	**4,720**
Cash Deposits		8,611	3,337	**11,948**	4,748	2,444	**7,192**
		1,048,290	405,816	**1,454,106**	1,094,445	550,011	**1,644,456**
Investment liabilities							
Derivative contracts	10(c)	(285)	-	**(285)**	(454)	-	(454)
Total Net Investments		1,048,005	405,816	**1,453,821**	1,093,991	550,011	**1,644,002**

The equity holdings have decreased at 31st March 2013 as the global equity manager was terminated in September 2012 and the holdings transferred to pooled index-tracking funds.

The new corporate bond manager was in place from October 2012, funded from pooled passive holdings. No fixed interest securities were held at 31st March 2012 as the fixed interest bond mandate with the previous manager was discontinued as part of the Strategy Review.

Note 10(a) details the pooled investments including index-tracking funds, unit trusts and alternatives funds.

Note 10(b) details the Scheme's property portfolio.

Note 10(c) details the derivative contracts above; these are forward foreign exchange contracts and futures held at 31st March, shown as assets where there is a gain and liabilities where there is a loss on the individual contracts at 31st March 2013.

Note 10(a): Pooled investment vehicles

The Schemes largest holding is the unitised insurance policies with Legal and General totalling £890.3m, shown in the following table categorised into the underlying asset types. These unitised, index-tracking funds are 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 fixed interest bonds and equity.

The investment managers may also choose to invest in managed funds such as unit trusts as a preferred method of investing in smaller asset classes or less easily accessed markets.

	2011/12 £'000	2012/13 £'000
Unitised insurance policies - unquoted		
UK equities	185,890	199,850
Overseas equities	55,023	298,272
UK public sector bonds	0	0
UK corporate bonds	234,510	130,522
UK index-linked securities	234,361	261,626
	709,784	**890,270**
Unit trusts		
UK - quoted	17,444	52,045
Overseas - quoted	15,961	16,508
	33,405	**68,553**
Other Managed funds		
Pooled property REIT's - quoted	2,542	2,916
Pooled property funds - unquoted	10,734	9,512
Other managed funds - unquoted	101,188	52,309
	114,464	**64,737**
Total	**857,653**	**1,023,560**

Pooled corporate bond securities have decreased at 31st March 2013, as the new corporate bond mandate began in October 2012. During the transitional period the assets were held in pooled investments.

Pooled overseas equities increased when the global equity manager was terminated in September 2012 and the holdings transferred to pooled index-tracking funds. Following the Strategy Review a procurement process to appoint two new equity managers is underway.

Note 10(b): Investment properties

The Scheme invests in direct property holdings for rental income and capital growth, and to maximise diversification thereby reducing the risk across the investment portfolio. At 31st March 2013 the portfolio valued at £92.155m included 26 properties ranging from £1.125m to £8.000m each. These properties cover a mix of sectors such as offices, industrial, high street retail units and retail warehouses, and are also geographically spread across England and Scotland; the intention of this spread is to mitigate risk by enhancing the diversification within this asset class.

'Net rental income from investment property' has been accounted for in the Fund Account under 'Net Investment Income' and is analysed as follows:

	2011/12 £'000	2012/13 £'000
Rental income from investment property	6,471	6,666
Direct operating expenses arising from investment property	(232)	(507)
	6,239	**6,159**

The improved rental income between years reflects inflationary rent uplifts and an increase in the occupancy of properties rented.

There are no restrictions on the Scheme's ability to realise the value inherent in its investment property or on the Scheme's right to the remittance of income and the proceeds of disposal. The properties are held directly and the Scheme is entitled to all income and capital proceeds. The Scheme has no contractual obligations to purchase, construct or develop investment property or repair, maintain or enhance such properties. At 31st March 2013, the Scheme was legally obliged to complete the purchase of one property (Clapham, London for £4.4m) once the condition of the Waitrose lease being completed had been satisfied.

The following table summarises the movement in the fair value of investment properties over the year:

	2011/12 £'000	2012/13 £'000
Balance at the start of the year	**84,285**	**93,625**
Additions:		
Purchases	15,472	5,650
Subsequent expenditure	1,038	367
Disposals	(6,624)	(4,602)
Net gains/(losses) from fair value adjustments	(546)	(2,885)
Balance at the end of the year	**93,625**	**92,155**

Note 10(c): Derivatives

One way for pension Schemes 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 in LGPS to hedge 50% of their foreign currency exposure to mitigate the effect any adverse currency movements would have at the time of the realisation of the investment.

The Cumbria LGPS 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 Scheme'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.

The corporate bond mandate managed by Standard Life also uses derivatives in the form of exchange traded futures contracts to hedge overseas duration risk, in particular US$, ensuring the portfolio stays below its upper duration range of 7-8 years. The economic exposure represents the notional value of stock purchased under future contracts and is therefore subject to market movements.

The derivatives can be summarised as follows:

	31 March 2013		
Reconciliation to Note 10	Investment Asset / Unrealised Gain £'000	Investment Liability / Unrealised Loss £'000	Net Market Value £'000
Total Derivatives			
Forward currency contracts	4,720	(438)	**4,282**
Futures	-	(16)	**(16)**
Derivative Contracts Gain/(Loss)	**4,720**	**(454)**	**4,266**

The open forward foreign exchange contracts can be summarised as follows:

Currency Bought		Currency Sold		2012/13	
Currency	Local Value 000's	Currency	Local Value 000's	Unrealised Gain Sterling £'000	Unrealised Loss Sterling £'000
Settlement within one month					
AUD	5,090	USD	(5,242)	38	
CAD	138	USD	(136)	0	
CHF	1,529	USD	(1,656)		(27)
EUR	913	USD	(1,197)		(16)
GBP	2,008	USD	(3,106)		(38)
HKD	72,034	USD	(9,292)		(8)
NOK	989	USD	(174)		(3)
NZD	181	USD	(150)	0	
SEK	31,786	USD	(5,019)		(87)
SGD	14,236	USD	(11,494)		(12)
USD	944	DKK	(5,264)	24	
USD	27,114	EUR	(20,305)	683	
USD	7,782	JPY	(727,716)	27	
USD	1,453	NOK	(8,086)	45	
Settlement one to six months					
GBP	66,986	EUR	(77,290)	1,559	
GBP	28,594	JPY	(4,113,421)		(247)
GBP	147,473	USD	(220,279)	2,344	
				4,720	**(438)**
Net forward currency contracts at 31 March 2013				**4,282**	

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market Value at 31 March 2012 £'000	Economic exposure	Market Value at 31 March 2013 £'000
Assets					
			0		0
Liabilities					
Overseas Fixed Interest	Less than one year	0	0	(3,477)	(16)
			0		(16)
		Net futures	**0**		**(16)**

Note 10(d): Profit and losses on disposal of investments and changes in the market 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.

The table below reconciles the movements in investments and derivatives ('Total net investments') for the current year:

2012/13

Asset Class	Value at 1 April 2012 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Value at 31 March 2013 £'000
Fixed interest securities	0	130,227	(277)	(29)	88	130,009
Equities						
UK equities	183,285	46,181	(51,477)	6,100	17,580	201,669
Overseas equities	304,596	80,323	(222,049)	19,476	2,805	185,151
	487,881	126,504	(273,526)	25,576	20,385	386,820
Pooled investment vehicles	709,784	374,462	(323,886)	61,873	68,037	890,270
Unit Trusts	33,405	116,506	(83,073)	177	1,538	68,553
Managed funds	114,464	15,859	(73,694)	3,314	4,794	64,737
Property (See Note 10b)	93,625	6,017	(4,602)	504	(3,389)	92,155
Derivatives (forward foreign exchange contracts, futures)	2,714	28,709	(22,495)	(6,282)	1,620	4,266
	1,441,873	**798,284**	**(781,553)**	**85,133**	**93,073**	**1,636,810**
Cash	11,948					7,192
Total Net Investments	**1,453,821**					**1,644,002**

Analysis of gains/(losses) for the year	**2012/13 £'000**
Realised - Profit and losses on disposal of investments	85,133
Unrealised - Changes in the market value of investments	93,073
	178,206

The following table reconciles the movements in investments and derivatives for the previous year:

2011/12:

Asset Class	Value at 1 April 2011 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Value at 31 March 2012 £'000
Fixed interest securities	127,606	84	(130,417)	2,815	(88)	0
Equities						
UK equities	188,830	36,969	(31,018)	(1,391)	(10,105)	183,285
Overseas equities	318,686	142,258	(137,211)	4,899	(24,036)	304,596
	507,516	179,227	(168,229)	3,508	(34,141)	487,881
Pooled investment vehicles	500,137	277,746	(142,200)	30,595	43,506	709,784
Unit Trusts	43,463	8,505	(14,467)	294	(4,390)	33,405
Managed funds	105,598	48,676	(41,593)	1,894	(111)	114,464
Property	84,285	16,510	(6,624)	1,884	(2,430)	93,625
Derivatives (forward foreign exchange contracts)	(3,132)	26,466	(24,028)	(99)	3,507	2,714
	1,365,473	**557,214**	**(527,558)**	**40,891**	**5,853**	**1,441,873**
Cash	11,790					11,948
Total Net Investments	**1,377,263**					**1,453,821**

Analysis of gain/(loss) for the year	2011/12 £'000
Realised - Profit and losses on disposal of investments	40,891
Unrealised - Changes in the market value of investments	5,853
	46,744

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 £0.192m, which is 0.01% of the purchases and sales proceeds (for comparison the costs in 2011/12 were £0.293m, 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 ie the difference between the offered selling price and the purchase price for investments. As is general convention, managers do not separately report to the Scheme the makeup of indirect costs.

Note 10(e): Derivatives

Manager	Asset Class	31 March 2012		31 March 2013	
		£'000	%	£'000	%
Legal & General Policy No. 1	Equities and bonds	475,423	32.7%	435,703	26.5%
Legal & General Policy No. 2	Index-linked bonds	234,361	16.1%	261,626	15.9%
Legal & General Policy No. 3	Global equities	0	0.0%	192,941	11.8%
Schroders Investment Management	UK equities	179,076	12.3%	210,374	12.8%
GMO UK	Overseas equities	180,136	12.4%	207,448	12.6%
Standard Life	UK corporate bonds	0	0.0%	130,347	7.9%
BlackRock	Alternatives	124,121	8.5%	106,040	6.5%
Aberdeen Property Investors	Direct property	95,924	6.6%	95,833	5.8%
Legal & General Passive Currency	Currency overlay	2,324	0.2%	3,690	0.2%
Newton Investment Management	Global equities	162,456	11.2%	0	0.0%
Total Net Investments		**1,453,821**	**100.0%**	**1,644,002**	**100.0%**

Note 10(f): Investments representing more than 5% of the net assets of the scheme

It is a requirement of the Pensions SORP and the CIPFA Code of Practice on Local Authority Accounting to declare if an investment accounts for more than 5% of the Fund. The only occurrences of this within the Cumbria Scheme are the three unitised insurance policies held with Legal and General. These unitised, index-tracking funds are used as an efficient low-risk method of investing in the underlying asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity and as such are easily and readily convertible if required.

The value of these investments was temporarily increased during 2012/13 when the assets of the terminated Global Equity mandate were transferred into them. This is a transitional measure while a procurement process is undertaken to secure new managers. Independent Advisors to the Scheme have recommended this to be the most efficient and lowest risk option to undertake this transitional process.

Holding	31 March 2013 £'000	% of Total Net Investments
Policy 1 Legal and General UK Equity Index	199,850	12.2%
Policy 1 Legal and General AAA Over 15yr Index	130,522	7.9%
Policy 1 Legal and General North America Index	53,359	3.2%
Policy 1 Legal and General Europe(Ex UK)Equity Index	23,817	1.4%
Policy 1 Legal and General Other Pacific Basin Index	14,150	0.9%
Policy 1 Legal and General Japan Index	14,005	0.9%
Policy 1 Total	435,703	26.5%
Policy 2 Legal and General Over 5 Yr Index-Linked Gilts Index	261,626	15.9%
Policy 3 Legal and General FTSE World Equity Index	192,941	11.8%
	890,270	**54.2%**

Note 11: Financial instruments

Accounting policies describe how the different asset classes of financial instruments are measured, and how income and expenses, including fair gains and losses, are recognised. Investment property is not a financial instrument and as such does not feature in any but the first of the following tables. The following table analyses the fair value amounts of financial assets and liabilities by category, and the net gains and losses. No financial assets were reclassified during the accounting period.

The Net Assets of the Scheme can be classified as Financial Instruments and Investment Property as follows:

	31 March 2012 £'000	31 March 2013 £'000
Financial Instruments	1,366,753	1,559,070
Statutory debts / liabilities & provisions	6,040	7,840
Investment Property	93,625	92,155
Net Assets of the Fund	**1,466,418**	**1,659,065**

	31 March 2012				31 March 2013			
	Fair Value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total	Fair Value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CLASSIFICATION								
Financial Assets								
Investments								
Equities	487,881			487,881	386,820			386,820
Fixed interest securities	-	-	-	-	130,009	-	-	130,009
Pooled investment vehicles	857,653	-	-	857,653	1,023,560	-	-	1,023,560
Derivative contracts	2,999	-	-	2,999	4,720	-	-	4,720
Cash deposits	-	17,121	-	17,121	-	13,669	-	13,669
Current & long-term assets	-	5,487	-	5,487	-	5,858	-	5,858
	1,348,533	22,608	-	1,371,141	1,545,109	19,527	-	1,564,636
Financial Liabilities								
Derivative contracts	(285)	-	-	(285)	(454)	-	-	(454)
Current/long-term liabilities	-	-	(4,103)	(4,103)	-	-	(5,112)	(5,112)
Total Financial Instruments	1,348,248	22,608	(4,103)	1,366,753	1,544,655	19,527	(5,112)	1,559,070
ANALYSIS OF NET GAINS AND LOSSES FOR YEAR ENDED 31st MARCH								
Financial Assets	47,575	-	-	47,575	181,376	-	-	181,376
Financial Liabilities	(285)	-	-	(285)	(285)	-	-	(285)
Total Net Gains/Losses				47,290				181,091

The table following summarises the carrying values (book cost) of the financial assets and liabilities by class of instrument compared with the fair values (market value).

