Cumbria County Council

Cumbria Local Government Pension Scheme

Annual Report and Accounts 2013/14

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1 Chairman's Introduction

As Chairman of the Cumbria Local Government Pension Scheme (LGPS) it is my pleasure to present, on behalf of my fellow Members of the Cumbria Pensions Committee, the Annual Report for 2013/14. The report shows not only another successful year for our investment portfolio (which grew from £1,659.065m (31/03/13) to £1,774.730m (31/03/14) – an increase of £115.665m) but also achievement across a wide range of other outcomes being driven by both local decisions and additional national requirements.

As I'm sure you'll be aware, national attention (both from Government and the media), following on from the "Hutton Report (2011), has remained high across all public sector pension schemes. Specifically for the LGPS the focus in the earlier part of the year was on member benefit structures; culminating with the introduction of the "2014 Scheme" from April 2014 (further detail can be found at Section 2.5 in this report). I am pleased to be able to report that despite the late issue of regulations, detailed planning, continual communication with employers and employees and a great deal of effort by our shared administration service with "YPS" smooth implementation of the 2014 Scheme was achieved.

For the latter part of the year, continuing into 2014/15, Government and media attention has focused on scheme governance and gaining a better understanding of the costs incurred to administer the £180 billion assets held by the 89 Local Government Pension Schemes in England and Wales.

Cumbria Pensions Committee believes that good governance is fundamental to delivering a successfully managed Scheme, both at a national and local level and is therefore supportive of the attention that this matter is receiving. On behalf of its fifty thousand members Cumbria Pensions Committee has been actively engaged in this debate. Core to our response is support for any changes across the sector aimed at driving up governance standards and performance for all schemes rather than settling for mediocrity. That said, we have expressed concerns regarding some of the detail in the government's draft proposals in our response to the consultation (available on the website as detailed below).

We were pleased that government favourably reviewed the evidence as presented by interested parties from across the LGPS in the earlier call for evidence, and removed wholescale fund mergers as an option at the present time. However, the second consultation focused solely on investment management costs as opposed to the central issue of deficit management and only offered limited options for consideration.

It is the Cumbria Pensions Committee's view that When reviewing investment management consideration needs to be wider than simply looking at the cost. The focus should be on liability management / investment strategy and deficit recovery, i.e. risk; return and value for money. In investment terms, this means the focus needs to be on ensuring that any money spent delivers higher returns or lowers risk over and above that which could be achieved from using other cheaper forms of investment management. If this is achieved then the core aim of deficit recovery can be delivered at the least cost and risk to employers (and therefore the tax payer) and scheme members. Cumbria has demonstrated that, even with a more defensive strategy than the majority of the LGPS's, locally managed active management of investments has contributed towards the delivery of this outcome and therefore we believe it should remain a core component of Cumbria's investment strategy going forward.

Our responses to the three consultations on these matters can be found on our website at **www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp**.

In relation to the Scheme's performance this year, against a volatile global investment background Cumbria LGPS has again achieved an increase in Scheme value (from £1,659.065m (31/03/13) to £1,774.730m (31/03/14) – an increase of £115.665m). As detailed in section 4.5 of this report the Scheme has outperformed its own benchmark over the year and three year timeframes (by 1.4% and 0.6 % respectively), ranking it 14th out of 100 Local Government Schemes in the country over the 3 year period. Over the longer term timeframe of ten years, the Scheme achieved a return of 7.8% which is consistent with the Scheme specific benchmark for the same period (i.e. 7.8%).

During the year, in accordance with statutory requirements, the Cumbria LGPS completed the triennial Actuarial Valuation as at 31 March 2013. The funding level of the Scheme as at 31 March 2013 was 78%. This represents a decrease of 1% against the funding level as at 31 March 2010. The primary drivers behind this decrease were uncertainty in the markets and the impact of exceptionally low gilt yields at the point of valuation. Since 31 March 2013, however, there have been significant changes in the financial market's including an increase in gilt yields. In light of this the Actuary estimated, on consideration of financial factors alone, that the funding position has improved by 7% to 85% as at 30 June 2014.

However, it must be recognised that valuations across the LGPS are carried out using a variety of assumptions and methodologies. So, while at a first glance this would place Cumbria in the mid ground for both deficit and recovery period across the whole of the LGPS in England and Wales, these results are not on a like for like basis. Following on from the release of the valuation results, two of the major actuarial firms within the LGPS (Hymans Robertson and AON Hewitt) have undertaken a more in depth review of these results and rebased them on a single set of assumptions. On these rebased results Cumbria LGPS moves comfortably into the top quartile. Given the current scrutiny within the LGPS regarding lack of data comparability there is a possibility of the introduction of national actuarial factors at the next valuation in 2016. As Chair of the Cumbria Pensions Committee I am happy to conclude that if so, Cumbria should be well placed to protect employer contribution rates going forward should standardisation be required.

In addition to asset performance and completion of the 2013 Actuarial valuation other key achievements of the Scheme during 2013/14 included (a more detailed listing is provided in section 3.4 of this report):

- Implementation of approximately 65% of the Investment Strategy Review outcomes (including the appointment of two new Global Equities Managers and selection of opportunistic and infrastructure products / managers).
- Establishment and embedding of the Investment Sub Group which saw Cumbria highlighted as an example of best practice by Grant Thornton in their 2013 Governance Report.
- Communication and implementation of auto enrolment of new members.
- Preparation for the 2014 Scheme (including member and employer communication revisions to policy, procedure and governance).
- Delivery of an enhanced training plan to both new and continuing Members and Officers with Cumbria again highlighted as an example of best practice in this area in Grant Thornton's 2013 Governance Report.

Looking forwards all LGPS's face challenging times in the coming years as they seek to improve governance; maintain the costs of the Scheme within the levels agreed in the cost sharing agreement; close deficits while managing the effects of a maturing scheme liability profile (due to expected continued reduction in staffing across the public sector by the major scheme employers). That said I believe the governance improvements, asset restructuring and well developed risk management strategies have placed Cumbria LGPS in a strong position to meet these challenges.

I hope you will find the report informative. However as we seek to continually improve we would welcome comment on its content and presentation. Further information is available from the contact points shown on page 207.

I would also like to convey the Committee's thanks to all the council's staff involved in administering the Cumbria LGPS as well as YPS, and our external advisors 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 2013/14.

Cllr. Melvyn Worth
Chairman
July 2014

2 The Local Government Pension Scheme

2.1 Regulatory background

The Local Government Pension Scheme (LGPS) is a statutory scheme, established by an Act of Parliament and governed by regulations made under the Superannuation Act 1972.

The scheme rules in force during 2013/14 (a new LGPS scheme, as per the Local Government Pension Scheme Regulations 2013, commenced with effect from 1 April 2014 – see 2.5 for details) are contained within the LGPS (Benefit, Membership and Contribution) Regulations 2007, the LGPS (Administration) Regulations 2008 and the LGPS (Transitional Provisions) Regulations which came into force on 1 April 2008.

Whilst the regulations are set on a national basis, individual Schemes are managed by designated administering authorities at a local level. Throughout England and Wales there are 89 such authorities.

Cumbria County Council is the Administering Authority for the Cumbria LGPS and as such is responsible for administering the Scheme for the benefit of its own employees and the employees of scheduled bodies and Admission Bodies. Full details of the 111 employers participating within the Scheme are set out in the Pension Fund Accounts on page 120. Further details of the responsibilities and arrangements relating to Scheme administration can be found in section 5.1 of this report.

2.2 Membership and benefits

Membership of the LGPS is open to all eligible employees of local government and other participating employers who are under 75 years of age. Teachers, Police Officers and Firefighters are excluded from the Scheme as they are members of separate statutory pension schemes. In line with regulations all eligible employees are automatically enrolled[1] into Cumbria

1. 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. 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 1 June 2013. See also section 2.4.1 of this report.

LGPS but have the freedom to opt-out should they so wish. Details of Cumbria LGPS membership numbers are set out in section 12.5.1 of this report.

The regulations specify the type and amounts of pension and other benefits payable in respect of Scheme members who leave, retire or die. They also fix employee contribution rates payable on an ongoing basis (see 2.3 below).

More detailed information on the benefits of the Scheme and how to join it can be obtained by visiting the Your Pension Service website at **www.yourpensionservice.org.uk**

2.3 Contribution rates

2.3.1 Employee contribution rates

Employee contribution rates are set by regulation. During 2013/14 rates payable were between 5.5% and 7.5%:

Standard pay band table from 1 April 2013 to 31 March 2014

If your whole time pay rate is:	You pay a contribution rate of:
up to £13,700	5.5%
£13,701 – £16,100	5.8%
£16,101 – £20,800	5.9%
£20,801 – £34,700	6.5%
£34,701 – £46,500	6.8%
£46,501 – £87,100	7.2%
Over £87,100	7.5%

2.3.2 Employer contribution rates

Employer contribution rates are set by the Scheme's Actuary every three years as part of the Actuarial Valuation. For further detail see section 3.3.2 of this report.

2.4 Regulatory change

The following key changes to regulations (both to LGPS specific regulations and the wider pension's regulations) were announced during or impacted on 2013/14:

2.4.1 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 are implications to the scheme. From the Cumbria LGPS perspective there are additional data collection and storage requirements 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 1 June 2013. The Administration Authority has worked closely with employers to ensure they have access to current information and can take advantage of work already undertaken.

2.4.2 Public Service Pensions Act 2013

The Public Service Pensions (PSP) Act 2013 which was enacted into law on 24 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 (July 2014) the implications of the Act's provisions with regard to scheme governance for the LGPS are yet to be finalised and draft regulations are currently out to consultation. The consultation is 'light touch' which, whilst it allows considerable flexibility in terms of responses, means that there is as yet limited clarity regarding the detailed implications for LGPS administering authorities. However, although the LGPS specific regulations are as yet unknown, the following principles can be drawn from the overarching provisions of the Act:

- A Local Pension Board must be established by Scheme Managers (in the case of the LGPS this means administering authorities i.e. Cumbria County Council);
- The Board will perform a function distinct from the Scheme Manager role[2] – it will be responsible for assisting it to secure compliance with these regulations, any other legislation relating to the governance and administration of the scheme and requirements imposed by the Pensions Regulator in relation to the scheme. It is also to be responsible for assisting the administering authority to ensure the effective and efficient governance and administration of the scheme.

The timescale for implementation of the governance regulations, once they have been finalised, is tight. Boards will need to be established by 1 April 2015. This will require a significant amount of work including establishing the structure and terms of reference for the Board, making changes to Cumbria County Council's Constitution as it is the Administering Authority, identifying and appointing Board members and establishing and implementing a robust training programme for Board members. Cumbria LGPS has set up an officer working group to ensure it meets this challenging agenda.

2.5 Changes to LGPS in 2014

With effect from 1 April 2014 the Local Government Pension Scheme Regulations 2013 came into force. Under the regulations all active members and any individuals joining the LGPS after that date are enrolled into the new LGPS 2014. While the Scheme remains a defined benefit with the following changes arising from the introduction of the 2014 Scheme:

- A Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor (the current scheme is a final salary scheme).
- An accrual rate of 1/49th (the 2008 scheme was 1/60th).
- No normal scheme pension age; instead each member's Normal Pension Age (NPA) is their State Pension Age (the current scheme has an NPA of 65).
- Average member contributions to the scheme are in the region of 6.5% (same as the 2008 scheme) with the rate determined on actual pay (the 2008 scheme determines part-time contribution rates on full time equivalent pay).
    - Whilst there is no change to average member contributions, the lowest paid pay the same or less and the highest paid pay higher contributions on a more progressive scale after tax relief.
- Members who have already or are considering opting out of the scheme can 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 2008 scheme has no such flexible option).
- For current scheme members, benefits for service prior to 1 April 2014 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).

Further information on the 2014 scheme can be found at **www.lgps2014.org**

2. Scheme Manager – responsible for managing or administering the Scheme, i.e. a hands on, decision making, management and investment function.

2.6 Other matters arising in 2013/14

2.6.1 Future structure of the LGPS

In May 2013 the Under Secretary of State for DCLG, announced his intention to issue a ‘call for evidence’ on the options for the future structure of the Local Government Pension Scheme (LGPS). The key theme at the time was the proposal to merge LGPS. The aim of the call for evidence was to help formulate opinion prior to the formal issuance of a consultation on the future structure of the LGPS.

The consultation on the future structure of the LGPS – ‘LGPS: Opportunities for collaboration cost savings and efficiencies’ (hereafter ‘the current consultation’) – was issued 1 May 2014. Robust evidence based response from many sections of the industry has helped to shape the formal consultation with the emphasis moving from mergers to other forms of cost saving proposals.

To support the ‘call for evidence’ and the consultation the Government commissioned additional analysis from independent advisors – Hymans Robertson. This was published on 1 May 2014 alongside the current consultation. A key finding of the Hymans’ analysis was that investment fee savings of c. £470m p.a. (on basis of estimated asset management costs of £790m p.a.) could potentially be achievable through greater use of passive investment and by stripping out layers of fees on alternatives.

The current consultation draws heavily on the key themes of the Hymans’ analysis and sets out the Government’s preferred approach to reform. In summary:

- The Government has decided not to consult on fund mergers at this time;
- The Government believes that all asset allocations should remain with fund authorities (at this time);
- The Government feels there is a strong case for achieving economies of scale through the pooling of fund’s assets in common investment vehicles (CIVs) or other similar designated legal structures; and
- The Government believes that funds should make greater use of passive management for all listed assets such as bonds and equities.

Cumbria LGPS’s response – submitted prior to the deadline in July 2014 – was based on the following key principles:

- Cumbria Pensions Committee is in favour of exploring further cost savings through the use of Collective Investment Vehicles (CIVs) as long as strategic asset allocation decisions remain with Cumbria;
- Cumbria Pensions Committee does not support a solely passive approach to investing in listed assets; and
- Cumbria Pensions Committee recognises that there are benefits to collaborating when investing in more fee expensive and difficult to enter asset classes (e.g. direct investments in infrastructure) but notes (from our own experience and confirmed in the Hymans report) that unwinding existing investments will take in the region of ten years.

3 Management and financial performance

3.1 Scheme Management and Advisors

Officers responsible for the Scheme

Julie Crellin
Assistant Director – Finance (s.151 Officer)
Cumbria County Council
Resources Directorate
Finance,
Lonsdale Building,
The Courts,
Carlisle CA3 8NA

Fiona Miller
Senior Manager – Pensions & Financial Services
(deputy s.151 Officer)
Cumbria County Council
Resources Directorate
Pensions & Financial Services,
First Floor, West Wing,
The Parkhouse Building,
Kingmoor Business Park,
Carlisle CA6 4SJ

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 7.1.1.1.