31 March 2012			31 March 2013	
Carrying Value (Book Cost)	Fair Value		Carrying Value (Book Cost)	Fair Value
£'000	£'000		£'000	£'000
		Financial Assets		
1,100,005	1,348,533	Fair Value through profit and loss	1,203,550	1,545,109
22,608	22,608	Loans and receivables	19,527	19,527
1,122,613	1,371,141	Total Financial Assets	1,223,077	1,564,636
		Financial Liabilities		
-	(285)	Fair Value through profit and loss	-	(454)
(4,103)	(4,103)	Financial Liabilities at amortised cost	(5,112)	(5,112)
(4,103)	(4,388)	Total Financial Liabilities	(5,112)	(5,566)
1,118,510	1,366,753	Total Financial Instruments	1,217,965	1,559,070

Note 11(a): Valuation of financial instruments carried at fair value

To show the liquidity of the assets the Scheme holds, under IFRS the valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. This is aimed at showing how much can be easily liquidated and thereby readily made available as cash if required with level 1 representing the most liquid and level 3 the most illiquid. This illiquidity / valuation subjectivity carries with it an element of risk for which investors expect to be rewarded with higher expected investment returns.

As the Scheme is in deficit it needs to generate excess returns at an acceptable level of risk. To do this the Scheme diversifies across asset classes but it also makes use of its strong covenant as a Pension Scheme that is not expected to mature for many years to come. As such it can take advantage of the returns offered for investing in more illiquid asset classes such as private equity and infrastructure. Thus the liquidity or how easily a financial asset can be quantified at a point in time does not automatically equate to the value of it to the Scheme, merely how readily it can be realised as cash if required.

Level 1: 39% of the Schemes Holding in Financial Instruments
These are considered the most reliably quantifiable and easily liquidated ie converted into cash, assets, carrying the lowest valuation and liquidity risk.

Fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, valued using bid prices where available. These can be freely traded in active markets and are mainly quoted equity shares, fixed interest bonds, cash, and also include quoted unit trusts.

Level 2: 59% of the Schemes Holding in Financial Instruments
While these assets are not usually convertible into cash immediately they are still considered to be relatively liquid with easily verified and relatively certain asset pricing of the underlying stocks if not the pooled fund itself.

Quoted market prices are not available. Valuation techniques are used to determine fair value. The techniques use inputs that are based significantly on observable market data.

This includes pooled funds where the underlying assets are quoted assets such as equity and fixed interest bonds. Though the funds themselves are not traded on active markets, they have pre-set, often weekly trading dates, such that liquidation is relatively easy with a short lead-in time.

Level 3: 2% of the Schemes Holding in Financial Instruments
For many of these assets prices are not readily quantifiable and they often prove to be the most illiquid. As such they hold both the highest liquidity and valuation risk.

Quoted market prices are not available. Valuation techniques are used to determine fair value. At least one input that has a significant effect on the valuation is not based on observable market data.

Such instruments include unquoted equity investments, private equity and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. These estimation techniques are referred to in Note 2 paragraph 2.8(c). The investment may be tied in for some time (in particular with private equity) and withdrawal would take longer than levels 1 or 2. The values of hedge funds are based on the net asset value provided by the fund manager. Assurances are gained from the fact that valuations are audited for each investment manager by their respective auditors and reported to the Scheme.

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

VALUATION CLASSIFICATION LEVEL	31 March 2012 Level 1	31 March 2012 Level 2	31 March 2012 Level 3	31 March 2012 Total	31 March 2013 Level 1	31 March 2013 Level 2	31 March 2013 Level 3	31 March 2013 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
FINANCIAL INSTRUMENT CLASSIFICATION								
Financial Assets								
Investments								
Equities	486,987	-	894	487,881	386,059	-	761	386,820
Fixed interest securities	-	-	-	-	130,009	-	-	130,009
Pooled investment vehicles	35,947	798,223	23,483	857,653	71,469	923,235	28,856	1,023,560
Derivative contracts	-	2,999	-	2,999	-	4,720	-	4,720
Cash deposits	17,121	-	-	17,121	13,669	-	-	13,669
Current & long-term assets	-	5,487	-	5,487	-	5,858	-	5,858
	540,055	**806,709**	**24,377**	**1,371,141**	**601,206**	**933,813**	**29,617**	**1,564,636**
Financial Liabilities								
Derivative contracts	-	(285)	-	(285)	-	(454)	-	(454)
Current & long term liabilities	-	(4,103)	-	(4,103)	-	(5,112)	-	(5,112)
Total Financial Instruments	**540,055**	**802,321**	**24,377**	**1,366,753**	**601,206**	**928,247**	**29,617**	**1,559,070**
Percentage of Financial Instruments	39.5%	58.7%	1.8%	100.0%	38.6%	59.5%	1.9%	100.0%

The level two category in both years of around 59% reflects the temporary arrangement whereby assets have been held in pooled investment vehicles within the Legal and General passive portfolio while full procurement processes for new managers are undertaken. The global equity manager was terminated in September 2012 resulting in the transfer of equities in to pooled vehicles, and the new corporate bond mandate began in October 2012 involving the transfer out of pooled vehicles to fixed interest securities.

As detailed above for Level 2 financial instruments, because all the underlying assets are identifiable, easily quantified and the pooled fund is tradable at relatively short notice, the minimal increase in risk is considered acceptable. It is anticipated that levels will revert back to a lower percentage during 2013/14 on finalisation of the ongoing procurement exercise for two new global equity managers.

The investments categorised as Level 3 in the above table (an unquoted equity investment and two pooled funds) are the most difficult to value using observable market transactions and are those most subject to estimation. For these investments, a change in fair value of £5.050m was recognised in the analysis of net gains for the year to 31 March 2013 (total £181.376m) in Note 11. Purchases of £0.956m and sales of £0.766m had also taken place for Level 3 investments.

Note 12(a): Long term assets

Revenue transactions are recorded on a system of receipts and payments. Capital and income accruals (debtors) have been introduced in respect of major items of income due but not received at 31st March. The following table shows those expected to be realised more than twelve months from the Net Assets Statement date.

	31 March 2012 £'000	31 March 2013 £'000
Long Term Debtors		
Long term debtors - contributions	23	-
Long term debtors - employer exit	2,628	1,981
Total Long Term Assets	**2,651**	**1,981**
Long Term Debtors relating to (per IFRS headings):		
Central Government bodies	2,628	1,981
Other entities and individuals	23	-
Total Long Term Assets	**2,651**	**1,981**

'Long-term debtors – employer exit' 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 which began in April 2011, the next instalment of £0.328m is shown within 'Employer exit from the scheme due < 1 year' (see note 12(b)) and the remainder of £1.981m shown above as 'Long Term Debtors – Employer exit' (see also note 3).

Note 12(b): Current assets

Revenue transactions are recorded on a system of receipts and payments. Capital and income accruals (debtors) have been introduced in respect of major items of income due but not received at 31st March. The following table shows those expected to be realised within twelve months of the Net Assets Statement date.

	31 March 2012 £'000	31 March 2013 £'000
Cash balances	**5,173**	**6,477**
Current Debtors		
Securities sold awaiting settlement	1,884	69
Investment income accrued	2,256	4,100
Property debtors	841	979
Contributions due	3,754	5,184
Employer exit from scheme due < 1 year	328	1,374
Miscellaneous	785	989
Total Current Debtors	**9,848**	**12,695**
Total Current Assets	**15,021**	**19,172**
Current Debtors relating to (per IFRS headings):		
Central Government bodies	625	844
Other local authorities	3,037	4,462
Other entities and individuals	6,186	7,389
Total Current Debtors	**9,848**	**12,695**

Investment income accrued has increased due to the new corporate bond mandate holding a portfolio of interest earning bonds; whereas the passive funds increase in value due to interest earned.

Contributions due at 31st March varies from year to year, depending on the actual dates that payments are made by employers in respect of contributions and in settlement of invoices. The payment of £1.046m on exit from the scheme in 2012/13 by Agilisys was accrued for in the above and received in April 2013.

Note 13(a): Long term liabilities

Payments during the year have been converted to an expenditure basis by the introduction of capital and expense accruals (creditors), to record significant amounts owed at 31st March. The following table shows those expected to be realised more than twelve months from the Net Assets Statement date.

	31 March 2012 £'000	31 March 2013 £'000
Long term Creditors		
Interest provision on long-term debt	424	392
Total Long term Liabilities	**424**	**392**
Long Term Creditors relating to (per IFRS headings):		
Other entities and individuals	424	392
Total Long term Liabilities	**424**	**392**

Note 13(b): Current liabilities

Payments during the year have been converted to an expenditure basis by the introduction of capital and expense accruals (creditors), to record significant amounts owed at 31st March. The following table shows those expected to be realised within twelve months of the Net Assets Statement date.

	31 March 2012 £'000	31 March 2013 £'000
Current Creditors		
Securities purchased awaiting settlement	748	271
Property creditors	2,042	2,146
Investment Managers fees	800	720
Tax payable	526	554
Interest provision on long-term debt	22	32
Miscellaneous	513	1,975
Total Current Liabilities	**4,651**	**5,698**
Current Creditors relating to (per IFRS headings):		
Central government bodies	535	554
Other local authorities	416	1,214
Other entities and individuals	3,700	3,930
Total Current Liabilities	**4,651**	**5,698**

Note 14: Nature and extent of risks arising from financial instruments

The Pension Scheme 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. These risks are a function of investing and cannot be completely avoided. They are however closely monitored and where possible appropriate mitigation methods are used to limit the Scheme's exposure.

Overall procedures for managing risk

The principal powers under which an LGPS invests are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and require an Administering Authority to invest any pension scheme money that is not needed immediately to make payments from the Scheme. These regulations require the Scheme to formulate a policy for the investment of its Fund money. Cumbria LGPS practices are outlined in the Scheme Policy Document and can be found on-line at **cumbria.gov.uk/finance**

With regards to investing, to minimise risks in this area the Administering Authority's risk management procedures focus on the unpredictability of financial markets; implementing operating restrictions on managers and diversification across the managers and asset classes within portfolio.

The Scheme annually reviews its Statement of Investment Principles (SIP) and corresponding Investment Strategy which set out the Scheme'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: **cumbria.gov.uk/finance**

During 2012/13 the Scheme completed an in-depth review of its Investment Strategy. Local Government Pension Schemes have a long term liability profile, and their investment strategy must be undertaken with a view to matching this. Switching asset allocations is expensive, resource intensive and time consuming. While annual review to keep abreast of trends in market conditions and liability profiles (eg. discounted future pensions payments) is appropriate, a more detailed review, leading to material changes in asset classes should only be undertaken every 3-7 years. Completion and implementation of the outcomes of this review have been taking place during 2012/13 and are expected to be finalised during 2013/14. The SIP for 2013/14 has been constructed to show both the transitional and final asset allocations expected throughout this period of change.

The Pensions Committee review the total Scheme investment performance against its bespoke total benchmark return and also the individual managers' performance. Investment performance by external Investment Managers is reported to the Pensions Committee quarterly. Performance of the Pension Scheme investments managed by external Investment Managers is compared to both benchmark and target returns.

As a further control, a substantial amount of due diligence is performed at the appointment stage by independent investment consultants to ascertain managers' risk control, audit and monitoring procedures.

Liquidity risk

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

The main liquidity risk for the Scheme is not having funds available to meet commitments to make pension payments to members as they fall due. The Administering Authority, with the Actuary, frequently reviews the overall cash flow position of the Scheme to ensure its obligations can be covered.

As part of both the Triennial Valuation and the annual investment review, Scheme membership and projected maturity profiles are reviewed. Currently the Scheme is cash positive (ie it collects more in annual receipts than it requires to fulfil all obligations). However, on contributions alone, the Scheme experienced a cash deficit of £5.702m in 2012/13. This amount was anticipated due to the volume of workforce restructuring across all the Scheme's employers. There was no requirement to liquidate assets ahead of previous plans as the value was easily accommodated within the Scheme's cash reserves.

On advice from the Scheme's Actuary it is projected that the Scheme will remain cash positive for the medium term. However, in light of further anticipated reductions in local government budgets and the resultant workforce reductions, coupled with anticipated reductions in active membership (due to proposed increases in employee contributions through the introduction of the 2014 Scheme), this will be kept under active review.

Note 11(a) explains the Scheme holds a large value of very liquid securities which could be promptly realised if required. As at 31st March 2013 the value of assets which could be converted to cash within three months, without significant loss to the Scheme, is £1,523.595m, ie 92% of net assets (31st March 2012 £1,336.889m 91%). The value of the illiquid assets was £135.486m which represented 8% of net assets (31st March 2012 £129.529m, 9%).

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

A maturity analysis for investment liabilities (all of which are derivatives) is shown in note 10(c). The current liabilities of the Scheme (see note 13(b)) are all due within 12 months from the Net Asset Statement date. The long term liabilities of the Scheme (see note 13(a)) consist of the interest provision on the long term debtor – employer exit. This is being unwound as follows:

	31 March 2012 £'000	31 March 2013 £'000
Due 1 to 2 years	32	42
Due 2 to 5 years	155	183
Due 5 to 10 years	237	167
Total Long term liabilities	**424**	**392**

Market risk
Market value risk is the risk that the fair value or future cash flows of a financial institution will fluctuate because of changes in market price. The Scheme is exposed to the risk of financial loss from a change in the value of its investments. This may result in the Scheme's assets failing to deliver the returns required to match the underlying liabilities of the Scheme over the longer term.

To mitigate against market value risk, the Scheme has set restrictions on the type of investment it can hold. These restrictions are subject to investment limits, in accordance with the LGPS (Management and Investment of Funds) Regulations 2009. Details can be found in the Scheme's Statement of Investment Principles. The Scheme has adopted a specific benchmark and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Scheme. 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.

Mitigation against market risk is also achieved by diversifying across multiple Investment Managers and regularly reviewing the Investment Strategy and performance of the Scheme. 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.

To increase diversification across the Scheme and thereby further reduce the Schemes' overall market risk the recent Investment Strategy Review has introduced some new asset classes (eg infrastructure and real estate debt) in which the Scheme will shortly be investing in.