County Council Elected Members
To April 2014:

- 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

Following Cumbria County Council AGM (from May 2014):

- Mr MH Worth (Chair)
- Mr J Airey
- Mr SB Collins (Vice Chair)
- Mr G Humes
- Mr NH Marriner
- Mr DE Southward

- Mr GB Strong
- Ms H Wall

District Council Elected Member:
- Ms G Troughton

Trade Union Non-Voting Member:
- Ms J Trueick

Investment Managers

Aberdeen Property Investment Management, Direct & Indirect property
BlackRock Investment Management, Alternatives (to June 2012 – funds being transitioned out)
GMO UK Limited, Overseas equities (to November 2013)
Legal and General Investment Management, Passive equities and bonds, cash
Loomis Sayles, Global Equities (from November 2013)
M&G, Real estate debt (from May 2013)
Nordea, Global Equities (from November 2013)
Partners Group, Infrastructure (from September 2013)
Schroder Investment Management, UK equities
Standard Life Pension Funds Ltd, UK corporate bonds

Custodian
- State Street Bank and Trust Company

Additional Voluntary Contribution providers
- Prudential (from March 2014)
- Standard Life
- Scottish Widows

Actuary
- Mr J Livesey FIA, Mercer

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

Bankers
- National Westminster Bank PLC

Auditor
- Grant Thornton UK LLP

Performance monitoring
- State Street Investment Analytics (WM Company)

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

Pensions Administration
(a shared service between Cumbria County Council and Lancashire County Council)

Your Pension Service
Cumbria LGPS Team
PO Box 100, County Hall, Preston PR1 0LD
Email: AskPensions@lancashire.gov.uk
Telephone: 01772 530530

3.2 Risk management

Risk management is the process by which the Council systematically identifies and addresses the risks associated with its activities; it is a key element of good governance for any organisation. Officers of the Scheme maintain a Cumbria LGPS risk register and continually review and monitor risks throughout the year. Pension Committee members receive a formal risk update on a quarterly basis as part of the quarterly monitoring report presented to the Committee. In addition to this an annual risk report is considered by the Committee.

3.2.1 Summary of risks identified at June 2014

The Pensions Committee considers risk management on a quarterly basis. The quarterly monitoring report considered by the Committee incorporates details of the major risks facing the Scheme and includes a traffic light scoring system to categorise the anticipated likelihood and impact of each risk.

Full details of risks reported to the June 2014 Committee meeting are set out in the Governance Policy Statement (section 7.2 of this report). There were no risks in the red category as at June 2014 however there were three risk areas (out of a total of fourteen risks) identified as amber. Details of these are set out in the below table at 3.2.1.1. In addition to this note 14 to the Financial Statements (pages 101 to 110) details the nature and extent of risks arising from Financial Instruments.

3.2.1.1 Amber risks identified at June 2014

Risk	Summary of control mechanisms
The fund employer contribution rate is unaffordable (standard risk across LGPS).	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 was a fundamental consideration in the 2013 triennial valuation. Work on the 2013 valuation included the assessment of the financial standing of all employers within the Scheme. Mitigation includes 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 (standard risk across all LGPS).	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.
That the 2014 Scheme is not implemented on time / correctly (standard risk across all LGPS).	This is a risk inherent to all LGPS. Mitigation includes training attended by Officers and Committee Members and regular and detailed meetings with YPS (and our systems providers) to consider administrative issues including the implementation of the 2014 scheme and the required IT changes to enable full data collection.

3.2.2 Third party risk

Employers:

- **Employer covenant** – as set out in the annual Business Plan monitoring of employer covenants is regularly undertaken with emphasis given to those who are identified as high risk. Employer covenant was considered in detail during the 2013 triennial valuation work which completed in March 2014 with employer covenant forming a key consideration in setting employer contribution rates and deficit recovery periods. A fundamental principle of the valuation process is balancing the requirement to ensure the Scheme remains solvent whilst also maintaining as stable employer contribution rates as possible. Where covenant risk is perceived as high the 4545 Authority works closely with the employer to seek to mitigate the risk to the scheme e.g. through identification of a guarantor.
- **Employer payment of contributions** – contribution payments from employers are monitored on a monthly basis. Where a payment is late payments this is reported and necessary action taken, including where payment is sufficiently late, interest being charged on the late amount.

Third party service providers:

- Significant emphasis is placed on undertaking robust due diligence work at the selection stage on the governance arrangements of prospective third parties such as investment managers and core service providers (such as the Scheme’s Custodian and Actuary). Once appointed, third party organisations are monitored on an ongoing basis throughout the year through mechanisms such as review meetings, review of the pensions press and SSAE 16 (formerly SAS 70) Internal Control report.

3.2.3 Investment risk

The Cumbria Scheme has a diversified portfolio which it has developed in consultation with expert investment advisors and the Scheme's Independent Advisors. 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 within each portfolio is delegated to the Fund Managers to complete within the boundaries as laid down in their individual Investment Manager Agreements (IMA).

The method of measuring manager performance is specific to the portfolio (i.e. it will take into account factors such as the type of asset, whether it is a passive or actively managed portfolio and availability of relevant benchmarks) and is detailed in the IMA. Manager's performance targets are set to avoid undue exposure to risk and their performance against target is monitored throughout the year and reported to the Pensions Committee every quarter.

3.3 Financial performance

3.3.1 Movements in assets and liabilities

Full details of movements in the Scheme's assets and liabilities between 1 April 2013 and 31 March 2014 are provided in section 4 of this document. In summary movements in the assets and liabilities of the Scheme since the last valuation were as follows:

	31 March 2013	31 March 2010	Movement
Total Assets	£1,659m	£1,278m	£381m
Total Liabilities	(£2,116m)	(£1,609m)	(£507m)
Deficit	(£457m)	(£331m)	(£126m)
Funding level	78%	79%	(1%)

The primary drivers behind the 1% decrease in funding levels between 2010 and 2013 were uncertainty in the markets and the impact of exceptionally low gilt yields at the point of valuation. The most recent interim valuation as at June 2014 was a funding level of 85% – the primary driver of the change being the normalisation of bond yields.

3.3.2 Amounts due from employers

Details of amounts due to the fund from employers are disclosed in note 3 to the Financial Statements (see page 78). During the year there were seven instances (relating to five employers) of late payment where payment was received more than 20 days after the due date. These late payments represent 0.04% of total contributions due in 2013/14. In each circumstance of late payment Officers from the Administering Authority liaised with the employer to determine why the payment was late and to work with the employer to ensure that the payment was made. No interest charges were levied on the overdue contributions in 2013/14 as the Administering Authority determined that the circumstances relating to each of the cases did not merit such an approach (due to it not being cost efficient to do so).

3.3.2.1 Amounts due from employers – employer specific issues in 2013/14

Cumbria County Council is the only scheme employer who, in agreement with the Actuary, opted, from 1 April 2011, to make an additional employer contribution towards non-ill-health early retirement. The rate as determined by the Actuary as part of the triennial valuation (it is reset at each triennial valuation) includes an element to compensate the Scheme 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 national reductions in government funding support to Local Authority 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 incorporated into the 2010 triennial valuation fund was an allowance of up to £8m for non-ill-health early retirements. From 1 April 2011 to 31 March 2014, £7.669m of this amount had been allocated. Following the 2013 triennial valuation the amount of additional contribution included in the employer contribution rate for Cumbria County Council for the 3 years from 1 April 2014 (i.e. to 31 March 2017) is £7.312m which incorporates £3.312m of amounts committed (i.e. included in the £7.669m already allocated) and £4m additional commitment.

3.3.3 Performance against budget

The budget for administering the Cumbria LGPS for 2013/14 was £4.600m (£3.211m Investment management expenses; £1.389m Administrative expenditure). The outturn for 2013/14 was £4.712m resulting in an over spend of £0.112m as detailed below. This £0.112m over spend needs to be viewed in parallel with asset performance which in 2013/14 saw the portfolio increase by £115.665m.

Investment manager fees account for £0.060m of the total £0.079m over spend against the investment management expenses budget. Investment manager fees are more than offset by asset out performance. In addition to this, as in 2012/13, there has been a significant volume manager change during 2013/14 and this has been a key driver for this relatively small (2%) over spend against the fund management fees budget.

Key drivers for the £0.033m net overspend against the administrative budget in 2013/14 were one off costs relating to tax reclaims (an over spend of £0.037m) and legal advice (£0.024m). It is anticipated that the one off costs relating to tax reclaims will be more than offset by future receipts of repayment of tax paid by the Scheme in future years. The over spend against the legal budget has primarily been driven by the volume of work undertaken during 2013/14 in relation to the appointment of new managers.

These overspends have been partially offset by underspends against employee costs and actuarial fees.

	2013/14 Actuals £'000	2013/14 Budget £'000	Variance £'000
Investment Management Expenses	3,281	3,202	79
Administrative Expenses	1,431	1,398	33
	4,712	**4,600**	**112**

Investment Management Expenses	**2013/14 Actuals £'000**	**2013/14 Budget £'000**	**Variance £'000**
Fund Management Fees	2,987	2,927	60
Custody Fees	121	110	11
Performance Monitoring Service	40	43	(3)
Investment Consultancy Fees	133	122	11
	3,281	**3,202**	**79**

Administrative Expenses	2013/14 Actuals £'000	2013/14 Budget £'000	Variance £'000
Employee Costs	290	315	(25)
Support services, including Pensions Administration	1,046	953	93
Printing and publications	1	1	(0)
Pension fund committee	5	5	0
External audit fees	24	25	(1)
Internal audit fees	2	10	(8)
Actuarial fees	63	89	(26)
	1,431	**1,398**	**33**

3.4 Performance against Business Plan 2013/14

As part of its enhanced governance arrangements the Pensions Committee approves a detailed Business Plan and associated budget for the following year and it additionally reviews the half year performance against both to ensure that items are on track for delivery. The Committee received a report in November 2013 detailing the half year position for 2013/14 and an end of year update report in March 2014 outlining the expected final year outturn.

The purpose of the Cumbria LGPS annual Business Plan is to outline the Scheme's goals and objectives for future years, as well as providing an Action Plan for the current year of the key priorities in order to ensure these objectives are delivered. The plan is reviewed annually and builds on those prepared for earlier years.

The substantive work plan objectives in the 2013/14 business plan have either been achieved or are in progress of completion and they will be delivered within budget. The main actions completed (given the magnitude of change in terms of pensions administration details of progress against the business plan actions relating to administration have been shown separately and are set out in detail at section 3.5.2) during 2013/14 were:

- Implementation, totalling approximately 60%, of the Investment Strategy review outcomes during 2013/14 (appointment of two new Global Equities Managers and selection of opportunistic and infrastructure products / managers). Approximately half of the total portfolio (£880m) was to be restructured, of which 74% (£652m) in total had been completed as at March 2014.
- Initial actions to implement the Mid Term Review on the bond allocation (8% reduction of passive corporate bonds to product(s)/strategies to achieve capital preservation).
- Establishment and embedding of the Investment Sub Group which saw Cumbria highlighted as an example of best practice by Grant Thornton in their 2013 Governance Report.
- Successful completion of the Triennial Actuarial Valuation (2013) including training, information and consultation.
- Preparation for the implementation of the 2014 Scheme from 1 April 2014. Implementation was achieved, despite the very late delivery of the final transitional regulations from government.
- Enhancements to the administration system including the further roll out of self-service, on-line access to benefit statements and pensions projections.
- Development and enhancement of contract review procedures and performance monitoring at both Committee and Officer level.
- Timely completion of the Pension Fund Annual Accounts and Annual Report for 2012/13 with

an unqualified audit opinion. Very favourable comments were reported from Grant Thornton (new fund Auditor) on preparation timescales and quality of working papers.
- Delivery of an enhanced training plan to both new and continuing Members and Officers with Cumbria highlighted again as an example of best practice in this area in Grant Thornton's 2013 Governance Report.

In addition to those items completed the following are in the progress of completion:

- Members agreed following the first allocation of £75m to infrastructure, to avoid vintage year saturation risk no further substantial allocations to the infrastructure strategic asset allocation be made until after June 2014. The Investment Sub-Group are currently reviewing options that should enable this asset allocation to be fully committed during 2014.
- The Investment Sub Group continue to review products that may be suitable for the strategic asset allocation to "opportunistic assets"; to date approximately a fifth of the allocation has been filled. However, in addition the Scheme still holds its residual private equity portfolio within this asset allocation (£77m).

3.4.1 Looking forwards – Business Plan 2014/15

The forthcoming year 2014/15 is expected to be a busy one for the Pension Scheme. Regulation, Governance, increasing Fund value and structural arrangements in the LGPS are being impacted by unprecedented changes, financial pressures and increasing external scrutiny (the Pensions Regulator) which will require continual appraisal of resources. Key deliverables planned for 2014/15 include:

- **Governance and Procurement** (including contract management)
  - Strategy, Scheme risk and policies reviews and updates,
  - Progress review of Business Plan and Budget,
  - Reviewing, measuring and delivering training to Members and Officers as outlined in the dynamic Training Plan,
  - Development and servicing of the recently formed Investment Sub Group,
  - Development and enhancement of contract review procedures and performance monitoring at both Committee and Officer level,
  - Implement and monitor arrangements for the New Scheme at April 2014,
  - Involvement in consultations and assessment of impact on Cumbria of decisions on the future structure of the LGPS,
  - Strengthening stewardship and governance arrangements in response to financial, regulatory and structural changes resulting from the 2013 Public Service Pensions Act.
- **Fund Management**
  - Implementing both the final aspects of the Strategic Asset Allocation Review and the Mid Term Review delegated to the Investment Sub Group as follows; and
  - Consideration of maturing nature of the Scheme post 2013 valuation.
- **Employers, Funding and Accounting**
  - Following confirmation of the 2013 Triennial Actuarial Valuation report monitor compliance and application by employers of new employer and employee contribution rates;
  - Aid Scheme employers to implement the required technology changes to facilitate the introduction of the CARE 2014 Scheme;
  - Completion of the 2013/14 Cumbria LGPS Annual Accounts and Annual Report incorporating any new regulatory/technical changes; and
  - Develop a Cumbria LGPS specific web site.

3.5 Administration Management Performance

The overall performance for 2013/14 against key pensions' administration indicators was 97% against a target of 90% with all LGPS-specific indicators being exceeded. As the indicators (detailed below) suggest the arrangement with YPS continues to be very positive and as such improvements to service have continued to be made during 2013/14.

3.5.1 Key performance indicators

Indicator	Target (%)	Actual 2013/14 (%)	Actual 2012/13 (%)
Estimate benefits within 10 working days	90	95	96
Payment of retirement benefits within 10 working days	90	96	99
Payment of death benefits within 10 working days	90	97	96
Implement change in pensioner circumstance by payment due date	95	97	99
Respond to general correspondence within 10 working days of receipt	90	96	92
Action transfers out within 15 working days	90	96	96
Action transfers in within 15 working days	90	96	97
Pay refunds within 10 working days	90	97	87
Provide leaver statement within 15 days	90	97	94
Amend personal records within 10 working days	90	99	91
	90	**97**	**98**

At the time of writing, benchmarking data for 2013/14 was not yet available. The most recent CIPFA benchmarking (2012/13) put Cumbria LGPS in the optimal (bottom) quartile for cost of administration per Scheme member (CLGPS cost per member per CIPFA benchmarking was £17.09). The current work ongoing by the national Scheme Advisory Board recognises the importance of comparable data to evaluate Schemes therefore national attention will be given to ensure this data is more consistent across Schemes going forwards. Cumbria LGPS welcomes any developments nationally which enable us to more consistently benchmark ourselves to help in our drive to achieve best practice.

Effective and timely communications with and feedback from Scheme employers and members has been the pivotal element of scheme administration in 2014, contributing significantly to the delivery of all the above. As part of this commitment to raise awareness of pensions issues and the services available, in addition to the numerous communications and events undertaken during the year (see 11.2 for further details) officers and YPS have extended the program of events in April and May 2014 to include:

- Additional Pensions Roadshows on LGPS 2014;
- Member self-service drop in sessions; and
- Employer in-depth training sessions.

3.5.2 Performance against key administration deliverables in 2013/14 Business Plan

The 2013/14 Business Plan the key deliverables and progress thereon for the Pensions Administration function of the Cumbria LGPS were:

Deliverable	Progress during 2013/14
Communication and Implementation of Auto Enrolment (effective date June 2013)	Auto enrolment was implemented smoothly and to project timescales, this was partly due to the extensive employer communication undertaken by the administration teams.
Communication and Implementation of the 2014 Scheme (effective date April 2014)	Despite the late release of the required regulations and indexation factors by central Government, the critical systems changes and temporary manual workarounds were operational from ten days after receipt of the final information.
Review of AVC provision for the Fund	Additional AVC provider was approved at the Pensions Committee in March and has been available for use by scheme members from April 2014.

4 Investment Policy and Performance Report

4.1 Introduction

The purpose of this section of the report is to demonstrate how the investment strategy has been put into practice during the year and how this links to the statement of investment principles (Section 10).

4.2 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.

Following the previous updates on the outcomes of the 2012 investment strategy review, due to concerns in 2013/14 about the impact of anticipated movements in inflation and interest rates on pricing in the bonds sector in the short term, a review of the Scheme's holding in bonds was undertaken. The outcome of this was that the Committee agreed, with the aim of capital preservation (specifically of the 8% then held passively in corporate bonds) in a rising interest rate market while limiting volatility and risk exposure, to reduce the 8% asset allocation from defensive assets in favour of growth assets.

The process of implementing the resultant changes in asset allocation commenced in 2012/13 and is expected to be finalised during 2014/15. As at March 2014 approximately 60% of the Investment Strategy review outcomes had been implemented including in 2013/14:

- A mandate for the commitment of £30m of real estate debt completed in May 2013;
- The procurement process to restructure £320m global equities asset allocation completed in November 2013 with the appointment of two

managers with complementary style strategies; Nordea for low volatility and Loomis Sayles for high conviction mandates;

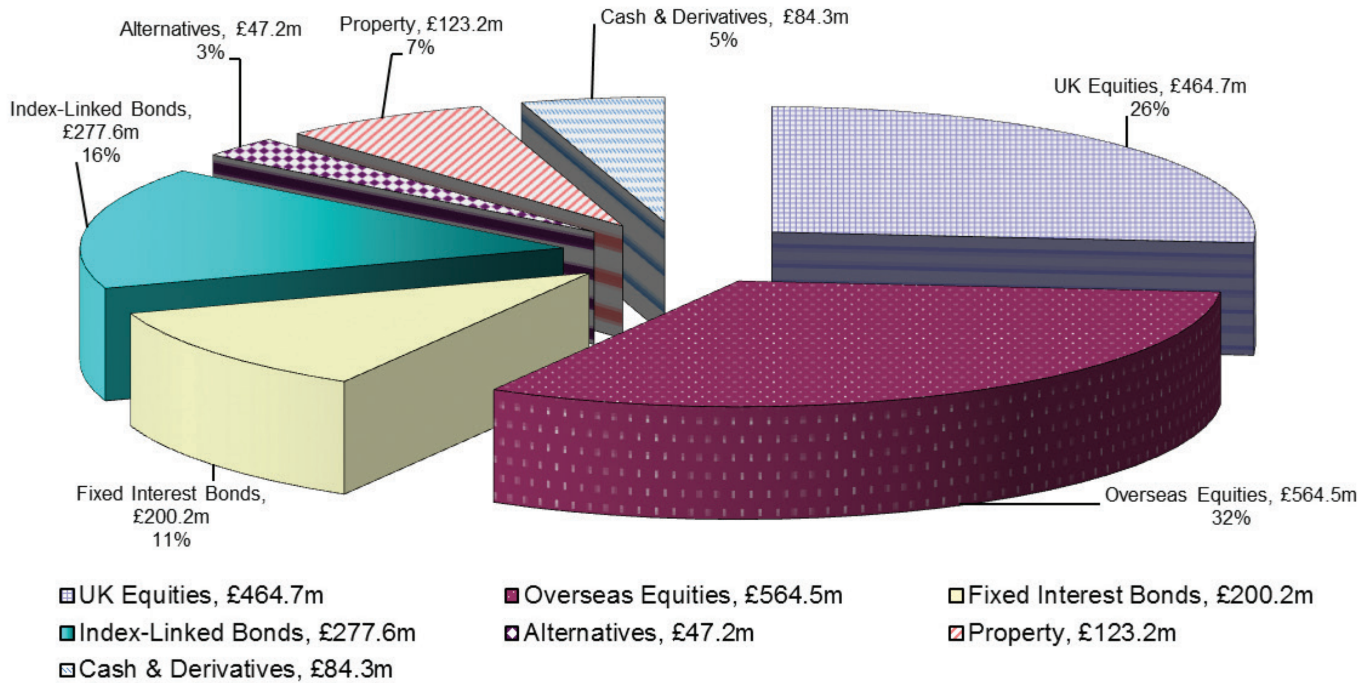
- The selection of suitable infrastructure investments (part complete) with an initial investment made into the Partners Group 2012 Infrastructure Fund and further selection ongoing;
- The commitment of £35m to M&G Long Lease Property Fund to achieve the Scheme's targeted asset allocation of 9% to property more promptly.

The chart below shows the distribution of the total investment assets held by the investment managers across all the asset classes at the year-end.

The percentage (%) asset allocation has moved as shown in the table below since 1 April 2013.

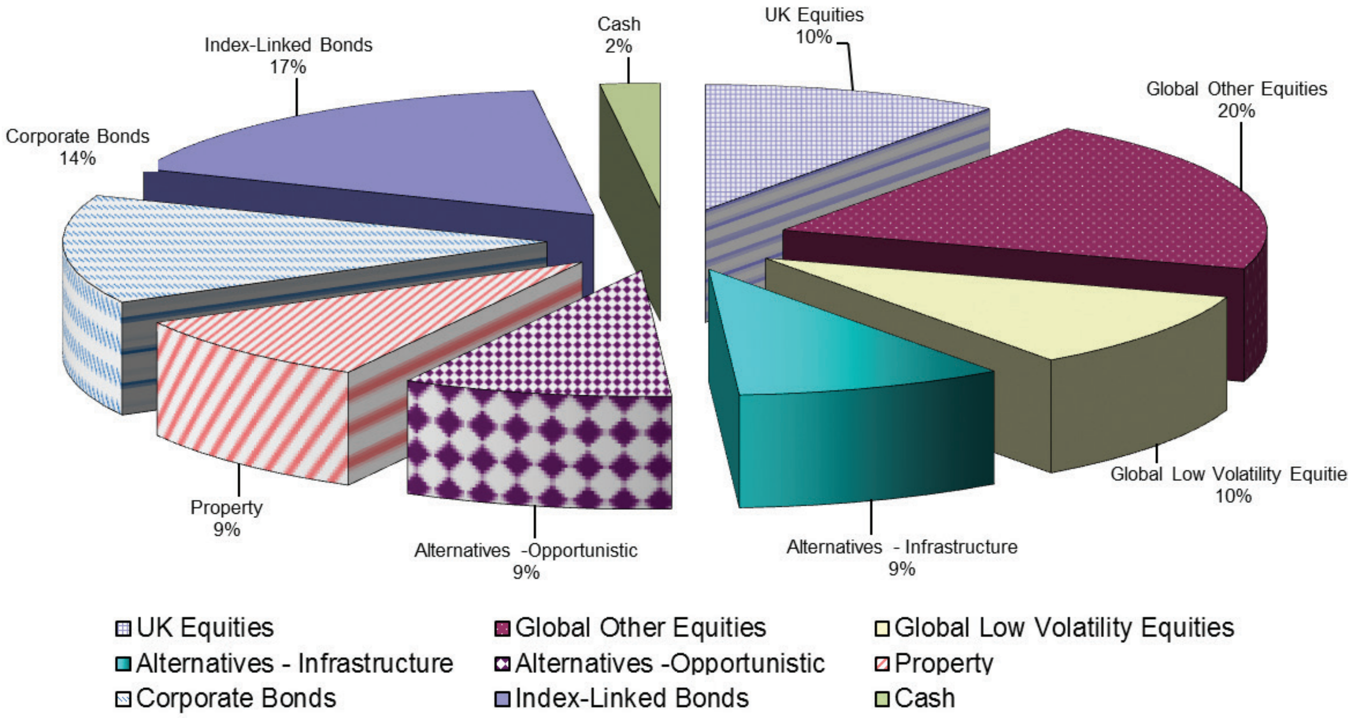
The chart on the following page shows the target investment asset allocation to be held by the Scheme once the Investment Strategy has been fully implemented.

Investment assets as at 31 March 2014 : £1,761.787 million



	Assets as at 1 April 2013	Assets as at 31 March 2014	Movement
UK Equities	27%	26%	-1%
Overseas Equities	30%	32%	2%
Fixed Interest Bonds	16%	11%	-5%
Index-Linked Bonds	16%	16%	0%
Alternatives	4%	3%	-1%
Property	6%	7%	1%
Cash & Derivatives	1%	5%	4%
	100%	**100%**	**0%**

Investment asset allocation once Investment Strategy has been fully implemented:



The key changes in asset holdings since the start of the year are a reduction in fixed interest bonds and an increase in cash and derivatives (-5% and 4% respectively). These moves have arisen as a result of ongoing transition work to achieve the target investment allocation as per the revised Statement of Investment Principles (SIP) (the current Cumbria LGPS SIP can be found at 10).

In order to implement the final allocations per the SIP as agreed the Scheme is temporarily holding a higher level of UK equities and cash than per the revised SIP (i.e. it is 'overweight' in these two asset classes). This overweight position will reduce as the Scheme meets current commitments to and completes allocations to alternatives. At the time of writing (July 2014) current commitments to alternatives totalled £246m (roughly 14% of Scheme assets compared to the target SIP allocation to alternatives of 18%) of which £51m (2.9% of scheme assets) had actually been drawn down. The drawdown of these current committed and as yet unallocated amounts will be funded from the overweight element of the cash and UK equity holdings.

4.3 Investment management, administration and custody

Overarching administration of investments (including accounting, appointment of investment managers, custodian, and other investment related services) is undertaken in-house by Cumbria County Council as Administering Authority of Cumbria LGPS.

In order to facilitate effective management of the Scheme's assets through efficient use of the Pension Committee's limited time and to enable tactical investment decisions to be taken and actioned more nimbly in September 2013 the Council established a LGPS Investment Sub Group (for further details of the governance arrangements within Cumbria LGPS see section 7.1.1). The Cumbria Sub Group was highlighted by Grant Thornton in their November 2013 report on governance[3] as an example of good practice.

The Committee have delegated the day to day management of the Fund's investments to professional investment managers, appointed in accordance with

3. "Coming of age: development of the LGPS. Improving governance in local government pension schemes" (November 2013). www.grant-thornton.co.uk/Global/Publication_pdf/LG-pensions-governance-review-2013.pdf

the Local Government Pension Scheme (LGPS) regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Cumbria LGPS's assets are held in custody either by the Scheme's independent custodian - State Street (equities, bonds, some cash and some alternatives) or by investment managers (UK property, some cash & most alternatives). The custodial services include trade settlement and processing, portfolio reporting, income collection and cash management.

A currency hedging account is operated directly with Legal & General in respect of 50% of the Fund's overseas equities exposure to the major currencies. Detailed investment performance monitoring is undertaken by State Street Investment Analytics (WM Company). When required transition services are procured in line with Cumbria County Council's procurement procedures.

4.4 Investment governance

4.4.1 Responsible investment policies

The Stewardship Code, published in 2010, had two primary objectives: to increase the quality and quantity of engagement between company boards and investors, and improve accountability and transparency down the investment chain to the real owners of the companies. CLGPS's investment managers adhere to this code. The Kay Review followed in December 2012 aiming to make companies more accountable to shareholders and the public.

The Kay Review raised concerns across the pensions industry that uncertainties and misunderstandings on the part of pension fund trustees about their fiduciary duties had contributed to them taking a short-term approach to investment. In response to these concerns in early 2014 the Local Government Association on behalf of the Shadow Scheme Advisory Board took advice from Mr Nigel Giffin QC on the following:

Does an LGPS administering authority owe a fiduciary duty and if so to whom is it owed?

How should the wider functions, aims or objectives of the administering authority influence the discharge LGPS investment duties?

The opinion reached was: *"In my view the administering authority does owe fiduciary duties, both to the scheme employers, and to the scheme members."* The administering authority's power of investment must be exercised for investment purposes, i.e. what is best for the financial position of the fund, not for any wider purposes. However, as long as that is the case, then the precise choice of investment can be influenced by social, ethical or environmental considerations.

This advice is directly in line with Cumbria LGPS policies on investing / divesting on social / ethical / environmental grounds. The Scheme considers investments for maximisation of return, or minimisation of risk only-but if the same risk or return can be achieved from two investments then and only then could other considerations be taken into account. In doing so the Administering Authority may not prefer its own particular interests to those of other scheme employers and members. For further details see the Cumbria LGPS Statement of Investment Principles (SIP) at section 10 of this report.

4.4.2 Voting arrangements and the UK Stewardship Code

Currently 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. A formal report on corporate governance monitoring is presented to the Pensions Committee on a bi-annual basis and the Quarterly Monitoring Report includes a section on relevant corporate governance issues arising during the period.

During 2013/14 the Scheme continued to utilise the services of a monitoring company to provide for UK shares exception report analysis between fund manager voting and a 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.

During 2013/14 Cumbria joined the Local Authority Pension Fund forum (LAPFF) (n.b. for further details of bodies the scheme is a member of – see 5.3). LAPFF is a collaborative shareholder engagement group which brings together 60 local authority pension funds from across the UK with combined assets of over £125 billion. The Forum seeks to protect the investments of its members by promoting the highest standards of corporate governance and corporate social responsibility (i.e. responsible action by the companies in which its members invest) on environmental, social and governance (ESG) issues. The Forum meets on a quarterly basis and issues voting alerts including advice on how Schemes should vote where voting issues arise in relation to particular companies.