Market risk – sensitivity analysis
The Scheme's 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 Scheme's liabilities). Potential price changes are determined based on the observed historical volatility of asset class returns. Historical evidence suggests that 'riskier' assets such as equities are expected to display greater potential volatility than bonds as an example. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This volatility can be applied to the investment assets of the Scheme at the period end in the following table to show the potential increase and decrease of value.

	2012/13 £'000	% Change	Value on Increase	Value on Decrease
UK Equities	453,564	13.0%	512,527	394,601
Overseas Equities	499,931	12.5%	562,422	437,440
Bonds	260,531	6.4%	277,205	243,857
Index Linked Gilts	261,626	8.3%	283,341	239,911
Alternatives	64,737	4.0%	67,326	62,148
Cash	7,192	0.0%	7,193	7,191
	1,547,581		**1,710,014**	**1,385,148**

Foreign exchange risk

The Scheme 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 31st March 2013, the Scheme had overseas investments (excluding forward foreign exchange contract) of £547.567m and £2.444m 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 £27.501m, or 1.7% of the Scheme's total value.

Foreign exchange – derivative contracts

One way for pension schemes 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 LGPS to hedge 50% of their foreign currency exposure to minimise potential losses due to adverse currency movements between the purchase and sale of an asset.

The Cumbria Scheme 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 Scheme'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 2013, the Scheme had both open over-the-counter forward foreign exchange contracts, and exchange traded futures contracts. See Note 10(c) for an analysis of these contracts.

Credit risk

Credit Risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into. In essence the Scheme's entire investment portfolio is exposed to some form of credit risk. The market values of investments generally reflect an assessment of credit in their pricing. Consequently the risk of loss is implicitly provided for in the carrying values of the Scheme's financial assets and liabilities. In addition to this, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. The Scheme has had no experience of default or uncollectable deposits over recent years.

Through review of the Scheme's external Investment Managers annual internal control reports the Scheme monitors its exposure to credit and counterparty risk. This review is aimed at ensuring that Managers exercise reasonable care and due diligence in its activities on behalf of the Scheme.

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 and the stock lending programme there are two elements to this: counterparty risk and settlement risk.

The Scheme's cash holdings as at 31st March 2013 were £6.477m (2011/12: £5.173m) within current assets (see note 12(b)) and £7.192m (2011/12: £11.948m) within investments (see note 10). In addition to this the Scheme held £44.219m (2011/12: £12.114m) of Money Market Funds. The credit ratings of the accounts in which these amounts were held were as follows:

Summary	Rating	Balances as at 31 March 2012 £'000	Balances as at 31 March 2013 £'000
Money Market Funds			
BlackRock Institutional Sterling Cash	AAA	11,210	44,219
Schroder Offshore Cash Guernsey	AAA	904	-
Bank deposit accounts			
National Westminster Bank	A	5,173	6,477
Bank current accounts			
State Street Bank & Trust	A+	9,649	3,474
HSBC	AA-	2,299	3,678
Short Term Deposit			
Bank of New York call account	AA-	-	40
Total		**29,235**	**57,888**

Counterparty risk

The principal mitigation of the counterparty risk on a foreign currency 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' 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,
- the 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. In addition, more formal review takes place via quarterly meetings which 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 Scheme has delivered payment but before the counterparty has delivered its payment then there would be a small time-limited risk of payment versus non-payment. This occurs when a party faces possible loss between the time a settlement payment is made and a payment is received on the same business day. This risk is more frequent in exchange of different currencies. The manager applies operational settlement netting, 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 ie £4.266m gain at 31st March 2013.

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.

Interest rate risk

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

The Scheme's direct exposure to interest rate movements as at 31st March 2013 and 31st March 2012 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	2011/12 £'000	2012/13 £'000
Fixed interest securities (including pooled investments)	468,871	522,157
Cash and cash equivalents	17,121	13,669
	485,992	**535,826**

Unquoted investments

The Scheme 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 the Scheme as clients.

The unquoted investments held at 31st March 2013 are as follows:

Asset Class	2011/12 £'000	2012/13 £'000	Manager	Holding Details
Equities				
Equity unquoted - UK	894	761	Schroders	Northern Investors, a holding in a venture capital fund (remnants of investments made in 1984-1990) which is illiquid due to there being no market for exit, held on a care and maintenance basis until wind-up. Part redeemed in 2012/13.
Pooled investment vehicles				
Unitised insurance policies	709,784	890,270	Legal and General	Index tracking funds.
Other managed funds	111,922	61,821	Blackrock	Alternative funds - overseas property, hedge funds, private equity, commodities. A mix of in-house funds and funds external to BlackRock.
	822,600	**952,852**		

Note 15: Additional voluntary contributions

The Scheme 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 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 the transactions are treated separately to the Schemes' accounts and therefore do not form part of these accounts.

The two providers offered are Standard Life and Scottish Widows. The Scheme 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 accepting new business. The values of the two schemes for Cumbria LGPS, along with the value of Equitable Life, are shown below:

	2011/12 £'000	2012/13 £'000
Standard Life	889	1,004
Scottish Widows	1,061	1,170
Equitable Life	1,028	1,006
Total AVCs	**2,978**	**3,180**

AVC contributions of £0.147m were paid directly from employees pay to the providers during the year (2011/12: £0.131m).

Members have the option of contributing to the various Schemes offered by their chosen provider. The purpose of 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 of the Local Government Pension Scheme Regulations 1997. The investment could be realisable earlier in the event of a member's death before retirement.

Note 16: Related party transactions

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 Scheme does not invest for example in schemes of economic regeneration sponsored by any of the employing bodies including Cumbria County Council.

There are 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 the main Employer organisations within the Cumbria Local Government Pension Scheme (LGPS) were asked to complete a declaration on related parties, in addition to all members of the Cumbria Pensions Committee, and relevant senior officers. An examination of the returns for 2012/13 reveals that there were no material transactions between the members/officers and their families affecting involvement with the Pension Scheme. Each member of the Pension Committee formally considers conflicts of interest at each meeting and the outcome is declared in the public minutes. Any transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

Related parties returns are sent to the main employer organisations, and the aim is for receipt of returns to cover 85% of the active membership. This target has been exceeded in 2012/13.

Key Management Personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in Section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations 2011) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies equally to the accounts of Cumbria Local Government Pension Scheme.

The Scheme does not employ any staff directly. Cumbria County Council employs the staff involved in providing the duties of the administering authority (excluding the pensions administration service which is provided by 'YPS') for the Scheme. Disclosures of the remuneration awarded to key management personnel is therefore included in the officers' remuneration disclosure in the notes to the Cumbria County Council Annual Financial Report 2012/13 (see note 15 to those statements). Employee costs of the Scheme (note 7) include £15k (2011/12 £15k) of costs relating to key management personnel remuneration. These costs are charged to the Scheme on the basis of time spent undertaking work relating to the Scheme.

Note 17: Contingent liabilities and contractual commitments

There are no outstanding capital commitments at 31st March 2013.

Note 18: Contingent assets

Tax reclaims

Cumbria Pension Scheme has potential claims against HM Revenue and Customs and some European countries for tax withheld on foreign income dividends. A leading professional services firm, acting on behalf of the Cumbria Scheme, has continued to pursue these claims during 2012/13. The estimated value of claims still outstanding is £3.375m.

These claims are made on the basis that within the European Union all member states should enjoy the same status. In respect of tax, resident investors should not be treated differently from non-residents. There have been some notable court cases such as Manninen and Fokus, EU Commission v Germany, Santander, and EU Commission v Portugal that have added to the strength of the argument. More recently the Spanish Tax Authorities have issued repayments to some Pension Funds and German law has been amended to remove discrimination by introducing withholding tax on dividend payments to German corporations. Whilst it is prudent for the Cumbria Scheme not to make any assumptions, the Netherland settlement received in 2009, the Norwegian settlement received in 2010 and the Austrian settlement received in 2012 lend some optimism as to the success of recovering additional income for the Scheme.

Further claims have been registered in the High Court for potential tax recovery from HMRC in respect of manufactured dividends on equity stock lent out through the stock lending programme. The claim to date has a value in excess of £0.450m, although no accrual was put in the accounts as the outcome is uncertain. The fees incurred to date for all the above tax claims regardless of the outcome total £0.354m, and have been charged as expenditure to the fund account in the appropriate accounting period.

Class actions

Where shareholder value has been eroded by wrongful action by company directors, sometimes it is possible for monies to be recovered via the courts by a shareholder class action against the company or its directors. The Scheme uses Institutional Protection Services Ltd to monitor these class actions. The Scheme will seek to recover any significant monies due where the probability of success is believed to outweigh the additional cost of doing so.

Note 19: Impairment losses

All outstanding debts for non-recovery of pension overpayments and all other debts raised during 2012/13 are considered to be recoverable with no impairment.

There were no impairments of investments during 2012/13.

Financial assets that are past due as at 31st March but not impaired:
The Scheme generally allows a payment period of 30 days. Included within current debtors (see note 12(b)) are £0.016m of debtors aged between two and six months (£0.109m 2011/12). Debtors aged greater than six months are fully provided for; these totalled £0.048m as at 31st March 2013 (£0.017m 2011/12).

Note 20: 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 2005 through the custodian, State Street Bank and Trust, to earn additional income for the scheme from stock lending. The limit on amounts to be loaned was increased to £50m during 2011/12.

Securities on loan at the 31st March 2013 of £35.101m (2011/12: £25.302m) are included in the net asset statement to reflect the scheme's continuing economic interest in the securities, and consist of £30.330m UK equities and £4.771m overseas equities (2011/12: £18.886m UK equities, and £6.416m overseas equities). The related collateral totalled £37.103m (2011/12: £26.660m), consisting £21.800m overseas bonds and £15.303m UK equities (2011/12: £25.040m overseas bonds, £1.202m gilts and £0.418m UK equities).

For the year to 31st March 2013, the scheme earned income of £0.118m (2011/12 £0.087m) through stock lending of the various assets (as detailed in Note 8).

Note 21: Post balance sheet events

There are no post balance sheet events to report at the time of writing.

Note 22: Critical judgements in applying accounting policies and the use of estimates and uncertainties

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

- the Scheme 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 Note 14).

Any judgements made in relation to specific assets and liabilities, in addition to information stated in the relevant notes, can also be found in Note 2: Summary of Significant Accounting Policies.

Compliance with IFRS requires the assumptions and uncertainties contained within figures in the accounts and the use of estimates to be explained. Pension Fund Accounts contain estimated figures, taking into account historical experience, current trends and other relevant factors, as detailed in the following table:

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 FRS 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 Scheme will increase by approx £16m, 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, with every 1% reduction reducing the income recognised,
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.

Note 23: Actuarial position of the fund

Below is shown a statement from the Scheme Actuary as required by the Local Government Pension Scheme (Administration) Regulations 2008 (as amended). This statement shows both the actuarial valuation result and the actuarial value of the Scheme'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 31st March 2010 is available on the County Council's website, at
cumbria.gov.uk/finance

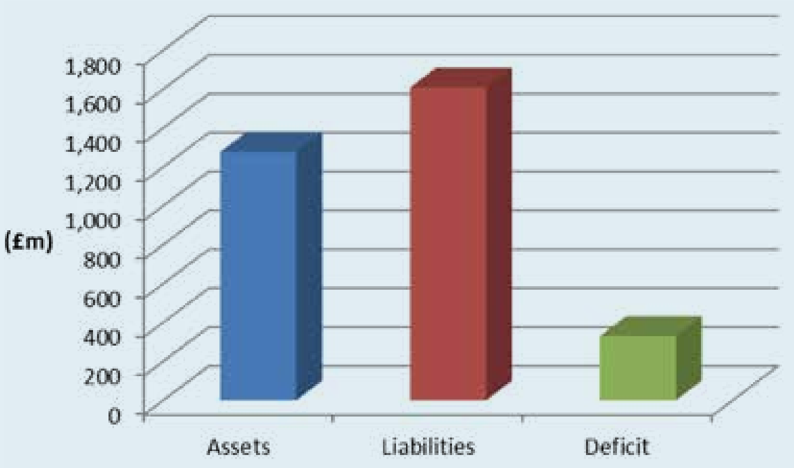
Cumbria Local Government Pension Scheme

Accounts for the year ended 31st March 2013 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements 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.

On the basis of the assumptions adopted, the Scheme's assets of £1,278 million represented 79% of the Scheme's past service liabilities of £1,609 million (the "Funding Target") at the valuation date.



79% funded at March 2010

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.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2011.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report. 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 Scheme by the employers. Where indicated in our formal report on the actuarial valuation, the employer's certified contribution rate includes some allowance for non-ill health early retirement costs.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). 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 rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate) - 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

*Allowance was also made for short-term public sector pay restraint over a 2 year period, as announced in 2010 by the Government.

The assets were assessed at market value.

The next triennial actuarial valuation of the Scheme 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 Scheme'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.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2013 (the 31 March 2012 assumptions are included for comparison):

	31 March 2012	31 March 2013
Rate of return on investments (discount rate)	4.9% per annum	4.2% per annum
Rate of pay increases	4.25% per annum*	4.15% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.5% per annum	2.4% per annum

*Includes a corresponding allowance to that made in the actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes other than the allowance for future improvements in life expectancy, which has been updated taking into account the latest evidence on this issue. The updated allowance underlying the 31 March 2013 calculations is in line with the projections model published in November 2009 by the Continuous Mortality Investigation (CMI) with a long-term improvement rate of 1.25% pa The previous allowance as at 31 March 2012 used a long-term improvement rate of 1.0% pa

During the year, corporate bond yields reduced, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.2% pa versus 4.9% pa). The impact of this was offset slightly by the 0.1% pa fall in assumed inflation.

The value of the Scheme's promised retirement benefits for the purposes of IAS26 as at 31 March 2012 was estimated as £1,961 million. The effect of the changes in actuarial assumptions between 31 March 2012 and 31 March 2013 as described above is to increase the liabilities by c£251 million. Adding interest over the year increases the liabilities by a further c£96 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by c£6 million. The net effect of all the above is that the estimated total value of the Scheme's promised retirement benefits as at 31 March 2013 is therefore £2,302 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2013

At the 2010 valuation the Actuary proposed an alternative method of allocating the proportion of the employer contribution rate attributable to deficit or past service recovery. Cumbria County Council and eleven other employers (comprising 70% of the Scheme membership) have adopted this alternative approach to the employer contributions from 1st April 2011 and as such are paying a lump sum employer contribution, in addition to a fixed rate. The reason for this more prudent approach is that it prevents contributions falling due to reductions in staff payrolls throughout the three years between valuations. If this were to occur it would have an adverse impact on the required employer contribution rate at the next valuation.

The next full Actuarial Valuation is due as at 31st March 2013 and work is underway between the Scheme Employers, Administrators and Actuaries to ensure its timely and accurate completion. Monitoring throughout the three years since the last valuation in 2010 has indicated that there has been a decline in the Scheme's funding level from 79% in March 2010 to around 70% as at March 2013. Although the Scheme has exceeded its asset outperformance target over the period, valuation of the Scheme's liabilities has increased at a much faster rate. This is primarily due to discount factors, aligned to bond yields which have reached historic lows during the period, and increasing longevity of the Scheme's membership.

Cumbria LGPS is not alone in facing these national issues and most Schemes are expecting a very challenging valuation process for 2013. It is anticipated that achieving both of the Schemes objectives ie stable employer contribution rates and a balanced funding position by 2032 will be very difficult.

Note 24: Accounting standards issued not yet adopted

The Scheme 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 standards issued which impact on 2012/13.

From 1st April 2013, the Code of Practice on Local Council Accounting in the United Kingdom (the Code) has introduced several changes in accounting policies which will be required for 2013/14. The changes are not considered to have a significant impact on the Pension Scheme Accounts as demonstrated below:

- IAS 12 Income Taxes – This change in the accounting standard particularly affects investment properties and deferred tax. It is not considered that this change will affect the Pension Scheme Accounts.
- IFRS 7 Financial Instruments: Disclosures – The change in accounting standard is in relation to the offsetting of financial assets and liabilities. It is not considered that this change will affect the Pension Scheme Accounts.
- IAS 19 Employee Benefits – IAS19 is changing for accounting years starting on or after 1st January 2013, and this will affect the LGPS employers only, rather than the Pension Scheme.

Note 25: Participating employers of the scheme

As at 31st March 2013 the scheduled and admitted bodies within the Cumbria Local Government Pension Scheme were:

Employers of the Scheme as at 31 March 2013 (total 105)

Scheme Employers:

- Cumbria County Council

District Councils (6)

- Allerdale Borough Council
- Barrow Borough Council
- Carlisle City Council
- Copeland Borough Council
- Eden District Council
- South Lakeland District Council

Scheduled Bodies (45)

- Appleby Grammar Academy
- Arnside National CofE Academy
- Barrow Sixth Form College
- Broughton Primary Academy
- Burton Morewood Primary Academy
- Caldew Academy
- Carlisle College
- Cartmel Priory Academy
- Castle Carrock Academy
- Cleator Moor Town Council
- Cockermouth Town Council
- Crosby on Eden Academy **(New)**
- Cumbria Police Authority
- Cumbria Probation Service
- Cumbria Waste Management
- Dallam Academy
- Dearham Primary Academy
- Eaglesfield Paddle Academy
- Furness Academy
- Furness College
- Ghyllside Academy **(New)**
- Gilsland Academy **(New)**
- Great Corby Academy
- Kendal College Further Educ
- Kendal Town Council
- Keswick Academy
- Keswick Town Council
- Kirkbie Kendal Academy
- Kirkby Stephen Academy
- Lake District National Park Authority
- Lakes College (West Cumbria)
- Maryport Town Council
- Queen Elizabeth Academy
- Queen Elizabeth Grammar Academy
- Richard Rose Academies
- Seaton Academy
- Settlebeck High Academy
- Stramongate Academy **(New)**
- The Queen Katherine School Academy
- Trinity Academy
- Valuation Tribunal Service
- Ulverston Town Council
- West Lakes Academy
- Wigton Town Council
- William Howard Academy

Scheduled Bodies No Actives (11)

- Brampton Parish Council
- Charlotte Mason College
- Cumbria Institute of the Arts
- Cumbria Primary Teacher Training
- Cumbria Sea Fisheries
- Dept Constit Affairs (Cumbria Magistrates)
- Health Authority
- Millom Town Council
- Port of Workington
- Practical Alternatives to Custody (Ltd)
- Water Authority

Admitted Bodies (33)

- Attendo Monitoring (Mobile Response)
- Barrow & District Soc for Blind
- Barrow Citizens Advice
- Bulloughs Cleaning Services Ltd
- Carlisle Leisure Allerdale
- Carlisle Leisure Ltd
- Commission for Social Care Inspection
- Creative Management Services Ltd
- Cumbria Cerebral Palsy
- Cumbria Deaf Vision
- Cumbria Tourism
- Eden Housing Association
- Egremont & District Pool Trust
- FOCSA Services
- Glenmore Trust
- Graham Asset Management
- Harraby Community Centre
- Higham Hall
- Home Group (Copeland)
- Kendal Brewery Arts Centre Trust Ltd
- Longtown Memorial Hall Community Centre
- Mellors Catering Services
- Morton Community Centre
- North Country Leisure (Copeland)
- Oaklea Trust
- People First **(New)**
- Riverside Housing
- Soundwave
- South Lakeland Leisure
- South Lakes Housing
- Tullie House Trust
- West House
- Wigton Joint Burial Committee

Admitted Bodies No Actives (9)

- Cumbria Training Partnership
- Direct Training Services
- Henry Lonsdale Trust
- Kendal Citizens Advice (Leaving)
- Lake District Cheshire Homes
- Lakeland Arts Trust
- NRCS Ltd (Neighbourhood Revitalisation)
- Project Homeless
- Troutbeck Bridge Swim Pool Ltd

7 Regulatory Statements

Contents

Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) requires that administering authorities must obtain:

a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2010 and in every third year afterwards;
b) a report by an actuary in respect of the valuation; and
c) a rates and adjustments certificate prepared by an actuary.

The full version of the Actuarial valuation report can be obtained from the Resources page on the Cumbria County Council website **(cumbria.gov.uk/finance/)** or via the Cumbria Fund Information page on the Your Pension Service website **(yourpensionservice.org.uk/).**

Paper copies can be obtained by writing to:
Cumbria County Council, Resources Directorate, Finance, Lonsdale Building, The Courts, Carlisle, CA3 8NA or by emailing: **pensions@cumbria.gov.uk**

There is a statutory requirement (Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended)) for administering authorities to prepare, maintain 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.

There is a statutory requirement (Local Government Pension Scheme Regulations 1997, Regulation 73A as amended by SI 2007 no.1561) 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 Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) require Cumbria County Council, as administering authority for the Cumbria Pension Fund, to prepare, maintain and publish a written statement of the principles governing decisions about investments.

In response to the Treasury Report Updating the Myners Principles: A Response to Consultation (October 2008), all LGPS administering authorities are required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles have been adopted by Communities and Local Government within the LGPS (Management and Investment of Funds) Regulations 2009, and require authorities to use a “comply or explain” approach to be reported within the Statement of Investment Principles.

7.5 Adminstration and Communications Policy 102

This policy statement is required by the provisions of Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008 and regulation 106B of the Local Government Pension Scheme Regulations 1997 (As Amended). Under reg. 106B the Scheme is required to:
"….prepare, maintain and publish a written statement setting out their policy concerning communications with:

a) members.
b) representatives of members.
c) prospective members.
d) employing authorities."

In addition reg. 67 specifies that the statement must include information relating to:

a) the provision of information and publicity about the Scheme to members, representatives of members and employing authorities;
b) the format, frequency and method of distributing such information or publicity; and
c) the promotion of the Scheme to prospective members and their employing authorities.

7.6 Statement of Responsibilities 103

This is a signed statement by the Assistant Director - Finance (s.151 Officer) setting out the respective responsibilities of the Authority and the Chief Financial Officer (Assistant Director - Finance (s.151 Officer)) for the accounts and certifying that the accounts comply with requirements and 'present a true and fair view' of the Council's financial position as at 31 March 2013.

7.7 Auditor's opinion 104

This report is required under Part II of the Audit Commission Act 1998 and is made solely to the members of Cumbria County Council. The report sets out the respective responsibilities of the Assistant Director – Finance and the Auditor. It also sets out the scope of the audit of the financial statements and includes the Auditor's opinion on the pension fund's accounting statements and the Annual Report.

7.1 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**

Schedule to the Rates and Adjustment Certificate dated 31 March 2011

Employers	2011/12 Individual Adjustment	2011/12 Total Contribution Rate	2012/13 Individual Adjustment	2012/13 Total Contribution Rate	2013/14 Individual Adjustment	2013/14 Total Contribution Rate	Non-ill health early retirement allowance included for the 3 years 2011/14 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	

Employers	2011/12 Individual Adjustment	2011/12 Total Contribution Rate	2012/13 Individual Adjustment	2012/13 Total Contribution Rate	2013/14 Individual Adjustment	2013/14 Total Contribution Rate	Non-ill health early retirement allowance included for the 3 years 2011/14 Amount £
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%	
Eden Housing Association	4.4%	16.9%	4.4%	16.9%	4.4%	16.9%	
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%	

Employers	2011/12		2012/13		2013/14		Non-ill health early retirement allowance included for the 3 years 2011/14
	Individual Adjustment	Total Contribution Rate	Individual Adjustment	Total Contribution Rate	Individual Adjustment	Total Contribution Rate	Amount £
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.

7.2 Funding Strategy Statement (as approved 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.

7.2.1 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.

7.2.2 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.

7.2.3 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).

7.2.4 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 interrelationship between the FSS and the SIP.

7.2.5 Solvency Issues and Target Funding Levels

7.2.5.1 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.

7.2.5.2 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.

7.2.5.3 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.

7.2.5.4 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.

7.2.6 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 outperformance 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 **cumbria.gov.uk/Finance**

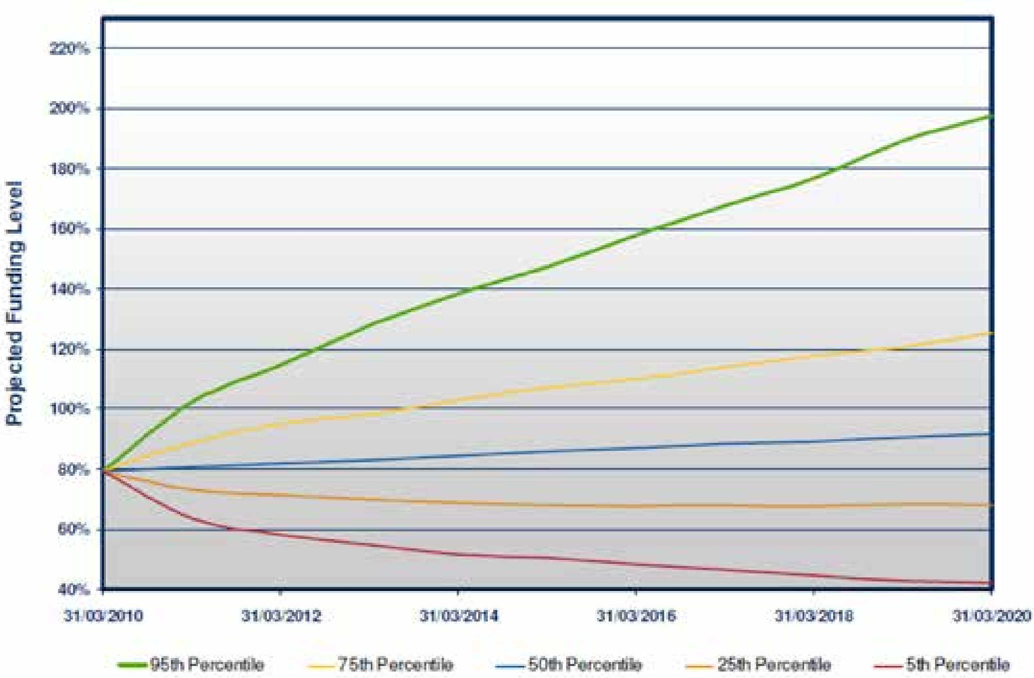
The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 1% in respect of post-retirement liabilities. Based on the liability profile of the Fund at the valuation, this equates to an overall long-term asset out-performance 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.

7.2.7 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 (ie 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, eg more favourable benefits package, potential new entrants to scheme, eg part-time employees
- Changes to national pension requirements and/or HMRC rules

Governance
- Administering Authority unaware of structural changes in employer's membership (eg 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 **cumbria.gov.uk/Finance**

7.2.8 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.

7.2.9 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.

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

7.2.10.1 Investment return (discount rate)
A yield based on market returns on UK Government gilt stocks and other instruments which reflect 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" (ie active and deferred pensioner) liabilities than for the "post-retirement" (ie 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.

7.2.10.2 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.

7.2.10.3 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.

7.2.10.4 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.

7.2.10.5 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 (eg Guaranteed Minimum Pensions in respect of service prior to April 1997).

7.2.10.6 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.

7.2.10.7 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.

7.2.10.8 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.

7.2.11 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 (ie 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 (ie 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.

7.2.12 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

Long-term gilt yields	
Fixed interest	4.5% pa
Index linked	0.7% pa
Implied RPI price inflation	3.8% pa
Inflation adjustment	0.8% pa
Long term CPI inflation	3.0% pa
Past service funding target and recovery plan financial assumptions	
Investment return pre-retirement	6.5% pa
Investment return post-retirement	5.5% pa
Salary increases	4.75% pa
Pension increases	3.0% pa
Future service accrual financial assumptions	
Investment return	6.75% pa
Salary increases	4.75% pa
Pension increases	3.0% pa

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.

7.3 Governance Policy Statement (as approved March 2013)

This current version of the Governance Policy Statement was presented to the Pensions Committee for approval at the Pensions Committee held on 18 & 19 March 2013.

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 at least 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. The Committee will also review the annual and longer-term investment performance of the scheme.