Key voting issues affecting Cumbria LGPS investments during 2013/14:

Focus has continued to be placed on remuneration and incentive schemes, as this was an area Members are keen is kept under review. Also on 1 October 2014 shareholders of UK quoted companies have for the first time a legally binding vote on future directors remuneration policy. All companies must have successfully sought approval for a remuneration policy no later than the start of the second financial year to begin after 1 October 2013.

Where investment managers have voted to approve policies where we perceive there is no clear alignment to shareholder's best interests, we have followed this up with them to question their rationale. In each case we have been satisfied with responses given, as they have been reassured after engagement that the companies involved were making moves to ensure greater alignment with investors' interests.

4.4.3 Compliance with Myners Principles

As detailed in the Statement of Investment Principles (the SIP) during 2013/14 the Scheme was fully compliant with the Myners Principles (see section 10). The SIP details the actions taken by the Scheme to ensure and demonstrate compliance with the principles.

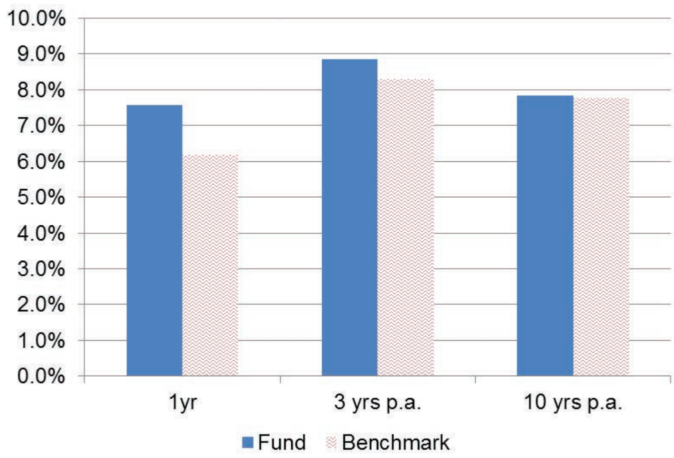
4.5 Investment performance

In 2013/14 the Scheme achieved a return from investments of 7.6% compared with the Scheme specific benchmark of 6.2% - an outperformance of 1.4%. Over a three year period the Scheme's performance was 0.6% ahead of benchmark (8.9% compared to 8.3%) and over the longer term (10 years) the Scheme return of 7.8% matched benchmark.

Asset allocation is estimated to drive approximately 80% of returns (see section 4.2 for detailed consideration of Cumbria LGPS asset allocation during 2013/14 and going forwards). During 2013/14 equities performed well (see 4.5.2 below) and the Scheme benefited from its decision to be temporarily overweight in this asset class.

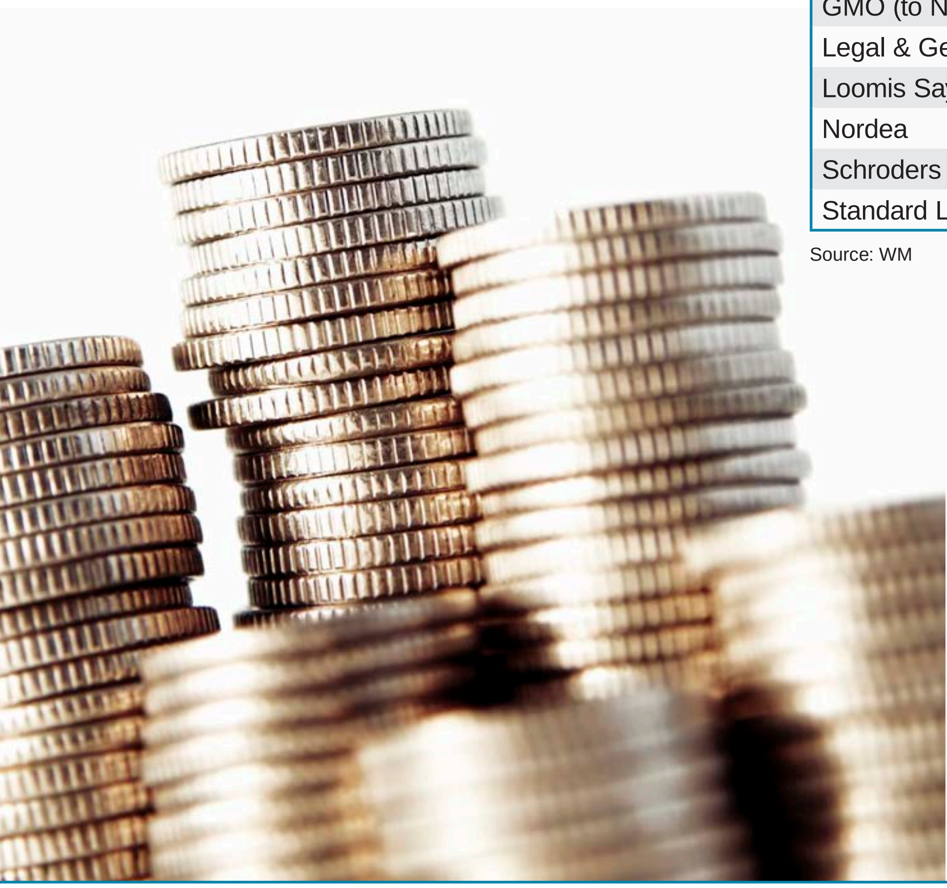
Detailed performance figures are shown below.

4.5.1 Investment performance of the Scheme against benchmark



	1yr	3 yrs p.a.	10 yrs p.a.
Fund	7.6%	8.9%	7.8%
Benchmark	6.2%	8.3%	7.8%
Universe	6.3%	7.4%	7.8%
Ranking	27th	14th	47th

Source: WM



4.5.2 Scheme returns over 1, 3 and 10 years by asset class

To 31 March	1 yr %	3 yrs % p.a.	10 yrs % p.a.
UK Equities	10.6	8.8	9.1
N. America Equities	9.8	11.0	9.5
Europe ex UK Equities	24.2	8.7	10.3
Japan Equities	1.7	4.0	3.3
Pacific Equities	(8.4)	3.5	12.8
Other International Equities	7.1	(3.2)	8.3
UK Corporate Bonds	0.6	7.6	5.4
Overseas Bonds	14.2	–	–
UK Index Linked Bonds	(4.4)	8.9	7.1
Cash / Alternatives	3.6	3.9	1.7
Property	14.8	8.3	6.8
Total Assets	**7.6**	**8.9**	**7.8**

Source: WM

4.5.3 Investment fund manager performance (net of fees)

Fund Manager	1 yr %	3 yrs % p.a.	10 yrs % p.a.
Aberdeen	13.9	7.8	6.1
GMO (to Nov ’13)	11.0	7.1	n/a
Legal & General	3.5	10.9	n/a
Loomis Sayles	n/a	n/a	n/a
Nordea	n/a	n/a	n/a
Schroders	13.0	8.9	9.6
Standard Life	0.7	n/a	n/a

Source: WM

5 Scheme Administration Report and Administration Strategy

5.1 Scheme member and pensioner administration

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 this service.

Pensions administration services are provided by a shared service arrangement with Lancashire County Council - Your Pension Service (YPS). Monitoring of the service provision is a continual process which includes, at a strategic level, quarterly Board Meetings and, at a more detailed service level, quarterly review meetings between officers from Cumbria LGPS and YPS.

A key part of the monitoring process is the review of performance against agreed key performance indicators. Despite resource being directed to enable the implementation of the 2014 Scheme including in depth data cleansing exercise and the implementation of key software changes to the core administration system, during 2013/14 all LGPS specific KPI targets were exceeded (see 3.5 for further details of performance in 2013/14).

Cumbria LGPS and Lancashire LGPS continue to work together through the shared service (YPS) to build on the achievements realised to date thereby ensuring that members receive a high quality, progressive service at a reasonable cost.

5.2 Communications

Since inception a core focus of the shared administrative service 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 is vital as we move forwards following the recent major changes affecting members e.g. auto enrolment and the introduction of the 2014 Scheme. For further information on Communications see section 11 – Communications Policy Statement – of this report.

5.3 Arrangements for gathering assurance over the effective and efficient operation of scheme administration

As per best practice the Scheme has in place an administration strategy. The strategy seeks to ensure that robust arrangements are in place to ensure the effective and efficient operation of scheme administration and that these arrangements are appropriately monitored e.g. through reporting of key performance indicators.

In addition to this to take advantage of sharing best practice, enhanced training opportunities and can benchmark itself against other Schemes the Administering Authority was a subscriber to the following bodies during 2013/14:

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

5.4 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 externalised the administrative pensions function from 1 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 (e.g. 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 (e.g. pre-retirement or induction course) and provide sessions on pension scheme aspects if required.
- Provide and maintain an up to date Employers' Guide to assist employing bodies perform their role in relation to administration of pension scheme matters.
- Provide a full help line (telephone) service to all past, present and future members of pension schemes, and to their employing bodies, to advise on all aspects. Maintain the Cumbria Local Government Pension Scheme website and update the contents as required.
- Produce Pension Newsletters as and when required to explain to members any change in the scheme (and in full compliance with statutory requirements).

The Administering Authority, Cumbria County Council, will:

- Prepare an Annual Report and Accounts. This will be distributed to all employers in the scheme and published on the Cumbria County Council website: **www.cumbria.gov.uk/finance**
- 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.

5.5 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 **www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=33733&e=e** 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 calling 01772 530530.

The Scheme has undertaken approximately 16,200 contact points with members during 2013/14. During the year the Scheme had 12 new IDRP appeals, eight of which were resolved, two are under investigation and two progressed to the Pensions Ombudsman one of which is awaiting final adjudication.

6 Actuarial report on funds

6.1 Introduction

Legislation requires that all local government schemes undertake an actuarial valuation every three years. The purpose of the valuation is to inform long term policy and strategy to ensure the Scheme is able to meet its liabilities to past and present contributors.

The valuation is carried out in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 and the most recent valuation was carried out as at 31 March 2013. Changes to employer contribution rates as a result of this valuation will take effect from 1 April 2014.

The funding level of the Scheme as at 31 March 2013 was 78%. This represents a decrease of 1% against the funding level as at 31 March 2010. The primary drivers behind this decrease were uncertainty in the markets and the impact of exceptionally low gilt yields at the point of valuation. Since 31 March 2013, however, there have been significant changes in the financial markets including an increase in gilt yields. In light of this the Actuary estimates, on consideration of financial factors alone, that the funding position has improved by 7% to 85% as at 30 June 2014.

However, it must be recognised that valuations across the LGPS are carried out using a variety of assumptions and methodologies. So, while at a first glance this would place Cumbria in the mid ground for both deficit and recovery period across the whole of the LGPS in England and Wales, these results are not on a like for like basis. Following on from the release of the valuation results, two of the major actuarial firms within the LGPS (Hymans Robertson and AON Hewitt) have undertaken a more in depth review of these results and rebased them on a single set of assumptions. On these rebased results Cumbria LGPS moves comfortably into the top quartile across a variety of measures. Given the current scrutiny within the LGPS regarding lack of data comparability there is a possibility of the introduction of national actuarial factors at the next valuation in 2016. Cumbria should be well placed to protect employer contribution rates going forward should standardisation be required.

The Rates and Adjustments Certificate, issued by the Actuary to Cumbria LGPS as at 31 March 2014, has been included at 6.3. The full Actuarial Valuation report is available on the Cumbria County Council website at: **www.cumbria.gov.uk/eLibrary/Content/Internet//536/654/1129/41754144322.pdf**

6.2 Executive summary

6.2.1 Funding level

The funding level of the Scheme as at 31 March 2013 was 78% (compared to 79% in 2010).

Figure 6.2.1(a) Funding level – assets versus liabilities at actuarial valuation date:

	31 March 2013 (£)	31 March 2010 (£)
Total Assets	1,659	1,278
Liabilities:		
– Active members	744	702
– Deferred pensioners	429	219
– Pensioners	943	688
Total Liabilities	2,116	1,609
Past service surplus / (shortfall)	(457)	(331)
Funding level	78%	79%

Whilst the asset performance was above expectations this was outstripped by increasing liabilities the primary drivers behind which were uncertainty in the markets and the impact of exceptionally low gilt yields.

Since 31 March 2013, however, there have been significant changes in the financial market position including an increase in gilt yields. The Actuary estimated that, considering changes in the major financial factor only, as at 31 August 2013 the impact of the market changes had meant the funding level has increase to approximately 83%. This was taken into consideration when setting employer contribution rates. As at 31 March 2014 the actuary estimated that, based on the assumptions of the 2013 triennial valuation, the funding level was 85%.

6.2.2 Contribution rates

In addition to calculating the value of the assets and the liabilities of the Scheme the purpose of the triennial actuarial valuation is to set employer contribution rates (employee contribution rates are set in regulations) for the next three years. The rates for 2013/14 were therefore set by the 2010 Actuarial Valuation and the 2013 Actuarial valuation sets the rates from 1 April 2014. In setting employer contribution rates the Actuary and the Scheme must have regard to two fundamental principles;

- To set contribution rates which are sufficient to secure the Scheme's solvency within an appropriate deficit recovery period, and
- To ensure employer contribution rates remain as stable as possible.

There are two elements of employer contributions as detailed in 6.2.2.1 and 6.2.2.2 below.

6.2.2.1 Normal contribution rate (also known as the "common contribution rate")

The normal contribution rate (or 'Common Contribution rate' as it's also known) is set by the Actuary at each Actuarial Valuation. It is the average rate payable by employers within Cumbria LGPS to ensure that there are sufficient assets built up to meet the future benefit payments in respect of future service.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found at 6.3 and in the 2013 actuarial valuation report at the web address detailed at 6.1.

Figure 6.2.2.1(a) Normal Contribution rate

	% of Pensionable Pay	
	31 March 2013	31 March 2010
Normal contribution rate for retirement and death benefits	20.0	18.3
Allowance for administrative expenses	0.5	0.4
Total normal contribution rate	20.5	18.7
Average member contribution rate	6.3	6.2
Common Contribution rate	14.2	12.5

6.2.2.2 Contributions to reduce the deficit

In addition to ensuring that sufficient assets are built up to meet future costs, during each Actuarial Valuation the Actuary also considers what employer contribution addition is required to address any shortfall between the assets and liabilities of the Scheme (i.e. the deficit). In doing this the Actuary considers the period over which the deficit will be recovered (the deficit recovery period) and calculates the amount payable per annum by employers to address the shortfall (the contribution addition).

- The default deficit recovery period for the Scheme has been set at 19 years.
  - Individual employer deficit recovery periods have been set based on the financial strength of the employer's covenant along with consideration of factors such as whether an employer is open or closed (i.e. whether new employees can join the Scheme or not) and whether an employer is in the Scheme as a result of a fixed-term contract.
- The contribution addition to eliminate the shortfall of £457m as at the 31 March 2013 valuation has been calculated by the actuary as £25m per annum increasing at 4.1% per annum (equivalent to 10% of the projected Pensionable Pay at the valuation date).