All meetings have proper agendas, records and minutes. The Pensions Committee reports to full County Council no less than twice yearly, to report on the activities and decisions of the previous quarters (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 **cumbria.gov.uk).**

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

Terms of reference of the pensions forum

The Constitution of the Cumbria Pensions Forum is:

Employers:

a)	County Council:	Nine Members
b)	District Councils:	One member nominated by each Council (including member of the Pensions Committee)
c)	Statutory Bodies:	One member nominated by each employer
d)	Admitted Bodies:	One member nominated by each employer

Employees:

a)	County Council	Eight employee representatives appointed by UNISON, of whom two shall be current pensioners
b)	District Councils:	One employee representative for each District appointed by UNISON, together with one current pensioner
c)	Statutory Bodies:	Eight employee representatives appointed by UNISON, together with one current pensioner
d)	Admitted Bodies:	Three employee representatives appointed by UNISON

Where an appointed representative is unable to attend, a substitute may attend in their place.

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 employer bodies;
i) the Forum members will have access to public Pension Committee papers, and are invited to comment where appropriate.

The Cumbria Pensions Forum meets 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 meetings will be Public meetings, and invitations will be circulated as widely as practicable to employer bodies and employee representatives. The membership of the Cumbria Pension Committee will be represented at each meeting, including where possible the Chair and Vice-Chair.

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.

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.

Knowledge and skills

Cumbria Local Government Pension Scheme adopts the key recommendations of the 'Code of Practice on Public Sector Pensions Finance Knowledge and Skills'.

This organisation recognises that effective financial administration and decision-making (note 1) can only be achieved where those involved have the requisite knowledge and skills.

Accordingly this organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.

These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.

This organisation has delegated the responsibility for the implementation of the CIPFA Code of Practice to the Assistant Director of Finance (Section 151 Officer), who will act in accordance with the organisation's policy statement, and where he/she is a CIPFA member, with CIPFA Standards of Professional Practice (where relevant).

Note 1: Decision-makers are those with executive authority serving on governing boards, ie Cumbria Pensions Committee.

Risk management

The Pensions Committee considers risk management periodically. The latest review was at the Pensions Committee meeting held on 4 June 2013. The major risks facing the scheme are shown in the table below:

Pension scheme risks June 2013

Unique risk identification number	Risk	Impact	Likelihood	Overall risk rating (Impact x Likelihood)
1	The fund employer contribution rate is unaffordable.	4	2	8
2	Significant financial downturn occurs – '1 in 20' year event.	4	3	12
3	Investment strategy insufficiently flexible to exploit market opportunities.	3	3	9

Unique risk identification number rating	Risk	Impact	Likelihood	Overall risk rating (Impact x Likelihood)
10	Increasing pressure due to significant reductions in scheme membership following scheme benefit changes, eg contribution rate increases, or reduction in staff volumes.	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
4	A loss occurs, due to fraud or financial irregularity damaging the financial standing and reputation of the Scheme, or opportunity for recovery missed, eg class action, tax reclaim.	2	3	6
7	Annual report and accounts criticised by Audit Commission.	3	2	6
12	Significant errors in administration and historical data cause issues at the triennial valuation.	3	2	6
13	Significant losses on the transition of investment assets due to the volume and timing of change in managers planned for 2012/13.	2	3	6
14	Financial standing of employers decreases with inadequate covenants or bonds to cover losses.	2	3	6
15 (new)	That the 2014 Scheme is not implemented on time / correctly	3	2	6
16 (new)	That changes to the systems and processes required for the effective administration of automatic enrolment from a pension scheme perspective are not implemented on time / correctly.	3	2	6

( ) refers to previous score

Risk matrix

Impact					
5 Most severe **4 Major** **3 Moderate** **2 Minor** **1 Insignificant**	amber	amber 1, amber 7, 12, 16	amber 2, amber 3, 10 4, 13, 14	red red amber 6	red red amber
	1: Very unlikely	2: Unlikely	3: Possible	4: Likely	5: Very likely
					Likelihood

For all risks shown above mitigation action has been identified and action taken. A progress report setting out details is presented to the Committee at Paper 7 of this agenda.

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	Compliance	
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 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's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.		●

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.		●

7.4 Statement of Investment Principles (as approved June 2013)

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

7.4.2 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.
A Strategic Investment Review was carried out during 2011/12 leading to alterations to the investment structure of the Fund. Standard Life were appointed in October 2012 to manage a 'buy and hold' bond mandate, and we are in the final stages of selecting two new global equity managers. We expect all other changes to take place over the next 12 month period. The latest SIP was approved by the Pensions Committee held on 4 June 2013.

7.4.3 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.

7.4.4 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 (eg 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.

7.4.5 Balance between different types of investments

The Scheme currently holds assets across a range of products and managers to diversify risk. At April 2013 the Scheme employed six managers to diversify the investment manager risk. The allocations to both manager and asset classes are reviewed on an ongoing basis by the Schemes Officers and Independent Advisors. The Pensions Committee additionally undertake further oversight and monitoring by quarterly review of the Scheme monitoring report. The Scheme is currently undergoing a transitional period, while it changes both asset allocations and managers due to the conclusions agreed by the Committee in the Investment Strategy Review completed in June 2012. As such, included below is both a transition target asset allocation for 2013/14 and the final which the Scheme hopes to achieve in 2014/15.

The actual asset split of the Fund overall as at 31st March 2013 is shown below along with the benchmark allocation.

Asset/Manager	Allocation March 2013 %	Transitional SIP 2013/14 %	Final SIP 2014/15 %
Equity			
-UK	26.0%	13.0%	10%
-Global Other	30.0%	23.0%	20%
-Global Low Volatility	0.0%	10.0%	10%
Alternatives			
-Infrastructure	0.0%	5.0%	9%
-Opportunistic	5.8%	8.0%	9%
Property	6.3%	9.0%	9%
Growth total	**68.1%**	**68.0%**	**67.0%**
Corp Bonds	16.0%	16.0%	16%
IL Bonds	15.9%	16.0%	17%
Bonds total	**31.9%**	**32.0%**	**33.0%**
TOTAL	**100%**	**100%**	**100%**

A new benchmark asset allocation will be implemented once the Strategic Investment Review has been completed.

Assets managed by pension fund investment managers

Manager	Percentage of total fund 31/03/2013	Mandate
Schroder (UK Equities)	13.0	To outperform the FTSE All Share Index by 1% after fees over rolling three-year periods.
GMO (Overseas Equities)	13.0	To outperform by 2% after fees an overseas equity weighted index over rolling three-year periods.
BlackRock (Alternatives)	6.0	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	54.0	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)	6.0	To outperform the IPD Quarterly Universe after fees over rolling three-year periods.
Standard Life	8.0	Buy and then hold a diversified portfolio of corporate bonds, avoiding those with downgrades and defaults, maintaining a low turnover.
TOTAL	**100.0**	

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.

7.4.6 The strategic benchmark

The Scheme operates a scheme-specific benchmark for the investments, with long-term allocations to the various traditional asset classes, excluding property and alternatives etc, which reflect the circumstances of the Scheme.

A new scheme-specific benchmark will be implemented once the Strategic Investment Review (2012) has been completed.

The customised benchmark in place at 31st March 2013, excluding the direct property allocation and alternatives portfolio, was as follows:

Asset Class	Percentage %	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 Mkts			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	**100.0**		

7.4.7 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 March 2013 was £94.7 million. The alternatives portfolio managed by BlackRock is benchmarked against the LIBOR plus 3% and was valued at £106.0 million (31/03/13 unaudited). Legal & General are engaged to passively hedge up to 50% of the overseas currency exposure.

7.4.8 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) Regulations 2009. 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 1 April 2013 and in accordance with Regulation 11(2A) and item 3 of Part 1 of Schedule 1 of the Regulations, the limit on all contributions to partnerships has increased from 15% to 30% (LGPS (Management and Investment of Funds) (Amendment) Regulations 2013) . The limit on all contributions to partnerships is unchanged at 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.

7.4.9 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 £351 million as at 31 March 2013. (Funding review by Mercer)

7.4.10 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.

7.4.11 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.

7.4.12 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.

7.4.13 Compliance of Cumbria Fund with the Updated Myners Principles

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 six 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 at one of the meetings annual and longer-term investment performance is reviewed in detail. The Fund operates on a three-year rolling review approach with regular fund manager presentations to the Pensions Committee on performance. In recent years, two managers have been terminated or replaced for under-performance. Investment Managers are constantly under review.

All significant investment opportunities are considered and taken where appropriate. Stock Lending was approved during 2004.

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 one of these meetings includes 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.

Principle 5: Responsible ownership	Not compliant	Fully compliant
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.		•

Principle 6: Transparency and reporting	Not compliant	Fully compliant
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.		•

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 summary of the financial position with their Annual Benefit Statement. This also gives details of how they can access more detailed information, which includes the full Annual Report and accounts.

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 Accounts are also placed on the Council's website.

7.5 Administration Strategy (including the Communications Policy) (as approved June 2013)

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 Collaboration Agreement drawn up between the administering authority and Lancashire County Council.

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 pension 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 available online, via Member Self-Service or despatched to those pensioners requesting a paper copy.
- Those pensioner members who elect not to use Member Self-Service will be provided with paper payslips when their payment alters by over £5.00.
- Each year make available online via Member Self-Service, or provide in paper format 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.
- Provide a summary of the financial position of the Fund with their Annual Benefit Statement. This also gives details of how they can access more detailed information, which includes the full Annual Report and Accounts.
- 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: **cumbria.gov.uk/Finance**
- 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.

7.6 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 Finance Officer (Assistant Director - Finance).
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

Responsibilities of the Chief Finance Officer
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 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Chief Finance Officer (Assistant Director - Finance (s.151) officer) has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice on Local Authority Accounting in the United Kingdom.

The Chief Finance Officer (Assistant Director - Finance (s.151) 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 2013 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.

I certify that the statement of accounts presents a true and fair view of the financial position of Cumbria Local Government Pension Scheme at 31 March 2013, and its income and expenditure for the year ended 31 March 2013.

Signed:

Date:

Julie Crellin
Assistant Director – Finance (s.151)
Cumbria County Council
25 September 2013

7.7 Independent auditor's report to the Members of Cumbria County Council

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Cumbria Local Government Pension Scheme for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Fund's Members as a body, for our audit work, for this report, or for the opinions we have formed.

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 financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on other matters

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

Matters on which we report by exception

We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Jackie Bellard
Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester M3 3EB

8 Other statements

8.1 Cash Investment Policy (approved March 2013)

8.1.1 Introduction and regulations

The Cash Investment Policy for Cumbria Local Government Pension Scheme was first approved by the Cumbria Pensions Committee on 26th February 2010, with updated versions approved on 1st March 2011, 27th November 2012 and 18th/19th March 2013. 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, as revised,
- 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") as revised.

8.1.2 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 1st April 2010 will comply with the requirements of SI 2009 No 3093.

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

8.1.3 Cash Investment Priorities

The Cumbria Pension Scheme's cash investment priorities are:

a) the security of capital,
b) the availability of cash to meet payroll and other payments, and
c) 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.

8.1.4 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.

8.1.5 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 cash holding limit at £30 million for the NatWest Liquidity account and Money Market Funds in total, and allow officers discretion to invest appropriately between them.

It is recognised that on occasion short-term breaches could occur to this cash balance cap, for example due to asset or manager restructuring. However, any such instances would require prior approval, in consultation with the Chair and Vice Chair, from either the Corporate Director – Resources or the Assistant Director - Finance. Additionally every reasonable action should be taken to ensure the period of the breach is kept to a minimum and at most would be no greater than seven days (this being the timing of weekly unit fund dealing dates). Members are to be formally notified of any such breaches at the next Committee date after such a breach has occurred.

8.1.6 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.

8.1.7 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.

8.2 Admission & Termination Policy Statement (approved November 2012)

This document details the 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 Scheme; and
- considerations for current admission bodies.

The Admissions and Termination Policy was approved by the Cumbria Pensions Committee held on 27 November 2012.

Where this document refers to Cumbria County Council ("Cumbria"), then this shall mean Cumbria in carrying out its function as the Administering Authority of the Scheme.

Where this document refers to a Participating Employer, it shall mean a Scheme employer under either Part 1 or Part 2 of Schedule 2 of the Local Government Pension Scheme (Administration) Regulations 2008 ("Regulations"), a transferee admission body, or a community admission body.

A - Admissions Policy

8.2.1 Background

8.2.1.1 Admission bodies
Admission bodies are a specific type of employer under the Regulations that govern the 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.

Cumbria may enter into 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 Scheme and participate in the Scheme.

Any application for admitted body status must be submitted to Cumbria 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; and
b) transferee admission bodies.

8.2.1.1.1 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) 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:
   i) 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
   ii) 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;

b) a body, other than the governors or managers of a voluntary school, to the funds of which a Scheme employer contributes;
c) a body representative of:
   i) local authorities;
   ii) local authorities and officers of local authorities;
   iii) 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
   iv) Scheme employers;
d) 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
e) a company for the time being subject to the influence of a body listed in Part 1 of Schedule 2 of the Regulations (other than a local authority). For the purpose of determining whether a company is subject to the influence of a body as mentioned in this paragraph, 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.

8.2.1.1.2 Transferee Admission Bodies

The Regulations also allow private contractors to be admitted into the Scheme 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) 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:
   i) the transfer of the service or assets by means of a contract or other arrangement;
   ii) a direction made under section 15 of the Local Government Act 1999 (directions imposed on failing local authority); or
   iii) directions made under section 497A of the Education Act 1996 (directions imposed on a failing LEA); and
b) 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.

8.2.1.2 Scheme Employers

Scheme Employers can be divided into two types under the Regulations:

a) those employers listed in Part 1 of Schedule 2 of the Regulations; and
b) those employers listed in Part 2 of Schedule 2 of the Regulations.

8.2.1.3 Scheme Employers listed under Part 1 of Schedule 2 of the Regulations include (but are not limited to):

- county councils;
- district councils;
- London borough councils;
- a fire and rescue authority within the meaning of the Fire and Rescue Services Act 2004;
- a police authority within the meaning of the Police Act 1996;
- the Environment Agency;
- academies;
- a further education corporation; and
- a higher education corporation.

Employees of the above Scheme employers will automatically be admitted into the Scheme, provided that they are not prevented from eligibility by virtue of Regulation 12.

8.2.1.4 Scheme employers listed under Part 2 of Schedule 2 of the Regulations include (but are not limited to):

- a passenger transport executive;
- a company "under the control" of a body listed in Part 1 of Schedule 2 (which would include a subsidiary); and
- an urban development corporation.

Employees of the above Scheme employers will only be admitted to the Scheme if he, or a class of employee to which he belongs is designated by the body as being eligible for membership of the Scheme.

8.2.2 Policy statement

8.2.2.1 Admission Bodies

8.2.2.1.1 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:
   i) the body exists as a result of being specifically set up by a local authority(s); and
   ii) 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:
   i) the application falls into the "community" admission category and the body has one or more of the following disqualifying criteria attached to it:
      - the body does not meet the conditions of participation detailed at the appendix; or
      - the provisions in respect of risk assessments as set out at paragraph 2.1.3 are not compiled with; or
      - there is a known limited lifespan or fixed contract term of admission to the Scheme; or
      - there is uncertainty over the security of the organisations funding sources eg the body is reliant on voluntary or charitable sources of income or has no external funding guarantee/reserves.
c) in exceptional circumstances:
   i) the Admission Body's application may be refused without the existence of any disqualifying criteria; and
   ii) applications with disqualifying criteria may nevertheless be accepted, at the discretion of Cumbria, subject to any further requirements or restrictions that Cumbria may consider appropriate.

8.2.2.1.2 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:
   i) all the conditions of participation set out in the appendix are met; and
   ii) 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:
   i) the application falls into the "transferee" admission category; and
   ii) the body has one or more of the following disqualifying criteria attached to it:
      - the body does not meet the conditions of participation detailed at the appendix; or
      - the provisions in respect of risk assessments as set out in paragraph 2.1.3 have not been complied with; or

- the transferring Scheme employer is a participating employer within another LGPS Fund;

c) the deficit recovery periods for all Admission Bodies will normally be determined against the policy set out in the Funding Strategy Statement. However, Cumbria reserves the right to determine that an employer specific deficit recovery period will apply and that arrangements for admission agreement funds may be introduced, if deemed appropriate; and
d) the transferee admission body will need to enter into a separate Admission Agreement in respect of each contract.

8.2.2.1.3 Risk Assessments
Cumbria will expect each community admission body and transferee admission body (together "Admission Body") to carry out an assessment of risk arising on premature termination of the provision of assets and services by the Admission Body to the satisfaction of Cumbria. In determining whether the assessment is satisfactory, Cumbria will take advice from its own actuary. Where the level of risk is, in the opinion of Cumbria, such as to require it, then Cumbria will require the Admission Body to enter into an indemnity or bond. In certain circumstances Cumbria may determine that the level of risk is such that it is not desirable for the Admission Body to enter into an indemnity or bond, and instead a guarantee would be acceptable. In these circumstances, the Admission Body must secure a guarantee which is acceptable to Cumbria from either:

a) a person who funds the Admission Body in whole or part;
b) a person who owns or controls the exercise of the functions of the Admission Body; or
c) the Secretary of State in the case of an Admission Body which is established under any enactment providing that enactment enables the Secretary of State to make financial provision for that Admission Body.

The factors Cumbria will use to establish whether a guarantee would be an acceptable alternative are:

a) the likelihood of premature termination occurring in respect of that Admission Body;
b) the accountability of any Scheme employer in respect of that Admission Body;
c) whether if premature termination did occur the liabilities of the Admission Body would be assumed by other employers in the Scheme, or would be contained by other employers in that Admission Body's group;
d) any assessment commissioned by the Admission Body on which Cumbria can rely to determine whether the guarantor is suitable[1]; and
e) advice from its solicitors as to whether the wording of the guarantee is acceptable[2].

In determining the acceptability as to the level of risk, Cumbria will be mindful of its core principle which is that each Admission Body is accountable for its own costs on premature termination and any costs associated with that should not become the liability of third party bodies who participate in the Scheme.

8.2.2.1.4 Decisions Regarding Admissions
Decisions regarding transferee and community admissions will be delegated to the Assistant Director - Finance[3].

8.2.2.2 Scheme Employers
The principle that Cumbria wishes to pursue is that of responsibility by each employer under the Scheme for the liabilities of its employees or former employees who have liabilities under the Scheme.

[1] Consideration to be given to criteria being agreed to determine in which circumstances a guarantor would not be appropriate.
[2] Consideration to be given to a precedent guarantee being drafted which can be issued to the guarantors.
[3] Consideration be given to more detailed terms of reference being agreed to give transparency to the decisions made and reporting requirements.

In this regard, Cumbria may:

- make an initial assessment of the financial standing of the new Scheme employer, to determine its ability to support the funding requirements under the Scheme;
- taking into account any such assessment, Cumbria may seek any one or more of the following:
  - terms of agreement with the new Scheme, including:
    - a guarantee/indemnity from another Scheme employer;
    - agreement that another Scheme employer will assume the orphan liabilities relating to the new Scheme employer; either in whole or in part;
  - further information on the employees transferring to them, financial standing/plans and relationship with previous Scheme employer;
  - a revised rates and adjustment certificate for the new Scheme employer to take into account the financial risk of failure.

There should be flexibility to consider all relevant circumstances but Cumbria's objective is to seeking appropriate funding from all Scheme employers, so that on exit all orphaned liabilities will be funded, or subsumed by another Scheme employer[4].

B – Termination Policy

8.2.3 Background

When an Admission Agreement comes to its end (including where the body ceases to have any active members), 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 Scheme ie 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, ie 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 Scheme as a whole (ie all employers) unless there is a bond/ indemnity, guarantor or successor body within the Scheme.

8.2.4 Policy statement

8.2.4.1 Admission Bodies
A termination assessment will always be carried out for "outgoing" Participating Employers in accordance with Regulation 38 of the Regulations. The actuarial cost of this will be charged to the outgoing Participating Employer, together with any other related costs of the termination.

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

a) Community Admission Bodies
If potential liabilities are covered by an indemnity or bond, then the amount of those liabilities will be recovered from the indemnity or bond and/or the outgoing Admission Body.
Where a guarantor/indemnity is in place all assets, liabilities and any funding deficit (not recovered from the outgoing Admission Body) will either be paid by the guarantor or subsumed by that guarantor assuming that they are also a Scheme employer within the Scheme.
If there are surpluses at termination which cannot be refunded to the out-going body then these will be subsumed by the Scheme.

b) Transferee Admission Bodies
If potential liabilities are covered by an indemnity or bond, then the amount of those liabilities will be recovered from the indemnity or bond and/or the outgoing Admission Body.

[4] Consideration be given to agreeing standard agreements for new Scheme employers, with delegated authority to deviate away on a case by case basis.

Where a guarantor/indemnity is in place all assets, liabilities and any funding deficit (not recovered from the outgoing Admission Body) will either be paid by the guarantor or subsumed by that guarantor assuming that they are also a Scheme employer within the Scheme.
On termination of a transferee admission body, any orphan liabilities and the related assets in the Scheme will be subsumed by the relevant Scheme employer.

c) 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 Scheme as a whole, unless the Regulations permit Cumbria to pursue recovery from the previous Scheme employer, in which Cumbria will have discretion to follow these options. Any surplus identified will likewise be subsumed by the Scheme.

d) Funding basis for termination calculations
The Scheme policy is that a termination assessment will be made based on a least risk funding basis, unless a successor body exists which takes over the Admission Body's liabilities (including those for former employees). This is to protect the other employers in the Scheme as, at termination, the admitted body's liabilities may become "orphan liabilities" within the Scheme, 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 Scheme or a successor body exists to take over the Admission Body's liabilities the Scheme 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 Scheme. 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.

e) 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 Scheme to commence planning for the termination as early as possible.

Where termination is disclosed in advance the Scheme 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.

Further, the Scheme will hold more frequent reviews of employer contribution rates in order to manage the gradual reduction of any pension deficit or surplus. This will enable the Scheme to gradually manage the termination process, rather than call for one cessation payment.

8.2.4.2 Scheme Employers
As has been mentioned, the principle that Cumbria wishes to pursue is that of responsibility by each employer under the Scheme for the liabilities of its employees or former employees who have liabilities under the Scheme.

A termination assessment will always be carried out for "outgoing" Scheme employers in accordance with Regulation 38 of the Regulations. The actuarial cost of this will be charged to the outgoing Scheme employer, together with any other related costs of the termination.

Cumbria recognises that on admission a guarantee and/or indemnity may not have been provided and therefore different approaches will be needed depending on this issue.

Where contractual comfort has been obtained on entry in to the Scheme, Cumbria can adopt a more relaxed approach in that:

- if a previous Scheme employer has agreed to subsume any orphan liabilities in relation to the outgoing Scheme employers, arrangements can be agreed in relation to the rates and adjustment certificate applicable to the Scheme employer and/or any deficit on termination; or
- if a previous Scheme employer has agreed to pay any deficit payment on exist, the terms upon which the deficit has to be paid.

Where contractual comfort has not been obtained on entry into the Scheme, Cumbria will be required to:

- monitor carefully the financial standing of the Scheme employer and seek where considered necessary an alteration to the rates and adjustment certificate to take this assessment into account; and
- seek recovery of any deficit calculated on exit from the Scheme, and if unsuccessful apply pressure to former Scheme employers.

Admission & Termination Policy [5]

Appendix

Conditions of Participation

1 Payments

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

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

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

1.4 The Admission Body shall pay to Cumbria for credit to the Scheme 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 Cumbria.

1.5 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 Cumbria. Contributions shall be paid within 19 calendar days of the end of each month in which the contributions have been deducted.

1.6 Where the Admission Body certifies that:

1.6.1 an eligible employee is retiring by reason of redundancy or in the interests of efficiency; or
1.6.2 an eligible employee is voluntarily retiring with the Admission Body's consent before age 60; or
1.6.3 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;

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

1.7 The Admission Body shall indemnify Cumbria against any financial penalty and associated costs and expenses incurred by Cumbria or by the Scheme 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 Cumbria.

[5] Consideration to be given to appending the standard admission agreements, with specific reference that delegated authority is given to deviate away on a case by case basis.

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

2 Admission body's undertakings

The Admission Body undertakes:

2.1 to provide or procure to be provided such information as is reasonably required by Cumbria relating to the Admission Body's participation in the Scheme including (but not limited to) details of the pay and final pay of each eligible employee;

2.2 to comply with the reasonable requests of Cumbria to enable it to comply with the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (as amended);

2.3 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 Cumbria and provided by Cumbria to the Admission Body;

2.4 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;

2.5 to notify Cumbria of each occasion on which it exercises a discretion under the Regulations and the manner in which it exercises that discretion;

2.6 to notify promptly Cumbria 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;

2.7 to immediately notify Cumbria 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;

2.8 not to do anything which would prejudice the LGPS' status as a registered pension scheme; and

2.9 to make available for public inspection at Cumbria and the Scheme employer's office a copy of the Admission Agreement.

3 Actuarial valuations

3.1 Cumbria 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 Scheme in respect of current and former eligible employees is neither materially more nor materially less than the anticipated liabilities of the Scheme.

3.2 Upon termination of this Agreement Cumbria must obtain:

3.2.1 an actuarial valuation of the liabilities of the Scheme in respect of current and former Eligible Employees as at the date of termination; and

3.2.2 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 Cumbria 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 Cumbria.

4 Risk assessment

4.1 The Admission Body shall carry out to the satisfaction of Cumbria, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of services or assets by reason of insolvency, winding up or liquidation of the Admission Body.

4.2 Where the level of risk identified by the assessment is such as to require it, the Admission Body shall enter into an indemnity or bond in an approved form.

4.3 Where it is not desirable for the Admission Body to enter into an indemnity or bond, the Admission Agreement shall provide that the Admission Body secures a guarantee in a form satisfactory to Cumbria from:

4.3.1 a person who funds the Admission Body in whole or part;
4.3.2 a person who owns or controls the exercise of the functions of the Admission Body; and
4.3.3 the Secretary of State in the case of an Admission Body which is established under any enactment, and whether that enactment enables the Secretary of State to make financial provision for that Admission Body.

5 Termination

5.1 The Agreement shall terminate at the end of the notice period upon Cumbria 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.

5.2 The Agreement shall terminate automatically on the earlier of:

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

5.3 The Agreement may be terminated by Cumbria by notice in writing to the Admission Body taking immediate effect in the event of:

5.3.1 the insolvency winding up or liquidation of the Admission Body;
5.3.2 any breach by the Admission Body of any of its obligations under this Agreement provided that Cumbria 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 Cumbria may specify;
5.3.3 the failure by the Admission Body to pay any sums due to Cumbria or to the Scheme 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 Cumbria requiring the Admission Body to do so; or
5.3.4 the failure by the Admission Body to renew or adjust the level of any bond/indemnity which is required to be in place.

8.3 Discretions Policy (approved September 2012)

Cumbria County Council as administering authority of Cumbria Local Government Pension Scheme has the power to make certain discretions to assist in the management of the scheme. These will be applied across the whole Cumbria Scheme for all employers and members. The Discretions Policy was approved by the Cumbria Pensions Committee held on 26th September 2011. In September 2012 the Cumbria Pensions Committee agreed amendments to three existing discretions. The current discretions policy, as at September 2012, is set out below.

8.3.1 Administering Authority Discretions for use in the Cumbria Local Government Pension Scheme

Discretions from 01.04.08 in relation to post 31.03.08 active members (excluding councillor members) and post 31.03.08 leavers (excluding councillor members), being discretions under:

- The Local Government Pension Scheme (Administration) Regulations 2008 (Prefix A)
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) (Prefix B)
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (Prefix T)
- The Local Government Pension Scheme Regulations 1997 (Prefix L).