6.3 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 2014 should be at the rate of 14.2 per cent of Pensionable Pay (including those in respect of members of the LGPS under the 50:50 option).

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 2014, as set out above, should be individually adjusted as set out in the attached schedule. Contributions will be main monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically) unless otherwise noted in Appendix H (the Schedule to the Rates and Adjustment Certificate).

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 adjustment for non-ill health early retirements occurring for the Cumbria County Council in the period of three years covered by this certificate will take into account the allowance incorporated at the 2013 valuation as detailed on the attached schedule.

The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer in total over the 3 years covered by the certificate. Additional contributions or a different pattern of contributions may be paid if requested by the employer concerned at the sole discretion of the Administering Authority as agreed with the Actuary. The total contributions payable by each employer will be subject to a minimum of zero.

The individual employer 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 or parties including where the third party or parties participate in the Fund.

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 H, 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 so that the total payments remain the same overall.

The Administering Authority and employer with advice from the Fund's Actuary can agree that contributions payable under this certificate can be sourced under an alternative financing arrangement which provides the Fund with equivalent cash contributions.

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 2014 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 2014
Qualification	Fellow of the Institute and Faculty of Actuaries

INVESTOR IN PEOPLE

MARSH & McLENNAN COMPANIES

Schedule to the rates and adjustments certificate dated 31 March 2014

Employers	2014/15 Individual adjustment (% / £)	2014/15 Total Contribution Rate (% / £)	2015/16 Individual adjustment (% / £)	2015/16 Total Contribution Rate (% / £)	2016/17 Individual adjustment (% / £)	2016/17 Total Contribution Rate (% / £)	Non-ill-health early retirement allowance included for the 3 years 2014/17
Allerdale Borough Council	-1.6 plus £615,800	12.6 plus £615,800	-1.6 plus £791,300	12.6 plus £791,300	-1.6 plus £980,200	12.6 plus £980,200	
Appleby Grammar School	0.6 plus £24,500	14.8 plus £24,500	0.6 plus £31,700	14.8 plus £31,700	0.6 plus £39,600	14.8 plus £39,600	
Arnside National CofE School	5.5 plus £900	19.7 plus £900	5.5 plus £2,500	19.7 plus £2,500	5.5 plus £4,200	19.7 plus £4,200	
Attendo Monitoring Ltd	13.0 plus £2,500	27.2 plus £2,500	13.0 plus £5,000	27.2 plus £5,000	13.0 plus £7,700	27.2 plus £7,700	
Barrow and District Society for the Blind	10.0 plus £26,200	24.2 plus £26,200	10.0 plus £27,300	24.2 plus £27,300	10.0 plus £28,400	24.2 plus £28,400	
Barrow Borough Council	-0.8 plus £1,044,500	13.4 plus £1,044,500	-0.8 plus £1,087,300	13.4 plus £1,087,300	-0.8 plus £1,131,900	13.4 plus £1,131,900	
Barrow Citizens Advice Bureau	5.9 plus £2,600	20.1 plus £2,600	5.9 plus £2,700	20.1 plus £2,700	5.9 plus £2,800	20.1 plus £2,800	
Barrow Sixth Form College	3.1 plus £1,200	17.3 plus £1,200	3.1 plus £7,000	17.3 plus £7,000	3.1 plus £13,300	17.3 plus £13,300	
Brampton Parish Council	n/a	£540	n/a	£560	n/a	£590	
Broughton Primary School	0.8 plus £3,800	15.0 plus £3,800	0.8 plus £5,800	15.0 plus £5,800	0.8 plus £7,900	15.0 plus £7,900	
Burton Morewood CofE Primary School	3.2 plus £2,700	17.4 plus £2,700	3.2 plus £4,000	17.4 plus £4,000	3.2 plus £5,400	17.4 plus £5,400	
Caldew School	-1.4 plus £55,500	12.8 plus £55,500	-1.4 plus £58,800	12.8 plus £58,800	-1.4 plus £62,200	12.8 plus £62,200	
Care Quality Commission	8.0 plus £86,300	22.2 plus £86,300	8.0 plus £89,800	22.2 plus £89,800	8.0 plus £93,500	22.2 plus £93,500	
Carlisle City Council	-0.6 plus £972,100	13.6 plus £972,100	-0.6 plus £1,022,600	13.6 plus £1,022,600	-0.6 plus £1,075,700	13.6 plus £1,075,700	
Carlisle College	1.2 plus £43,100	15.4 plus £43,100	1.2 plus £64,700	15.4 plus £64,700	1.2 plus £88,100	15.4 plus £88,100	
Carlisle Housing	5.5 less £23,200	19.7 less £23,200	5.5 less £24,200	19.7 less £24,200	5.5 less £25,200	19.7 less £25,200	

Employers	2014/15		2015/16		2016/17		Non-ill-health early retirement allowance included for the 3 years 2014/17
	Individual adjustment (% / £)	Total Contribution Rate (% / £)	Individual adjustment (% / £)	Total Contribution Rate (% / £)	Individual adjustment (% / £)	Total Contribution Rate (% / £)	
Carlisle Leisure	-2.3	11.9	-2.3	11.9	-2.3	11.9	
Carlisle Leisure Allerdale	1.0	15.2	1.0	15.2	1.0	15.2	
Cartmel Priory CofE School	4.0 plus £8,200	18.2 plus £8,200	4.0 plus £15,100	18.2 plus £15,100	4.0 plus £22,400	18.2 plus £22,400	
Castle Carrock School	2.6 plus £3,500	16.8 plus £3,500	2.6 plus £4,900	16.8 plus £4,900	2.6 plus £6,400	16.8 plus £6,400	
Cleator Moor Town Council	1.2 less £900	15.4 less £900	1.2 less £600	15.4 less £600	1.2 less £200	15.4 less £200	
Cockermouth Town Council	-0.2 less £700	14.0 less £700	-0.2 less £700	14.0 less £700	-0.2 less £700	14.0 less £700	
Copeland Borough Council	-1.8 plus £430,600	12.4 plus £430,600	-1.8 plus £554,300	12.4 plus £554,300	-1.8 plus £687,400	12.4 plus £687,400	
Creative Management Services	6.2 less £200	20.4 less £200	6.2	20.4	6.2	20.4	
Crosby on Eden CofE School	3.9 plus £1,800	18.1 plus £1,800	3.9 plus £3,100	18.1 plus £3,100	3.9 plus £4,400	18.1 plus £4,400	
Cumbria Cerebral Palsy	9.4 less £100	23.6 less £100	9.4 plus £200	23.6 plus £200	9.4 plus £500	23.6 plus £500	
Cumbria County Council (including schools) (see note 2)	-1.2 plus £10,733,700	13.0 plus £10,733,700	-1.2 plus £10,612,200	13.0 plus £10,612,200	-1.2 plus £10,481,300	13.0 plus £10,481,300	£7,312,000
Cumbria Deaf Association	4.6 plus £3,600	18.8 plus £3,600	4.6 plus £8,600	18.8 plus £8,600	4.6 plus £14,000	18.8 plus £14,000	
Cumbria Local Valuation Panel	-5.6 plus £9,900	8.6 plus £9,900	-5.6 plus £14,100	8.6 plus £14,100	-5.6 plus £18,600	8.6 plus £18,600	
Cumbria Probation Service	5.5	19.7	n/a	n/a	n/a	n/a	
Cumbria Tourist Board	6.3 plus £36,300	20.5 plus £36,300	6.3 plus £38,400	20.5 plus £38,400	6.3 plus £40,500	20.5 plus £40,500	
Cumbria Waste Management	2.3 plus £27,000	16.5 plus £27,000	2.3 plus £31,800	16.5 plus £31,800	2.3 plus £37,000	16.5 plus £37,000	

Employers	2014/15 Individual adjustment (% / £)	2014/15 Total Contribution Rate (% / £)	2015/16 Individual adjustment (% / £)	2015/16 Total Contribution Rate (% / £)	2016/17 Individual adjustment (% / £)	2016/17 Total Contribution Rate (% / £)	Non-ill-health early retirement allowance included for the 3 years 2014/17
Dallam School	0.5 plus £50,800	14.7 plus £50,800	0.5 plus £61,800	14.7 plus £61,800	0.5 plus £73,700	14.7 plus £73,700	
Dearham Primary	-0.6 plus £8,800	13.6 plus £8,800	-0.6 plus £9,200	13.6 plus £9,200	-0.6 plus £9,600	13.6 plus £9,600	
Eaglesfield Paddle CofE VA Primary School	0.0 plus £9,400	14.2 plus £9,400	0.0 plus £11,500	14.2 plus £11,500	0.0 plus £13,800	14.2 plus £13,800	
Eden District Council	0.2 plus £127,900	14.4 plus £127,900	0.2 plus £139,800	14.4 plus £139,800	0.2 plus £152,500	14.4 plus £152,500	
Eden Housing Association	-2.9 plus £49,100	11.3 plus £49,100	-2.9 plus £59,300	11.3 plus £59,300	-2.9 plus £70,300	11.3 plus £70,300	
Egremont & District Pool Trust	-10.6 plus £4,200	3.6 plus £4,200	-10.6 plus £4,400	3.6 plus £4,400	-10.6 plus £4,600	3.6 plus £4,600	
FOCSA Services (UK) Ltd	9.1 plus £28,500	23.3 plus £28,500	9.1 plus £34,800	23.3 plus £34,800	9.1 plus £41,500	23.3 plus £41,500	
Furness Academy	-0.2 plus £91,200	14.0 plus £91,200	-0.2 plus £115,300	14.0 plus £115,300	-0.2 plus £141,200	14.0 plus £141,200	
Furness College	-1.1 plus £38,000	13.1 plus £38,000	-1.1 plus £56,400	13.1 plus £56,400	-1.1 plus £76,200	13.1 plus £76,200	
Ghyllside Primary	2.3 plus £11,300	16.5 plus £11,300	2.3 plus £14,800	16.5 plus £14,800	2.3 plus £18,500	16.5 plus £18,500	
Gilsland CofE Primary	0.2 plus £2,100	14.4 plus £2,100	0.2 plus £2,200	14.4 plus £2,200	0.2 plus £2,400	14.4 plus £2,400	
Glenmore Trust	3.9 plus £25,000	18.1 plus £25,000	3.9 plus £28,200	18.1 plus £28,200	3.9 plus £31,500	18.1 plus £31,500	
Graham Asset Management Ltd	5.7 less £3,100	19.9 less £3,100	5.7	19.9	5.7	19.9	
Great Corby Primary School	0.4 plus £2,500	14.6 plus £2,500	0.4 plus £2,700	14.6 plus £2,700	0.4 plus £3,000	14.6 plus £3,000	
Harraby Community Centre	12.6 less £500	26.8 less £500	12.6 less £500	26.8 less £500	12.6 less £500	26.8 less £500	
Higham Hall College	9.9 less £12,100	24.1 less £12,100	9.9 less £12,600	24.1 less £12,600	9.9 less £13,100	24.1 less £13,100	

Employers	2014/15 Individual adjustment (% / £)	2014/15 Total Contribution Rate (% / £)	2015/16 Individual adjustment (% / £)	2015/16 Total Contribution Rate (% / £)	2016/17 Individual adjustment (% / £)	2016/17 Total Contribution Rate (% / £)	Non-ill-health early retirement allowance included for the 3 years 2014/17
Home Group Ltd (Copeland Homes)	-1.7 less £2,500	12.5 less £2,500	-1.7 less £2,600	12.5 less £2,600	-1.7 less £2,700	12.5 less £2,700	
Kendal Brewery Arts Centre Trust Limited	9.8 plus £11,600	24.0 plus £11,600	9.8 plus £12,100	24.0 plus £12,100	9.8 plus £12,600	24.0 plus £12,600	
Kendal College	-0.7 plus £35,900	13.5 plus £35,900	-0.7 plus £58,900	13.5 plus £58,900	-0.7 plus £83,700	13.5 plus £83,700	
Kendal Town Council	3.5 less £2,900	17.7 less £2,900	3.5 less £1,900	17.7 less £1,900	3.5 less £800	17.7 less £800	
Keswick School	0.4 plus £48,100	14.6 plus £48,100	0.4 plus £59,600	14.6 plus £59,600	0.4 plus £71,800	14.6 plus £71,800	
Keswick Town Council	3.7 less £1,400	17.9 less £1,400	3.7 plus £500	17.9 plus £500	3.7 plus £2,600	17.9 plus £2,600	
Kirkbie Kendal School	0.6 plus £34,000	14.8 plus £34,000	0.6 plus £41,300	14.8 plus £41,300	0.6 plus £49,200	14.8 plus £49,200	
Kirkby Stephen Grammar School	0.6 plus £24,600	14.8 plus £24,600	0.6 plus £31,300	14.8 plus £31,300	0.6 plus £38,500	14.8 plus £38,500	
Lake District National Park Authority (see note 2)	-2.0 plus £248,400	12.2 plus £248,400	-2.0 plus £253,100	12.2 plus £253,100	-2.0 plus £257,700	12.2 plus £257,700	
Lakeland Arts Tust	TBC	TBC	TBC	TBC	TBC	TBC	
Lakes College West Cumbria	0.2 plus £30,700	14.4 plus £30,700	0.2 plus £50,900	14.4 plus £50,900	0.2 plus £72,700	14.4 plus £72,700	
Longtown Community Centre	13.2 less £1,000	27.4 less £1,000	13.2 less £1,000	27.4 less £1,000	13.2 less £1,000	27.4 less £1,000	
Maryport Town Council	-0.5 less £600	13.7 less £600	-0.5 less £400	13.7 less £400	-0.5 less £100	13.7 less £100	
Mellors Catering (Whitehaven)	7.6 less £500	21.8 less £500	7.6 less £400	21.8 less £400	7.6 less £300	21.8 less £300	
Mellors Police Catering Services	11.6 plus £100	25.8 plus £100	11.6 plus £500	25.8 plus £500	11.6 plus £900	25.8 plus £900	
Morton Community Centre	-1.0 less £500	13.2 less £500	-1.0 less £500	13.2 less £500	-1.0 less £500	13.2 less £500	