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to agree to an admission agreement with a community body	**A**5(1) & **A**7(4)	Depending on circumstances, and only in accordance with the published Fund Admission Policy
Whether to approve / withdraw approval of a community admitted body under A5(2)(a)(ii)	**A**5(2)(a)(ii) & **A**5(3)	Exercised by Secretary of State
Whether to agree to an admission agreement with a transferee body	**A**6(1) & **A**6(10)(a) & **A**7(4)	Depending on circumstances, and only in accordance with the Fund Admission Policy
Define what is meant by “employed in connection with”	**A**6(12)	After taking guidance from the transferor employer, and in accordance with the Fund Admission Policy
Whether to approve / withdraw approval of a transferee admitted body under	**A**6(2)(b) **A**6(2)(b) & **A**6(4)	Exercised by Secretary of State
Agree terms of admission agreement	**A**7(2)	Exercised by all parties to the agreement

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to terminate a transferee admission agreement in the event of: - insolvency, winding up or liquidation of the body - breach by that body of its obligations under the admission agreement - failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so	**A**Sch3, para 10	Yes as stated in termination policy. However in exceptional circumstances this may be varied.
Whether to set off against payments due to a transferee admission body any sums due to the Fund by that body.	**A**Sch3, para 12(b)	Exercised by Transferor Employer
Whether to agree to an admission agreement with a Care Trust or NHS Scheme employing authority	**A**12(6)	Depending on circumstances, and only in accordance with the Fund admission policy
Frequency of payment of member's contributions	**B**3(11)	The due date for employee contributions is the 19th of the month following the month in which they were deducted.
Whether to extend normal 12 month period following end of relevant reserve forces leave for "Cancelling notice" to be submitted requesting that the service should not be treated as relevant reserve forces service	**A**19(8)(b)	In exceptional circumstances
Agree method of paying for augmented membership granted under **B**12 or additional pension granted under **B**13	**A**40(2) & (4)	Augmented Pension will be paid for by means of a lump sum payment
Whether to extend the one month period within which a lump sum payment by the employer under A40(2) has to be made (to pay for any augmented membership granted under **B**12 or additional pension granted under **B**13)	**A**40(9)(b)	The invoice will be payable within one month of issue
Whether to require a satisfactory medical before agreeing to an additional regulation contribution (ARC) election or additional contributions for survivor benefits (ASBC) election under **B**14	**A**23(3) & **A**24(3)	Application from an employee will only be accepted if accompanied by a medical report provided by a registered medical practitioner stating that the employee is in reasonably good health. The employee must meet the cost of obtaining such a report.

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to charge member for provision of estimate of additional pension that would be provided by the Scheme in return for transfer of in house AVC/SCAVC funds	**A**28(2)	Not to charge for work performed associated with the calculation of the membership credit for Additional Voluntary Contributions transfer into the Fund
Governance policy must state whether the admin authority delegates their function of part of their function in relation to maintaining a pension fund to a committee, a subcommittee or an officer of the admin authority and, if they do so delegate, state - the frequency of any committee or subcommittee meetings; - the terms of reference, structure and operational procedures appertaining to the delegation; - whether representatives of employing authorities or members are included and, if so, whether they have voting rights. The policy must also state the extent to which a delegation, or the absence of a delegation, complies with Sec of State guidance and, to the extent it does not so comply, state the reasons for not complying.	**A**31*	A Governance Policy Statement was prepared and approved by the Pensions Committee held on 26 February 2008, with revisions approved on 1 March 2011.
Whether to set up a separate admission agreement fund	**A**32(1)	Not to set up a separate admission agreement fund
Decide on Funding Strategy for inclusion in funding strategy statement	**A**35*	This was approved by the Pensions Committee at the meeting held on the 1 / 2 March 2011
Whether to obtain revision of employer's contribution rate on termination of an admission agreement where underfunding not met by insurer, bond or indemnity	**A**38(3)	Only do this if advised to do so by the scheme actuary
Whether to obtain revision of employer's contribution rate with a view to ensure no underfunding by time admission agreement terminates	**A**38(4)	Only do this if advised to do so by the scheme actuary
Decide whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Benefits Regulations as part of the "cost sharing" under **A**36A	**A**38A	Only do this if advised to do so by the scheme actuary

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to require any strain on Fund costs to be paid "up front" by employing authority following redundancy, flexible retirement, or the waiver (in whole or in part) of any actuarial reduction on flexible retirement (but not waiver of reduction in full on compassionate grounds). **NB:** there is no provision equivalent to that in regulation 80(5) of the 1997 Regulations which permits strain on Fund costs to be charged for early voluntary retirements (ie after age 50/55 and before age 60) or early payment of a deferred benefit on health grounds.	**A**41(2)	The strain on Fund costs to be paid up front following redundancy, flexible retirement, or waiver of any actuarial reduction on flexible retirement unless the Scheme Actuary advises otherwise.
Decide frequency of payments to be made over to Fund by employers and whether to make an admin charge.	**A**42(1) & (7)	The due date for employer contributions is the 19th of the month following the month to which they refer. Where invoices are issued for any payments the due date is one month from date of invoice. Administration charges are covered by the employer contribution rates.
Decide form and frequency of information to accompany payments to the Fund.	**A**42(4)	Remittance advices required for all payments to the Fund.
Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance	**A**43	Issue such a notice following advice by the scheme actuary
Whether to charge interest on payments by employers overdue by more than 1 month	**A**44(1)	The interest charge will be calculated in accordance with statutory requirements ie Base rate plus 1 %.
Extend time period for capitalisation of added years contract	**T**Sch1 & **L**83(5)	Not to extend this time period
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	**A**45(3)	To adopt this
Can pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration	**A**52(2)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances.
Approve medical advisors used by employers (for ill health benefits)	**A**56(2)	To adopt this

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to extend six month period to lodge a stage one IDRP appeal	**A**58(7)(b)	Exercised by Person Making stage one IDRP decision[6]
Decide procedure to be followed by admin authority when exercising its stage two IDRP functions and decide the manner in which those functions are to be exercised	**A**60(8)	Procedure laid down[7]
Whether admin. authority should appeal against employer decision (or lack of a decision)	**A**63(2)	Will decide this depending on the particular circumstances
Whether to extend six month period for admin. authority to lodge an appeal against an employer decision	**A**63(3)(b)	Exercised by Secretary of State
Specify information to be supplied by employers to enable admin. authority to discharge its functions	**A**64(1)(b)	The requirements for scheme employers have been laid down
Whether to have a written pensions administration strategy and, if so, the matters it should include	**A**65(1) & (2)	An administration strategy has been set out in the Governance Policy Statement
Communication policy must set out policy on communicating with members, representatives of members, prospective members and employing authorities and format, frequency and method of communications	**A**67*	A communications policy has been set out in the Governance Policy Statement
Date to which benefits shown on annual benefit statement are calculated	**A**68	To show benefits to the end of the month prior to issue.
Decide policy on abatement of pensions following re-employment	**A**70(1)* & **A**71(4)(c) & **T**12	To abate pensions following re-employment in accordance with the policy approved by Pensions Committee on 24 September 2012.
Whether to issue a forfeiture certificate	**A**72(1)	Exercised by Secretary of State
Agree to bulk transfer payment	**A**81(1)(b)	Take the advice of the scheme actuary
Agree set aside of bulk transfer assets / cash and acquisition of rights in new scheme	**A**81(4)(a)	Exercised by Fund actuary / new scheme actuary

[6] Stage one, appeals against the employer decisions, or lack of decision, is the responsibility of the employer. Stage one, appeals against the Administration Authority is delegated to the Senior Manager – Technical Finance.
[7] Stage two appeals against all CLGPS employers is the responsibility of the Administration Authority and is delegated to the Senior Manager – Technical Finance. Stage two appeals against the Administration Authority are delegated to the Senior Manager – Legal Practice.

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Determine adjustments to bulk transfer payment	**A**82(2)	On advice from the scheme actuary
Determine who should bear bulk transfer actuarial costs (where more than one employing authority is involved in the transfer)	**A**82(5)	On advice from the scheme actuary
Allow transfer of pension rights into the Fund	**A**83(9)	Allow following advice from the scheme actuary
Agree bulk inter fund adjustment terms (where 10 or more members affected by a single event)	**A**86(3)	Exercised by Actuaries for both funds
Whether to extend normal time limit for acceptance of restitution transfer value beyond 12 months from joining the LGPS	**T**Sch1 & **L**122A(2)(c)	Allow this
Where member to whom **B**10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member	**B**10(2)	Always pay the highest benefit to a member of the scheme
Whether to pay the whole or part of a child's pension to another person for the benefit of that child	**B**27(5)	Yes, depending on individual circumstances
Decide to whom death grant is paid	**B**23(2) & **B**32(2) & **B**35(2) & **T**Sch1 & **L**155(4)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances.
Decide evidence required to determine financial dependence of nominated cohabite on scheme member or financial interdependence of nominated co-habitee and scheme member	**B**25	Rely on the nomination form
Decide to treat a dependent child who commences full time education or vocational training after the date of the member's death as an eligible child after the child attains age 18 and until age 23	**B**26(4)	Adopt this discretion
Decide to treat child as being in continuous education or training despite a break	**B**26(5)(a)	Adopt this discretion

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Decide to suspend child's pension during a break in education or training	**B**26(5)(b)	Adopt this discretion unless there are exceptional circumstances
Decide to treat a dependent child who is disabled within the meaning of the DDA 1995 as being an eligible child	**B**26(6)	Adopt this discretion
Decide whether to commute small pension	**B**39 & **T**14(3)	Do this at the members request
Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	**B**42(1)(c)	Always pay the highest benefit to a member of the scheme
Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1.4.08)	**T**Sch 1 & **L**23(9)	Always pay the highest benefit to a member of the scheme
Whether to accept a partial restitution payment	**T**Sch1 & **L**122A(8)	Do this with the agreement of the individual
How to discharge Pension Credit liability	**T**Sch1 & **L**147	Depending on individual circumstances.

8.3.2 Discretions under the Local Government Pension Scheme Regulations 1997 (as Amended) in relation to pre 01.04.08 scheme members

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Make election on behalf of deceased non-councillor member with a certificate of protection of pension benefits ie determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 01.04.08).	23(9)	Always pay the highest benefit to a member of the scheme
Decide to whom death grant is paid in respect of post 31.03.98 / pre 01.04.08 leavers.	38(1) & 155(4)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Treat child as being in continuous education or training despite a break (children of post 31.03.98 / pre 01.04.08 leavers).	44(3)	Adopt this discretion
Apportionment of children's pension amongst eligible children of post 31.03.98 / pre 01.04.08 leavers.	47(1)	Adopt this discretion
Pay child's pension to another person for the benefit of the children of post 31.03.98 / pre 01.04.08 leavers).	47(2)	Yes, depending on individual circumstances
Agree to commutation of small pension (pre 01.04.08 leavers or pre 01.04.08 Pension Credit members).	49 & 156	Do this at the members request
Commute benefits due to exceptional illhealth (pre 01.04.08 leavers and pre 01.04.08 Pension Credit members).	50 & 157	Adopt this discretion
Whether to require any strain on Fund costs to be paid "up front" by employing authority following early payment of a deferred benefit on health grounds or from age 50 with employer consent (pre 01.04.08 leavers).	80(5)	Adopt this discretion
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits pre 01.04.08 leavers).	89(3)	Adopt this discretion
Timing of pension increase payments by employers to fund (pre 01.04.08 leavers).	91(6)	Pension increase payments will be invoiced quarterly or annually dependant on circumstances
Pay death grant due to personal representatives without need for grant of probate / letters of administration (death of pre 01.04.08 leaver).	95	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances.
Approve medical advisors used by employers (re pre 01.04.98 preserved benefits payable on health grounds)	97(10)	Delegated to employers

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Decide procedure to be followed by admin authority when exercising its IDRP functions and decide the manner in which those functions are to be exercised (pre 01.04.08 leavers).	99	Procedure laid down
Appeal against employer decision, or lack of a decision (pre 01.04.08 leavers).	105(1)	Will decide this depending on the particular circumstances.
Extend appeal period under reg 105	105(2)	Exercised by Secretary of State
Date to which benefits shown on annual deferred benefit statement are calculated	106A(5)	Normal retirement age
Abatement of pensions following reemployment (pre 01.04.08 leavers).	109* & 110(4)(b)	To abate pensions following re-employment in accordance with the policy approved by Pensions Committee on 24 September 2012.
Retention of CEP where member transfers out (pre 01.04.08 leavers).	118	To retain any CEP

8.3.3 Discretions under the Local Government Pension Scheme (Transitional Provisions) Regulations 1997 (as Amended)

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Extending time limit for repayment of a previous refund (1.4.74. to 31.12.79)	17(3)	Not to adopt this discretion
Whether to pay spouse's pensions for life for pre 1.4.98 retirees / deferred who die on or after 1.4.98.	Para 21 of Sch 3	To adopt this discretion

8.3.4 Discretions under the Local Government Pension Scheme Regulations 1995 (as Amended) in relation to pre 01.04.98 scheme leavers

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Decide to whom death grant is paid in respect of pre 1.4.98. leavers	E8	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances.
Treat child as being in continuous education or training despite a break (children of pre 1.4.98. leavers)	G1	Adopt this discretion
Apportionment of children's pension amongst eligible children (children of pre 1.4.98. leavers)	G11(1)	Determined to pro rata children's pensions
Pay child's pension to another person for the benefit of the child (children of pre 1.4.98. leavers)	G11(2)	Adopt this discretion as appropriate

8.3.5 Discretions under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended)

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Agree to pay annual compensation on behalf of employer and recharge payments to employer	31(2)	To recharge payments made on behalf of the employer

8.4 Training Policy (approved June 2013)

Contents

1.0 Cumbria LGPS Training Policy 2013/14

1.1 Introduction

This the Training Policy of Cumbria Local Government Pension Scheme sets out the policy agreed by the Pension Committee concerning the training and development of:

- the members of the Pension Committee and any future Investment Sub-Committees and
- officers of Cumbria CC responsible for the management of the Local Government Pension Scheme (LGPS).

The Training Policy is established to aid members of the Pension Committee in performing and developing personally in their individual role in achievement of the collective responsibility of the Committee. The requirement of the Committee is to ensure that Members be able to demonstrate that collectively they have the required knowledge and skills to make appropriate decisions and offer challenge, and that Officers are adequately trained and experienced to undertake the day to day operation and management of the Scheme.

1.2 Policy objectives

The Scheme's objectives relating to knowledge and skills are:

- The Pension Scheme is managed and its services delivered by people who have the appropriate knowledge and expertise, and that the knowledge and expertise is maintained in a changing environment
- Those persons responsible for governing the Scheme have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage conflicts of interest
- The Pension Scheme and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Scheme.

To assist in achieving these objectives, the Scheme will aim for compliance with the CIPFA Knowledge and Skills Framework and Code of Practice.