Employers	2014/15 Individual adjustment (% / £)	2014/15 Total Contribution Rate (% / £)	2015/16 Individual adjustment (% / £)	2015/16 Total Contribution Rate (% / £)	2016/17 Individual adjustment (% / £)	2016/17 Total Contribution Rate (% / £)	Non-ill-health early retirement allowance included for the 3 years 2014/17
North Country Leisure	-3.0 less £300	11.2 less £300	-3.0 less £300	11.2 less £300	-3.0 less £300	11.2 less £300	
Oaklea Trust	4.4 plus £4,400	18.6 plus £4,400	4.4 plus £4,600	18.6 plus £4,600	4.4 plus £4,800	18.6 plus £4,800	
Office of the Police & Crime Commissioner for Cumbria (see notes 2 & 3)	-1.5 plus £2,397,000	12.7 plus £2,397,000	-1.5	12.7	-1.5	12.7	
Orian Solutions Limited	5.3 less £131,300	19.5 less £131,300	5.3 less £99,300	19.5 less £99,300	5.3 less £64,400	19.5 less £64,400	
Penny Bridge Academy	3.0 plus £4,600	17.2 plus £4,600	3.0 plus £4,800	17.2 plus £4,800	3.0 plus £4,900	17.2 plus £4,900	
People First	4.4 less £4,100	18.6 less £4,100	4.4	18.6	4.4	18.6	
Queen Elizabeth Grammar School	2.8 plus £19,000	17.0 plus £19,000	2.8 plus £30,200	17.0 plus £30,200	2.8 plus £42,300	17.0 plus £42,300	
Queen Elizabeth School	-0.3 plus £67,400	13.9 plus £67,400	-0.3 plus £82,100	13.9 plus £82,100	-0.3 plus £97,900	13.9 plus £97,900	
Richard Rose Academy	-2.2 plus £119,000	12.0 plus £119,000	-2.2 plus £158,500	12.0 plus £158,500	-2.2 plus £200,900	12.0 plus £200,900	
Seaton Infant School	-0.3 plus £5,800	13.9 plus £5,800	-0.3 plus £6,000	13.9 plus £6,000	-0.3 plus £6,200	13.9 plus £6,200	
Settlebeck High School	1.7 plus £11,400	15.9 plus £11,400	1.7 plus £15,200	15.9 plus £15,200	1.7 plus £19,300	15.9 plus £19,300	
Soundwave	2.0 less £200	16.2 less £200	2.0 less £100	16.2 less £100	2.0 plus £100	16.2 plus £100	
South Lakeland District Council (see note 2)	0.1 plus £940,900	14.3 plus £940,900	0.1 plus £929,200	14.3 plus £929,200	0.1 plus £917,800	14.3 plus £917,800	
South Lakeland Leisure	-1.3 less £6,600	12.9 less £6,600	-1.3 less £4,100	12.9 less £4,100	-1.3 less £1,500	12.9 less £1,500	
South Lakes Housing	1.7 less £25,900	15.9 less £25,900	1.7 less £27,000	15.9 less £27,000	1.7 less £28,100	15.9 less £28,100	

Employers	2014/15 Individual adjustment (% / £)	2014/15 Total Contribution Rate (% / £)	2015/16 Individual adjustment (% / £)	2015/16 Total Contribution Rate (% / £)	2016/17 Individual adjustment (% / £)	2016/17 Total Contribution Rate (% / £)	Non-ill-health early retirement allowance included for the 3 years 2014/17
Stramongate School	2.7 plus £9,500	16.9 plus £9,500	2.7 plus £13,500	16.9 plus £13,500	2.7 plus £17,800	16.9 plus £17,800	
The Queen Katherine School	1.6 plus £51,100	15.8 plus £51,100	1.6 plus £69,400	15.8 plus £69,400	1.6 plus £89,100	15.8 plus £89,100	
Trinity School	1.7 plus £55,800	15.9 plus £55,800	1.7 plus £70,700	15.9 plus £70,700	1.7 plus £86,700	15.9 plus £86,700	
Tullie House Trust	4.7 less £22,100	18.9 less £22,100	4.7 less £19,300	18.9 less £19,300	4.7 less £16,100	18.9 less £16,100	
Ulverston Town Council	6.3 less £4,500	20.5 less £4,500	6.3 less £2,300	20.5 less £2,300	6.3	20.5	
West House	-1.1 plus £14,300	13.1 plus £14,300	-1.1 plus £34,400	13.1 plus £34,400	-1.1 plus £56,000	13.1 plus £56,000	
West Lakes Academy	-0.8 plus £61,900	13.4 plus £61,900	-0.8 plus £69,900	13.4 plus £69,900	-0.8 plus £78,500	13.4 plus £78,500	
Whitehaven Academy	0.9 plus £59,600	15.1 plus £59,600	0.9 plus £62,000	15.1 plus £62,000	0.9 plus £64,600	15.1 plus £64,600	
Wigton Joint Burial Committee	2.2 less £200	16.4 less £200	2.2 plus £200	16.4 plus £200	2.2 plus £500	16.4 plus £500	
Wigton Town Council	-1.2 plus £1,900	13.0 plus £1,900	-1.2 plus £2,000	13.0 plus £2,000	-1.2 plus £2,100	13.0 plus £2,100	
William Howard School	1.0 plus £74,600	15.2 plus £74,600	1.0 plus £99,100	15.2 plus £99,100	1.0 plus £125,500	15.2 plus £125,500	

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

Notes:

1. The percentages shown are percentages of pensionable pay and apply to all members, including those who are members under the 50:50 option under the LGPS from 1 April 2014.
2. The £ lump sum contributions for Cumbria County Council, the Lake District National Parks Authority, the Office of the Police and Crime Commissioner and South Lakeland District Council are all payable by 30 April 2014.
3. The contributions for the Office of the Police and Crime Commissioner will need to be reallocated between that employer and the Office of the Chief Constable on its admission to the Fund. The allocation will be determined by the Office of the Police and Crime Commissioner and the Administering Authority acting on actuarial advice.
4. The total contributions payable by each employer each year will be subject to a minimum of zero.
5. 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 in this certificate may be reallocated between the Scheme Employer and the new employer to reflect this, on advice from the actuary.

7 Governance & The Governance Compliance Statement

7.1 Introduction

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.

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 7.2) – 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 5.4) – 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 10) – 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 12.4) – the management of the pension Schemes cash, bank account and investment of surplus cash.

- **Funding Strategy Statement** (see section 9) – identifies how the Scheme's pension liabilities will be funded in the longer term and addresses solvency issues.

- **Admissions and Termination Policy** (see section 12.3) – 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.

7.1.1 Governance arrangements within the Cumbria LGPS

During 2013/14 the management arrangements of Cumbria LGPS consisted of four elements: Cumbria Pensions Committee (7.1.1.1), Cumbria Investment Sub Group (7.1.1.2), Cumbria Pensions Forum (7.1.1.3) and Advisors and Officers (7.1.1.4).

7.1.1.1 Cumbria Pensions Committee

The local government pension scheme, unlike private pension schemes, does not have trustees but elected Members perform similar duties to Trustees. Cumbria County Council, as Administering Authority for Cumbria LGPS, has the ultimate responsibility for administration of benefits under the scheme. Under section 101 of the Local Government Act 1972 Cumbria County Council has delegated its functions as the Administering Authority to the Cumbria Pensions Committee (hereafter 'the Committee').

The delegated duties and responsibilities of the Committee are set out in section 6C of Cumbria County Council's Constitution (which is available online at: **http://councilportal.cumbria.gov.uk/ieListDocuments.aspx?CId=1014&MId=6561&Ver=4**. Details of the formal Terms of Reference of the Committee are set out in detail in the Governance Policy Statement below at 7.2.

7.1.1.2 Cumbria Investment Sub Group

To enable the more efficient running and improved governance of the Scheme during 2013/14 the Council approved the creation of an Investment Sub Group. Within the terms of reference laid down in the Council's Constitution and further operating guidelines as agreed with the Pensions Committee this group actions tactical investment decisions. Grant Thornton recognised this mode of operation as best practice in their November 2013 report on governance[4]. Details of the composition of the Group and its Terms of Reference are set out in the Governance Policy Statement below at 7.2.

7.1.1.3 Cumbria Pensions Forum

The purpose of the Cumbria Pensions Forum is to seek the views of stakeholders within the Cumbria LGPS and provide information on performance across the management disciplines of the Scheme and discuss items of common interest in relation to pensions. Membership of the Forum is open to all employer bodies within the Scheme. Further details of the Forum, including its Terms of Reference are detailed in in the Governance Policy Statement below at 7.2.

4. "Coming of age: development of the LGPS. Improving governance in local government pension schemes" (November 2013). www.grant-thornton.co.uk/Global/Publication_pdf/LG-pensions-governance-review-2013.pdf

The Forum meets annually and during 2013/14 met on 18 November 2013. The meeting date for 2014/15 has been scheduled for 6 October 2014 and we would be delighted to see stakeholders at this meeting.

7.1.1.4 Advisors and Officers

Advice is given by Cumbria County Council's 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 Mercers Consulting as Scheme Actuary, DLA Piper as legal advisors to the Scheme, and by other experts where appropriate, e.g. for investment management services, specialist tax advice, etc.

7.1.1.5 Conflicts of interest

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 2013/14 any related party transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

7.1.1.6 Training 2013/14

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 10 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 Committee's own Training Policy (see section 12.1 of this report).

The Cumbria Pensions Committee ensures that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements. This was formally recognised as best practice in the Grant Thornton annual LGPS governance review[5]. 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 12.1 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. The Training Plan incorporated in the Training Policy relates to 2014/15 (the 2013/14 Training Plan is set out in the 2012/13 Annual Report which can be found at: **www.cumbria.gov.uk/elibrary/Content/Internet/536/654/1129/41603103147.pdf**) and reflects the 2014/15 Business Plan draft Committee Timetable.

The formal training undertaken by Members and Officers during the 2013/14 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:

5. "Coming of age: development of the LGPS. Improving governance in local government pension schemes" (November 2013). www.grant-thornton.co.uk/Global/Publication_pdf/LG-pensions-governance-review-2013.pdf

- **June 2013:** Actuarial Methods, Financial Markets & Products, Investment Performance and Risk management;
- **September 2013:** Infrastructure training;
- **October 2013:** Pensions legislation & governance; Regulators-Powers & Roles, General Constitutional Framework, Role of Elected Member, Financial Services Procurement & Relationship Development, Public Procurement Requirements, Supplier Risk Management – IMA Considerations, and Accounting & Auditing Standards.
- **November 2013:** Asset Allocation
- **March 2014:** Call for evidence & Future LGPS Structure; and Property.

As part of the recent consultation on governance the National Scheme Advisory Board is reviewing training requirements across the LGPS for those charged with governance. Cumbria has been supportive of measures to ensure the appropriate standards in this regard are attained.

7.1.1.7 Summary of Committee and Sub Group attendance and formal training In 2013/14

Committee Member (member of Pensions Committee only unless otherwise indicated)		**Voting Rights**	**Attendance at meetings**	**Training received** (days)
Cllr. MH Worth	Chair – Committee & Sub Group	Yes	9	3.5
Cllr. SB Collins	Vice Chair from May 2013 – Committee & Sub Group	Yes	9	3.0
Cllr. J Airey		Yes	5	2.0
Cllr. A Barry	(to May 2013)	Yes	n/a*	0.5
Cllr. DS Fairburn	(Committee member to May '13, substitute from May '13)	Yes	1	3.0
Cllr. G Humes	(Substitute to May 2013, Committee member from May 2013)	Yes	5	1.0
Cllr. NH Marriner	Vice Chair to May 2013 – Committee & Sub Group	Yes	9	4.8
Cllr. D Roberts	(Committee member to May '13, substitute from May '13)	Yes	n/a*	0.5
Cllr. DE Southward		Yes	6	1.5
Cllr. I Stewart	(substitute to May 2013, Committee member from June 2013 to May 2014)	Yes	6	3.0
Cllr. G Strong	(from June 2013)	Yes	3	1.0
Cllr. G Troughton	Co-opted District Councillor	Yes	4	2.5
J Trueick	Employee representative	No	6	4.5
Substitutes:				
Cllr. B Doughty		–	–	1.5
Cllr. H Wall		–	–	1.0
Cllr. N Hughes		–	–	1.5

*No meetings were held during April – May 2013

7.1.1.8 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.

The audit of the 2012/13 Pension Fund accounts received an unqualified and unmodified positive opinion and the Scheme's external auditor (Grant Thornton) noted that the financial statements had been produced to a high quality standard in terms of compliance with the CIPFA Code.

7.2 Governance Policy Statement – March 2014

In accordance with regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 the Council is required to prepare, maintain and publish a written governance statement addressing certain issues.

This current version of the Governance Policy Statement was presented to the Pensions Committee for approval at the Pensions Committee held on 13 & 14 March 2014.

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 ten members (eight County Councillors, one District Councillor and one non-voting employee representative).

Advice is given by Cumbria County Council's Assistant Director – Finance (Section 151 Officer), 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 discharge the Council's functions as Administering Authority for the management of the Cumbria Local Government pension Scheme ("the Pensions Scheme")

(b) To ensure Members have appropriate professional advice representation as required prior to making any decisions affecting the general management of the Scheme.

(c) To ensure that Members and Officers involved in the governance and monitoring of the Pension Scheme meet the requisite knowledge and skills requirements.

(d) To submit Pension Scheme Annual Report and Accounts and Governance Compliance Statement to the Council in line with prevailing financial regulation.

(e) To submit update reports to the Council (as a minimum three times a year) on the governance, risk monitoring and performance of the Scheme following meetings of the Committee.

(f) To receive and where necessary instruct corrective action, in response to both internal and external auditor reports.

(g) To review the formal Actuarial Valuation and to consider if, and to what extent, any change may be necessary to ensure the efficient and effective performance of the Pension Scheme

(h) To approve annually the Funding Strategy Statement; Governance Policy Statement and the Statement of Investment Principles.

(i) To formulate and maintain an Administration and Communications Policy for the Pension Scheme for the admission of employing bodies as contributors to the Scheme; that fulfils all communication and consultation requirements with employers of the Scheme.

(j) To receive minutes and consider recommendations from and ensure the effective performance of the Pension Scheme Forum and the Investment Sub Group.

(k) Formulate and review tolerance ranges to delegate to the Investment sub-group to allow them to implement tactical changes to the Investment Strategy or Asset Allocation. Maintain and continually review an appropriate management and governance structure of the Investment sub-group to achieve the effective delivery of the Pension Scheme objectives.

(l) To contribute nationally to the development of policy and regulation in regards to the Local Government Pension Scheme and wider Public Sector Pensions policy.

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 **www.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 Investment Sub Group

The Constitution of the Investment Sub Group is:

The Group will comprise three Members of the Pensions Committee (including the Chair of the Committee), At least two of the three elected members must be available at any meeting where consideration by the Sub Group of a recommendation to change an investment manager is considered.

Senior Officers of the Council with responsibilities for the management of the Scheme including the Section 151 Officer and officer with the responsibility of senior investment officer to the Scheme.

Independent Advisors and Investment Consultants to the Scheme at the invitation of the Sub Group provided that at least two of the three external advisors is available at any meeting where consideration by the Sub Group of a recommendation to change an investment manager is considered.

The formal Terms of Reference of the Investment Sub Group are as follows:

(a) To operate within the remit of the Cumbria Local Government Pension Scheme Investment Strategy and Statement of Investment Principles (approved annually by the Pensions Committee) and any tolerance levels for the operation of the investment sub-group laid down by the Pensions Committee.

(b) To provide an update report outlining activity in the preceding period, any decisions made by the section 151 officer and the proposed work schedule for the next period.

(c) To carry out initial monitoring at an individual manager level of the performance of the Schemes investment managers.

(d) To consider, and continually review an investment management structure for the Pension Scheme and to be responsible for overseeing:

i. the appointment and termination of investment managers;
ii. the establishment and review of performance benchmarks and targets for investment.

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 **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.

Delegations to the Assistant Director – Finance

- In consultation with all 3 members of the Pensions Sub Group to appoint investment managers to the Cumbria LGPS.
- To award any other contracts incidental to the discharge by the Pensions Committee of its functions on behalf of the Cumbria LGPS.
- Since these decisions are incidental to the non-executive functions of management of the Cumbria LGPS it is proposed that these decisions are not treated are as key decisions of the Council.

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, i.e. Cumbria Pensions Committee.

Risk Management

The Pensions Committee considers risk management on a quarterly basis. The latest review was at the Pensions Committee meeting held on 6 June 2014. The major risks facing the scheme are shown in the table below:

Pension scheme risks June 2014

	Risk	Impact	Likelihood	Overall risk rating
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
10	Increasing pressure due to significant reductions in scheme membership following scheme benefit changes, e.g. 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, e.g. 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 reputational damage.	3	2	6
13	Significant losses on the transition of investment assets due to the volume and timing of change in managers planned to meet the 2012/13 Investment Strategy Review.	2	3	6
14	Financial standing of employers decreases with inadequate covenants or bonds to cover losses.	2	3	6
15	That the 2014 Scheme is not implemented on time / correctly.	4	3 (4)	12 (16)
17	Long-term cash flow – that the Fund will turn cash negative (after investment income) faster than anticipated, such that insufficient cash is available when required to pay pensions.	3	3	9
18	Short-term cash flow – that the Scheme has to sell at an inopportune time investments to meet short term cash flow requirements, particularly those arising from infrastructure and opportunistic investment opportunities.	2	2	4
19	Changes to LGPS Structures and governance – LGPS 2014 governance regulations and potential scheme mergers.	3	2	6

( ) refers to previous score as at 31 March 2014.

Risk matrix

Impact					
5. Most severe	amber	amber	amber	red	red
4. Major		1 amber	2, 15 amber	red	red
3. Moderate		7, 12, 19	3, 10, 17	amber	amber
2. Minor		18	4, 13, 14	6	
1. Insignificant					
	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.

Governance Compliance Statement

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

Principle	Compliance	
Principle A – Structure	**Not compliant**	**Fully compliant**
a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.		⊙
b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.		⊙
c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.		⊙
d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.		⊙
Principle B – Representation	**Not compliant**	**Fully compliant**
a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: – employing authorities (including non-scheme employers, e.g. admitted bodies); – scheme members (including deferred and pensioner scheme members), – independent professional observers, and – expert advisors (on an ad-hoc basis).		⊙
b. That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.		⊙
Principle C – Selection and role of lay members	**Not compliant**	**Fully compliant**
a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.		⊙
b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.		⊙
Principle D – Voting	**Not compliant**	**Fully compliant**
a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.		⊙
Principle E – Training facility time expenses	**Not compliant**	**Fully compliant**
a. That in relation to the way in which statutory and related decisions are taken by the Administering Authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.		⊙
b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.		⊙
c. That the Administering Authority considers the adoption of annual training plans for the committee members and maintains a log of all such training undertaken.		⊙

Principle	Compliance	
Principle F – Meeting frequency forum	**Not compliant**	**Fully compliant**
a. That an Administering Authority's main committee or committees meet at least quarterly.		⦿
b. That an Administering Authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.		⦿
c. That Administering Authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.		⦿
Principle G – Access	**Not compliant**	**Fully compliant**
a. That, subject to any rules in the Council'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.		⦿

8 The Pension Fund accounts

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 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 2013/14 and the position at the year-end date, 31 March 2014. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 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'.

8.1 The Financial Statements

Pension Fund Account for the year ended 31 March 2014

	Notes	2012/13 £000's	2012/13 £000's	2013/14 £000's	2013/14 £000's
Dealings with members, employers and others directly involved in the fund					
Contributions	3		66,862		67,960
Transfers in from other pension funds	4		4,114		3,562
			70,976		**71,522**
Benefits	5		(70,184)		(70,953)
Payments to and on account of leavers	6		(5,196)		(4,489)
Administrative expenses	7		(1,298)		(1,431)
			(76,678)		**(76,873)**
Net additions / (deductions) from dealing with members			**(5,702)**		**(5,351)**
Returns on investments					
Investment Income		23,290		31,380	
Taxes on Income		(350)		(314)	
Net investment income	8	22,940		31,066	
Profit and losses on disposal of investments and changes in the market value of investments	10(d)	178,206		93,231	
Investment management expenses	9	(2,797)		(3,281)	
Net return on investments			**198,349**		**121,016**
Net increase in the net assets available for benefits during the year			**192,647**		**115,665**
Net assets at the start of the year			**1,466,418**		**1,659,065**
Net assets at the end of the year			**1,659,065**		**1,774,730**

Net Asset Statement as at 31 March 2014

	Notes	31 March 2013 £'000	31 March 2014 £'000
Investment assets		1,644,456	1,761,787
Investment liabilities		(454)	(26)
Total net investments	10	**1,644,002**	**1,761,761**
Long term assets	12a	1,981	1,643
Current assets	12b	19,172	20,575
Long term liabilities	13a	(392)	(350)
Current liabilities	13b	(5,698)	(8,899)
Net assets of the Fund available to fund benefits at the period end		**1,659,065**	**1,774,730**

8.2 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:

- ensure that sufficient resources are available to meet all liabilities as they fall due;
- manage the long term sustainability of the Scheme;
- 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;
- maximise the returns from investments within reasonable risk parameters, and
- aim to close the scheme deficit by 2033.

Scheme membership is open to:

- all eligible employees of scheduled bodies (local government, academies, colleges) 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 public services within the county).

All eligible local government employees are automatically entered into the Scheme. Employees may choose to opt out at any point in time.

In June 2013 Cumbria County Council, which accounts for over 60% of the Scheme, implemented Automatic Enrolment and this has had a positive effect on membership numbers.

As at 31 March 2014 the fifty one thousand members of the Scheme (2012/13: forty nine thousand) consisted of: seventeen thousand contributors/actives (2012/13: sixteen thousand); twenty thousand deferred members (2012/13: nineteen thousand) and fourteen thousand pensioners (2012/13: fourteen thousand).

At 31 March 2014 there were 111 (2012/13: 105) employer bodies in the Cumbria LGPS (for the full list see Note 25).

NOTE 1 (b): ACTIVITY AND PERFORMANCE DURING 2013/14

During the year to 31 March 2014 the Cumbria LGPS value increased by £115.665m from £1,659.065m (31/03/13) to £1,774.730m (31/3/14). The Scheme returned 7.6% for the year which was an outperformance of 1.4% on the fund's bespoke benchmark for the year of 6.2%.

Many asset classes performed well over the year, with equities in particular providing strong returns but this varied by sector and geography. Generally it was seen that the value of UK equity increased by 8.8% (FTSE All Share), North American equities by 10.3%, and European equity by 17.3% (excluding UK); but for Japan (-1.6%), Pacific (-5.8%) and Emerging markets (-10.8%), equity index performance was negative. While UK index-linked bonds fell in value by 3.8%.

The Scheme has benefited considerably from this during the year as it is temporarily overweight in equities particularly in UK equities. This was an active decision taken whilst the Fund is sourcing and awaiting investment into new asset classes.

The Scheme has also performed well over the medium to longer term with the three-year return of 8.9% outperforming the bespoke hedged benchmark of 8.3% (per year). While the ten year Scheme return was 7.8% resulting in a direct match to the benchmark.

Also as a comparison against peers Cumbria LGPS ranks well for investment performance, with the average for the year being 7.6%, which results in a ranking of 29th out of 100 for the Cumbrian Scheme.

CIPFA specifically recommends that the management of investment returns should be against a Scheme specific benchmark derived from the Scheme's investment strategy to directly reflect the risk and liability profile of the Scheme. A simple comparison of performance against other Schemes may therefore be of limited value. However, acknowledging Cumbria's more defensive investment strategy when compared to the average LGPS, Cumbria's ranking in the LGPS universe is noteworthy. 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	7.6	8.9	12.3	7.8
Scheme Benchmark	6.2	8.3	11.9	7.8
WM LA Universe Average	6.4	7.5	12.7	7.8
Ranking	29th	16th	65th	41st

The Cumbria Scheme completed a detailed Investment Strategy Review in May 2012. The outcome of the review determined that, given the predicted longer term liability profile of the Scheme, at a strategic level, the asset allocation to growth seeking assets versus defensive assets (68% to 32%) was still appropriate. This results in Cumbria having a more defensive strategy than the average LGPS (72% to 28%). It was further evidenced that reduced risk (through better diversification and enhanced inflation protection) and marginally enhanced return with a greater focus on income (to recognise the Scheme's maturing liability profile in the medium-term) may be achieved from an alternative allocation across the growth section of the portfolio.

The process of implementing the changes in asset allocation has resulted to date with:

- A mandate for £130m of corporate bonds, awarded to Standard Life in July 2012,
- £79.9m fixed interest gilts, held under the passive mandate with Legal and General being converted to index linked in March 2012,
- A mandate for the commitment of £30m of real estate debt completed in May 2013,
- The procurement process to restructure £320m global equities asset allocation completed in November 2013 with the appointment of two managers with complementary style strategies; Nordea for low volatility and Loomis Sayles for high conviction mandates,
- The selection of suitable infrastructure investments (part complete) with initial investments made into the Partners Group 2012 Infrastructure Fund, with further selection ongoing.

The substantive work plan objectives in the 2013/14 business plan have either been achieved or are in progress of completion and they will be delivered within budget. The main actions completed are:

- Implementation totalling approximately 60% of the Investment Strategy review outcomes during 2013/14 (appointment of two new Global Equities Managers and selection of opportunistic and infrastructure products / managers). Approximately half of the total portfolio (£880m) was to be restructured, of which 74% (£652m) in total had been completed as at March 2014.
- Initial actions to implement the Mid Term Review on the bond allocation (8% reduction of passive corporate bonds to product(s)/strategies to achieve capital preservation).
- Establishment and embedding of the Investment Sub Group which saw Cumbria highlighted as an example of best practice by Grant Thornton in their 2013 Governance Report.
- Successful completion of the Triennial Actuarial Valuation (2013) including training, information and consultation.
- Communication and implementation of auto enrolment.
- Preparation for the 2014 Scheme (including member and employer communication revisions to policy; procedure and governance).
- Preparation for the implementation of the 2014 Scheme from 1 April 2014. Implementation was achieved, despite the very late delivery of the final transitional regulations from government.
- Enhancements to the administration system including the further roll out of self-service, on-line access to benefit statements and pensions projections.
- Development and enhancement of contract review procedures and performance monitoring at both Committee and Officer level.
- Timely completion of the Pension Fund Annual Accounts and Annual Report for 2012/13 with an unqualified audit opinion. Very favourable comments were reported from Grant Thornton (new fund Auditor) on preparation timescales and quality of working papers.
- Delivery of an enhanced training plan to both new and continuing Members and Officers with Cumbria highlighted again as an example of best practice in this area in Grant Thornton's 2013 Governance Report.

In addition to those items completed the following are in the progress of completion:

- Members agreed following the first allocation of £75m to infrastructure, to avoid vintage year saturation risk no further substantial allocations to the infrastructure strategic asset allocation be made until after June 2014. The Investment Sub-Group are currently reviewing options that should enable this asset allocation to be fully committed during 2014.

- The Investment Sub Group continue to review products that may be suitable for the strategic asset allocation to "opportunistic assets"; to date approximately a fifth of the allocation has been filled. However, in addition the Scheme still holds its residual private equity portfolio within this asset allocation (£77m).

Looking forward, 2014/15 is also expected to be another busy year for Local Government Pension Schemes as they respond to further changes proposed to the governance structure nationally in light of the Public Service Pensions Act 2013. This will involve further preparatory work, analysis of what the changes could mean for Cumbria LGPS specifically, and considered responses to Government consultations.

From April 2014, although the LGPS will remain a defined benefit scheme, it will change to a career average revalued earnings scheme (CARE) (referred to as LGPS 2014). The changes due to be implemented in 2014 include:

- Introduction of a CARE scheme with accompanying legislation requiring more detailed record keeping and the maintenance of a separate pension account for each member of the scheme,
- The creation of a new governance and oversight structure that brings the LGPS within the remit of the Pensions Regulator (tPR), increasing the level of scrutiny and accountability of Funds especially in regards to their member data, communication and administration,
- The creation of a national LGPS Scheme Advisory Board, and local Pension Boards.

It is important that the Fund is aware of the work of the Scheme Advisory Board and the recommendations it makes. There will be a requirement for each fund at a local level to have a Pensions Board and a Scheme Manager, although the detail is still to be decided by Government which will change the current Pension Committee structure.

The Cumbria LGPS Business Plan 2014/15 includes the following work plan objectives:

- Strategy, Scheme risk and policies reviews and updates,
- Risk assessment and implementing mitigating actions regarding successful delivery of 2014 Scheme, including communication, cost and data control issues,
- Progress review of Business Plan and Budget,
- Reviewing, measuring and delivering training to Members and Officers as outlined in the dynamic Training Plan,
- Development and servicing of the recently formed Investment Sub Group,
- Development and enhancement of contract review procedures and performance monitoring at both Committee and Officer level,
- Implement and monitor employer payroll data arrangements for the New Scheme at April 2014,
- Involvement in consultations, national working groups and assessment of impact on Cumbria of decisions on the future structure of the LGPS,
- Strengthening governance arrangements in response to financial, regulatory and structural changes,
- Review of the Scheme's stewardship and governance framework,
- Implementing both the final aspects of the Strategic Asset Allocation Review and the Mid Term Review delegated to the Investment Sub Group as follows;
  - Continue to progress infrastructure and opportunistic investment options,
  - Complete the strategic realignment of UK and global equities, and closure of BlackRock Alternatives portfolio,
  - Work with our property manager to ensure target 9% allocation to property is achieved,
  - Finalise the 8% reduction of passive corporate bonds to product(s)/strategies to achieve capital preservation,
- Ensuring cash is available to pay pensions and to satisfy investment purchases, and consideration of options to address the maturing nature of the Scheme,
- Continue to improve performance monitoring to the Committee, to aid performance and understanding of new asset classes,

- Following confirmation of the 2013 Triennial Actuarial Valuation in April 2014, monitor compliance and application of new employer contribution rates, and the timely payment by employers,
- Communication with Scheme employers and implementation of the required technology changes to facilitate the running of the CARE 2014 Scheme (new career average from 1 April 2014),
- Completion of the 2013/14 Cumbria LGPS Annual Accounts and Annual Report incorporating any new regulatory/technical changes,
- Undertake Finance (including Pensions team) office move and introduce new more flexible working arrangements,
- Following CIPFA best practice guidance develop a Cumbria LGPS specific web site, to improve communication and reporting of issues and results to scheme members.