1.3 Application of the training policy

The training policy will apply to all elected members and representatives with a role on the Pension Committee and the Investment Sub-Committee, and Officers equal to and above the level of Technical Finance Officer of the Scheme regardless of experience. (Officers below this level will have their own sectional and personal training plans and career development objectives)

1.4 Purpose of training

Investment in training harnesses an individual's potential, focuses on what is to be achieved and provides personal development. As such the purpose of training to both Members and Officers of the Cumbria LGPS is to:

- equip people with the necessary skills, knowledge and training
- meet the required needs in relation to the Schemes objectives.

1.5 Review and maintenance

This Training Policy is expected to be appropriate for the long-term but to ensure good governance it will be formally reviewed at least annually by the Committee to ensure it remains accurate and relevant.

The Schemes' Training Plans will be updated annually, taking account of the results from the Training Needs Evaluations, and on emerging issues. It will be updated with events and training opportunities as and when they become available or relevant to ongoing business or emerging events CIPFA Requirements.

2.0 CIPFA requirements

2.1 CIPFA Knowledge and Skills Framework

In January 2010 CIPFA launched technical guidance for Representatives on Pension Committees and non executives in the public sector within a knowledge and skills framework. The framework sets the skill set for those responsible for pension scheme financial management and decision making.

The Framework covers six areas of knowledge identified as the core requirements:

- Pensions legislative and governance context
- Pension Accounting and auditing standards
- Financial services procurement and relationship development
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practice

2.2 CIPFA's Code of Practice on Public Sector Pensions Finance, Knowledge and Skills (the "Code of Practice")

CIPFA's Code of Practice recommends (amongst other things) that LGPS administering authorities:

- formally adopt the CIPFA Knowledge and Skills Framework (or an alternative training programme)
- ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

The Cumbria Pension Committee fully supports the CIPFA Code of Practice and adopts its principles.

3.0 Measurement, assessment and training provision

In order to identify training needs and assess whether we are meeting the CIPFA Framework requirements we will:

3.1 Members:

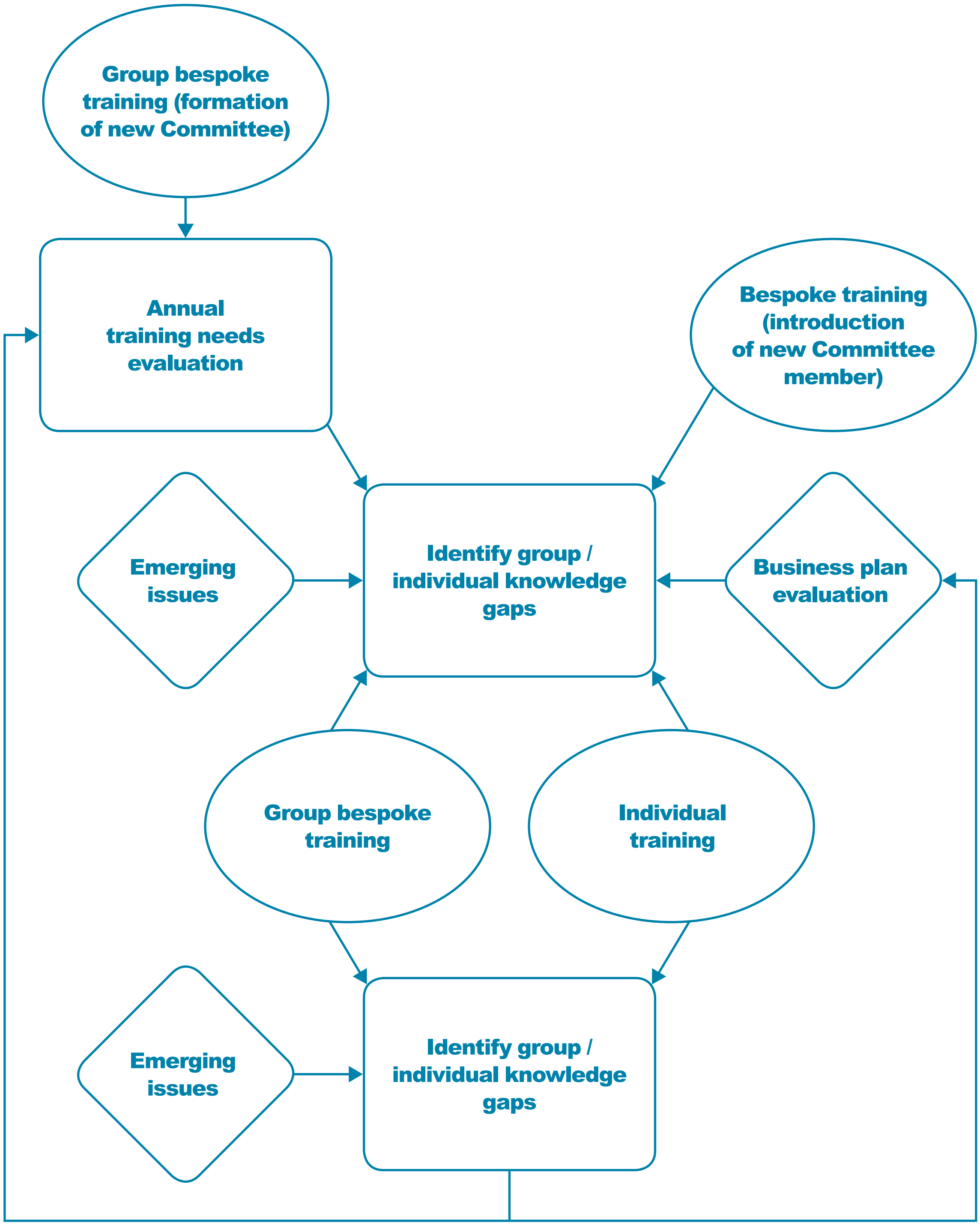
- Undertake as a Committee an annual training needs evaluation exercise. This evaluation will be used to identify both individual and group training gaps.
- "Stand in" Members will be invited to attend this annual evaluation and training session so that they have a base grounding in the LGPS and the requirements placed on themselves as Committee members.
- Where the evaluation highlights that there is a knowledge gap the Committee will undertake either additional internal group be-spoke training or individual external training as appropriate.
- The Committee will as part of the annual Business Plan commit to an outline of internal be-spoke training. This will be focused around either up and coming national changes or internal workloads (eg introduction of a new asset class).
- Investment Sub-Committee Members – will be expected to obtain an individual level of knowledge and skills in relation to the investment modules of the CIPFA Framework. Support from Officers and the Schemes Independent Advisors will be available as and when required, but always in advance of any decision being taken.
- Report as appropriate in external documentation compliance with knowledge and skills requirements eg progress in the Schemes' Annual Report and Accounts, and Governance Statement compliance with the CIPFA knowledge and Skills Framework and the Myners Principles.

3.2 Officers:

All Cumbria LGPS officers with responsibility for administering / managing the LGPS at Principal Finance Officer level or above will be expected to aim to achieve a minimum score in the CIPFA Training Needs Assessment for LGPS Practitioners taking account of the requirements of their roles. These targets will be determined and updated as necessary from time to time in joint agreement by the Senior Manager – Technical Finance and the Section 151 Officer, in liaison with the Chairman of the Pensions Committee.

3.3 Training Provision and Evaluation Cycle

To illustrate this above process see below diagram of the annual training evaluation and programme scheduling:



3.4 Delivery of Training

Consideration will be given to various training resources available in delivering training to Members of the Pension Committee, Investment Sub-Committee or Officers.

Evaluation will be given to the mode and content of training in order to ensure it is both targeted to needs (based on annual evaluation per paragraph 3.1 to 3.3) and ongoing requirements (per the Annual Business Plan) and emerging events. It is to be delivered in a manner that balances both demands on Members time and costs. These may include but are not restricted to:

For Pension Committee and Investment Sub-Committee members	For Officers
• In-house • Using an Online Knowledge Library or other e-training facilities • Attending courses, seminars and external events • Internally developed training days and pre/post Committee sessions • Shared training with other Schemes or Frameworks • Regular updates from officers and/ or advisers	• Desktop / work base training • Using an Online Knowledge Library or other e-training facilities • Attending courses, seminars and external events • Training for qualifications from recognised professional bodies (eg CIPFA, CIPP, PMI) • Internally developed sessions • Shared training with other Schemes or Frameworks

3.5 External Events

Members

All relevant external events will be e-mailed to Members as and when they become available. Officers will maintain a log of all events attended for compliance with reporting and monitoring requirements.

After attendance at an external event, Committee Members will be asked to provide verbal feedback at the next Committee covering the following points:

- Their view on the value of the event and the merit, if any, of attendance
- A summary of the key learning points gained from attending the event, and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to all Committee Members or Investment Sub-Committee Members.

Officers attending external events will be expected to report to their direct line manager with feedback covering the following points:

- Their view on value of the event and the merit, if any, of attendance
- A summary of the key learning points gained from attending the event, and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to other officers.

Officers attending events will also be expected to provide knowledge sharing with the wider Pensions team at the team meeting following event attendance.

3.6 Training Programme (per the Business Plan Agreed at Committee March 2013)

The draft timetable below provides indicative agenda items that are likely to be necessary during this year. In addition other items on topical or emerging issues may be debated as appropriate, and the draft will change depending upon emerging issues.

Date	Agenda items
May/June 2013: Quarterly Pension Committee in Carlisle (4 June 2013)	**Pension Fund Management** ● Review of Fund Performance. ● Verbal update on the selection of a Global Equities Manager. ● Verbal update on the implementation of the Investment ● Strategy Review. **Performance Monitoring** ● Quarterly performance update to March 2013. **Governance & Procurement** ● Annual review of scheme policy documents **Training & Development** ● Review Training Requirements for Knowledge and ● Skills Framework and agree a programme of training. ● Member development session ● Undertake Part 1 of 2 – Pensions Committee Training and Evaluation.
24 June 2013 / 5 July 2013:	**Pension Fund Management** ● Selection of a Low Volatility manager and a High Conviction manager for Global Equities. ● Investment Strategy Review (part 3 - further consideration of implementation plan)
September 2013: Quarterly Pension Committee in Carlisle (including Annual Performance Review)	**Pension Fund Management Performance Monitoring** ● Report on the Annual and longer term performance of the Pension Fund and Investment Managers from the WM Company. ● Annual Performance review of L&G's Passive Portfolio. ● Quarterly performance update to June 2013. **Governance & Procurement** ● Review of enhanced corporate governance monitoring arrangements. **Employers, Funding and Accounting** ● Annual Report & Accounts 2012/13 (audited). ● Review of Pensions Administration Contract. ● Discussion of 2013 Actuarial Valuation results and funding Strategy **Training & Development** ● Opportunistic Investing / Governance – to be confirmed. **Member development session** ● Undertake Part 2 of 2 – Pensions Committee Training and Evaluation. (Revised)
October 2013: Annual Pension Forum (venue TBC)	**Other Issues** ● Annual Report & Accounts 2012/13 (audited). ● Performance report from Your Pension Service. ● 2013 Actuarial Valuation results – Actuary to present
November 2013: Quarterly Pension Committee in Carlisle	**Pension Fund Management** ● Final Investment Strategy presentation – Mercers. **Performance Monitoring** ● Quarterly performance update to September 2013. **Governance & Procurement** ● Review operations of Pension Fund bank account and ● Cash Investment Policy. ● Update of Scheme Discretions. **Training & Development** ● Triennial Valuation

Date	Agenda items
March 2014: Quarterly Pension Committee	**Pension Fund Management** ● Review of Fund Performance. **Performance Monitoring** ● Quarterly performance update to December 2013. **Governance & Procurement** ● Annual Budget & Business Plan 2014/15. ● Annual Review of Scheme Policy Document. ● Review Scheme Risks. **Training & Development** ● To be organised on review of emerging issues.

9 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 Scheme and every three years formally reviews the assets and liabilities of the Scheme and produces a report on the Scheme's financial position, known as the Actuarial Valuation.
- **Alternatives** Alternatives are investment products other than traditional investments of equity stocks, bonds, cash or property. The term is used for tangible assets such as art, wine etc, and financial assets such as commodities, private equity, hedge funds, venture capital and derivatives.
- **Asset Allocation** Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return, and is a central concept in financial planning and investment management.
- **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).
- **Bid price** Price at which a security or unit in a pooled fund can be sold.
- **Bonds** Certificate of debt issued by a government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.
- **Buy and Hold Credit** An approach to bond investment that is very different to an index-tracking or traditional active approach. In the case of "buy and hold" investing, the starting point of the portfolio construction process is not the index weight of the bonds, but a basket of bonds that the manager believes have a high probability of honouring the payment obligations due. As such the investor's return expectation has a "margin of safety" and is not dependant on a change in sentiment in credit markets. The intention is typically to hold the bonds until maturity (and to be prepared to sell bonds if the default risk increases). Constant duration portfolios are also available.
- **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.
- **Diversification** Risk management technique which involves spreading investments across a range of different investment opportunities, thus helping to reduce overall risk. Risk reduction arises from the different investments not being perfectly correlated. Diversification can apply at various levels, such as diversification between countries, asset classes, sectors and individual securities.
- **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 scheme's assets to its liabilities. Normally relates to defined benefit pension schemes and used as a measure of the scheme's ability to meet its future liabilities.
- **Gilts** These are the simplest form of UK government bond. A conventional gilt is a bond issued by the UK government which pays the holder a fixed cash payment (or coupon) every six months until maturity, at which point the holder receives his final coupon payment and the return of the principal.

- **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.
- **Liabilities** Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pensions liabilities are the pensions benefits and payments that are due to be paid when someone retires; the LGPS is a 'final-salary' scheme where pension relates to years service and final salary and so the pensions liability can be estimated by the actuary.
- **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).
- **Pooled Investment Fund** A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region. The underlying assets the funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity shares. They are used as an efficient low-risk method of investing in the asset classes.
- **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.

10 Contact us

General contact details

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

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Email: **pensions@cumbria.gov.uk**

Access to pension committee papers

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

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

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

Pensions contact details

For personal pensions and benefits queries please contact:

Your Pension Service
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PO Box 100
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Email: **Connect2Pensions@oneconnectlimited.co.uk**
Telephone: **01772 530530**

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