The Annual Report and Accounts gives further details of the Scheme's performance, management structure and investment news. The Annual Report and Accounts 2013/14 will be published on-line when finalised (and at the latest by the statutory deadline of 1 December 2014) at **www.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 2013/14.

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 Finance 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.

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.

Investment Assets

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 investment assets 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 31 March 2014 valued at £1.028m, (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 31 March 2014. 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 31 March 2014 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. Investment 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.

Long-Term Assets

Revenue transactions are recorded on a system of receipts and payments. Income accruals (debtors) and expense accruals (creditors) have been introduced in respect of major items of income due but not received, and significant amounts owed, at 31 March. In accordance with IAS39, long-term debtors owed for a period of more than one year have been calculated using the effective interest method, discounting to present value, with a corresponding long-term creditor for the discount to be unwound.

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 31 March 2014.

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 foreign exchange rates.

Fair value of Exchange Traded Futures contracts is determined based on 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 promised 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 closed to 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).

2.15. Stock lending

Securities on loan at the 31 March are included in the net asset statement to reflect the scheme's continuing economic interest in the securities.

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 individual employers' contribution rates are based on triennial actuarial funding valuations (see Note 23).

Contribution rates for 2013/14 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 table over the page analyses the amount of total contributions receivable in the year, by category and by employer type.

Included in the scheduled bodies figure in the below table are administering authority contributions (Cumbria County Council) of £40.504m (£38.995m 2012/13).

Total contributions to the Scheme have been relatively stable in 2013/14 as the impact of downsizing and outsourcing activities undertaken by some Scheme employers during the year has been counterbalanced by the implementation of automatic enrolment by the larger employers in the Scheme.

By Category	2012/13 £'000	2013/14 £'000
Employer contributions to the fund	51,373	52,151
Employee contributions to the fund	15,489	15,809
	66,862	**67,960**
By Employer Type	**2012/13 £'000**	**2013/14 £'000**
Scheduled bodies	62,833	65,203
Admitted bodies	4,029	2,757
	66,862	**67,960**

At 1 April 2013, the County Council outsourced a large number of facilities management staff to a wholly owned company, Orian Solutions Limited, a new admitted body for 2013/14 and a wholly owned subsidiary of Cumbria County Council. In 2013/14 two employers made capital payments to offset their deficit, £0.600m from Copeland Borough Council and £0.150m from Cumbria Tourist Board; and in 2012/13 a payment on exit from the Scheme of £1.046m for Agilisys had 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.

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Cumbria County Council is the only scheme employer who, in agreement with the Actuary, opted, from 1 April 2011, to make an additional employer contribution. The rate as determined by the Actuary includes an element to compensate the Scheme 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 national reductions in Local Authority 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 1 April 2011 to 31 March 2014, £7.669m of this amount has 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 31 March 2013, available on the County Council's website, at **www.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.

	2012/13 £'000	2013/14 £'000
Individual transfers	4,114	3,562
	4,114	**3,562**

NOTE 5: BENEFITS

Pension benefits under the LGPS are based on final pensionable pay and length of pensionable service. Members have access to the schemes depending upon the period their active membership in the LGPS covers, i.e. whether their employment was previous to 1 April 2008, during the period 1 April 2008 and 31 March 2014, and employed post 1 April 2014. Details of the main benefits of membership of these schemes are summarised in the following table:

	Service Pre 1 April 2008	Service 1.04.08 to 31.03.14	Service Post 1 April 2014
Basis	Final salary	Final Salary	Career Average Revalued Earnings (CARE)
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year worked accrues 1/49th x 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.	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	2012/13 £'000	2013/14 £'000
Net pensions paid	55,795	58,620
Net lump sum on retirement	12,619	10,687
Net lump sum on death	1,770	1,646
	70,184	**70,953**
By Employer Type	**2012/13 £'000**	**2013/14 £'000**
Scheduled bodies	64,699	65,475
Admitted bodies	5,485	5,478
	70,184	**70,953**

Included in the scheduled bodies figure in the above table are administering authority benefits of £39.065m (£36.928m 2012/13).

The increased pensions paid value 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 immediately. As such this has resulted in much higher than usual volumes of early retirements, and high value of lump sums paid particularly in 2012/13, which then increases the following year's pensions paid. It is anticipated that this trend may continue for the next couple of years and these anticipated medium term trends have been taken into account when reviewing the investment strategy.

NOTE 6: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

NOTE 7: ADMINISTRATIVE EXPENSES

	2012/13 £'000	2013/14 £'000
Refund of contributions	4	77
Individual transfers to other Schemes	5,192	4,412
	5,196	**4,489**

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 e.g. 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:

	2012/13 £'000	2013/14 £'000
Employee costs	310	290
Support services, including Pensions Administration	896	1,046
Printing and publications	-	1
Pension fund committee	4	5
External audit fees	16	24
Internal audit fees	2	2
Actuarial fees	70	63
	1,298	**1,431**

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

Variations on administrative spend between years include:

- Support services – Additional training costs to support those charged with the governance of the Scheme in understanding the new asset classes (following the Investment Strategy Review); Actuarial Valuation costs; 2014 Scheme member benefit changes and forthcoming governance changes both locally and potentially nationally to the future structure of the LGPS.
- Pensions Administration – Additional data cleansing and software charges to support the 2013 Triennial Valuation; introduction of Auto-enrolment; employer and member enhancement to provide for self service and preparation for the additional requirements of operating a CARE Scheme from April 2014.

NOTE 8: NET INVESTMENT INCOME

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £31.066m (2012/13 £22.940m), net of £0.314m (2012/13: £0.350m) irrecoverable tax on dividends, and including stock lending income of £0.063m (2012/13: £0.118m), can be analysed as follows:

The Scheme completed a detailed Investment Strategy Review in May 2012, which was further supplemented by a specific defensive strategy review in September 2013. One of the aims in implementing the outcomes of these reviews was to achieve more stable returns from fixed interest securities. To facilitate this, Standard Life were appointed as the Scheme's corporate bond manager on a 'buy and maintain' strategy during 2012/13 which has resulted in increased income with lower volatility from this asset class.

Schroders, the Scheme's UK equity manager, choose investments for the portfolio based on a number of reasons, including size and stability of dividend payment; the Scheme benefitted in 2013/14 from companies paying some particularly high UK dividends, £1.777m from Vodafone Group plc alone.

During 2012/13, one of the Scheme's active global equity mandates was transferred into pooled investment vehicles with the Scheme's passive manager. 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. This has resulted in a corresponding decrease in income from overseas equity dividends for part of 2012/13 and for all of 2013/14. Two new global equity managers began their segregated mandates in December 2013 and so income from global equity dividends is expected to increase with this reallocation back to the strategic investment strategy of active management in this area.

	2012/13 £'000	2013/14 £'000
Interest from fixed interest securities	2,868	6,441
UK dividends	6,404	10,001
Overseas dividends	7,025	5,954
Distributions from pooled investment vehicles	434	1,680
Net rental income from investment properties (see note 10(b))	6,159	6,918
Bank Interest	50	72
	22,940	**31,066**

Income from pooled vehicles includes distributions from the Scheme's alternatives investments; 2013/14 saw a distribution from a private equity fund of £1.347m, and as such the Scheme is increasing its investment into infrastructure and other alternatives with the objective of stable and inflation protected income streams.

NOTE 9: INVESTMENT MANAGEMENT EXPENSES

	2012/13 £'000	2013/14 £'000
Fund management fees	2,532	2,987
Custody fees	103	121
Performance monitoring service	32	40
Investment consultancy fees	130	133
	2,797	**3,281**

The increase in Investment Manager fees reflects that rates were lower in 2012/13 than in 2013/14 as the Scheme had more assets held passively during the periods of transition between managers (resulting in reduced fund management fees compared to more average levels), balanced by increasing volume of fees due to portfolio size, on which the majority of the fund management fees are based.

Investment consultancy fees were above historic levels in 2012/13 as the Scheme conducted a full Investment Strategy Review, which resulted in costs to procure a new bond manager, and remained high in 2013/14 due to the procurement processes for two new equity managers (completed in December 2013).

NOTE 10: INVESTMENT ASSETS

	Notes	31 March 2013			31 March 2014		
		UK	Overseas	Total	UK	Overseas	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Investment Assets							
Equities							
Equities - quoted		200,908	185,151	**386,059**	248,511	284,357	**532,868**
Equities - unquoted		761	-	**761**	1,028	-	**1,028**
		201,669	185,151	**386,820**	249,539	284,357	**533,896**
Fixed interest securities							
Public Sector/Govt - quoted		-	-	**-**	-	-	**-**
Corporate bonds - quoted		125,398	4,611	**130,009**	123,088	7,794	**130,882**
Corporate bonds - unquoted		-	-	**-**	-	-	**-**
		125,398	4,611	**130,009**	123,088	7,794	**130,882**
Pooled investment vehicles							
Pooled investments - quoted		52,045	19,424	**71,469**	13,898	9,974	**23,872**
Pooled investments - unquoted		613,710	338,381	**952,091**	584,245	316,426	**900,671**
	10(a)	665,755	357,805	**1,023,560**	598,143	326,400	**924,543**
Investment properties							
Freehold		74,430	-	**74,430**	93,408	-	**93,408**
Long leasehold		17,725	-	**17,725**	29,760	-	**29,760**
Short leasehold		-		**-**	-		**-**
	10(b)	92,155	-	**92,155**	123,168	-	**123,168**
Derivative contracts	10(c)	4,720	-	**4,720**	1,780	-	**1,780**
Cash Deposits		4,748	2,444	**7,192**	42,808	4,710	**47,518**
		1,094,445	550,011	**1,644,456**	1,138,526	623,261	**1,761,787**
Investment liabilities							
Derivative contracts	10(c)	(454)	-	**(454)**	(26)	-	(26)
Total Net Investments		1,093,991	550,011	**1,644,002**	1,138,500	623,261	**1,761,761**

The equity holdings have increased at 31 March 2014 as the global equity managers new mandates were in place from December 2013, having transferred the holdings from pooled index-tracking funds.

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 31 March, shown as assets where there is a gain and liabilities where there is a loss on the individual contracts at 31 March 2014.

NOTE 10(a): POOLED INVESTMENT VEHICLES

The Scheme's largest holding is the unitised insurance policies with Legal and General totalling £855.9m, 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.

	2012/13 £'000	2013/14 £'000
Unitised insurance policies - unquoted		
UK equities	199,850	201,283
Overseas equities	298,272	272,728
UK corporate bonds	130,522	69,366
UK index-linked securities	261,626	277,552
UK sterling liquidity fund	0	35,008
	890,270	**855,937**
Unit trusts		
UK - quoted	52,045	13,898
Overseas - quoted	16,508	7,460
	68,553	**21,358**
Other Managed funds		
Pooled property REIT's - quoted	2,916	2,514
Pooled property funds - unquoted	9,512	2,946
Other managed funds - unquoted	52,309	41,788
	64,737	**47,248**
Total	**1,023,560**	**924,543**

Pooled overseas equities increased when the global equity manager was terminated in September 2012 and the holdings transferred to pooled index-tracking funds. The two new active global equity portfolios were in place from December 2013, having transferred partly from the pooled funds.

Active managers use unit trusts for efficient investment in their own in-house or other funds. The termination of two active managers has resulted in the decreased holding of unit trusts shown above.

The Mid-Term Review of the fixed interest allocation aimed to achieve capital preservation and inflation protection in this element of the portfolio. The outcome of the review was to action a strategic switch from passive corporate bonds to defensive product(s)/strategies that will achieve capital preservation. In light of this, pooled corporate bond securities have decreased at 31 March 2014. To ensure this is achieved as efficiently as possible switching to index-linked gilts and cash funds is being completed in stages and is due to be completed in July 2014.

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 portfolio. At 31 March 2014 the portfolio valued at £123.168m included 29 properties ranging from £1.15m to £10.0m 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:

	2012/13 £'000	2013/14 £'000
Rental income from investment property	6,666	7,444
Direct operating expenses arising from investment property	(507)	(526)
	6,159	**6,918**

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 obligation to purchase, construct or develop (apart from St Albans, detailed below), and the Scheme has its normal obligations in respect of repairing and maintaining properties where the costs are generally passed onto the tenants where a lease is in place.

At 31 March 2014, the Scheme was legally obliged to complete the development at Acrewood Park, St. Albans of a new-build, multi-let trade counter estate of six units, following purchase of the site in March 2014. Work has commenced and monthly development payments will be made up to the maximum commitment of £7.073m, with the expectation that development will be complete in January 2015.

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

	2012/13 £'000	2013/14 £'000
Balance at the start of the year	**93,625**	**92,155**
Additions:		
Purchases	5,650	29,461
Subsequent expenditure	367	3,396
Disposals	(4,602)	(9,158)
Net gains/(losses) from fair value adjustments	(2,885)	7,314
Balance at the end of the year	**92,155**	**123,168**

The Scheme's property investments are leased out properties, all of which are operating leases. The future minimum lease payments receivable under non cancellable leases for these land and buildings in future years are shown as follows:

	2012/13 £'000	2013/14 £'000
Not later than one year	6,177	7,697
Later than one year and not later than five years	18,125	22,143
Later than five years	30,726	43,070
	55,028	**72,910**

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 known 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.

Cumbria LGPS follows general practice in this regard and therefore 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$. Futures could also be used to manage the overall duration of the portfolio to ensure it stays within the limits set out in the Guidelines of the mandate. 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 2014		
Reconciliation to Note 10	**Investment Asset / Unrealised Gain £'000**	**Investment Liability / Unrealised Loss £'000**	**Net Market Value £'000**
Total Derivatives			
Forward currency contracts	1,770	(26)	**1,744**
Futures	10	0	**10**
Derivative Contracts Gain/(Loss)	**1,780**	**(26)**	**1,754**

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

Currency Bought		Currency Sold		2013/14	
Currency	Local Value 000's	Currency	Local Value 000's	Unrealised Gain Sterling £'000	Unrealised Loss Sterling £'000
Settlement within one month					
None					
Settlement one to six months					
GBP	55,757	EUR	(66,650)	657	(26)
GBP	23,930	JPY	(4,032,943)	416	
GBP	187,153	USD	(310,661)	697	
				1,770	**(26)**
Net forward currency contracts at 31 March 2014				**1,744**	

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market Value at 31 March 2013 £'000	Economic exposure	Market Value at 31 March 2014 £'000
Assets					
Overseas Fixed Interest	Less than one year			(2,963)	10
			0		**10**
Liabilities					
Overseas Fixed Interest	Less than one year	(3,477)	(16)		
			(16)		**0**
		Net futures	**(16)**		**10**

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:

2013/14

Asset Class	Value at 1 April 2013 £'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 2014 £'000
Fixed interest securities	130,009	21,953	(15,236)	(980)	(4,864)	130,882
Equities						
UK equities	201,669	132,686	(98,485)	5,861	7,808	249,539
Overseas equities	185,151	818,589	(741,652)	43,486	(21,217)	284,357
	386,820	951,275	(840,137)	49,347	(13,409)	533,896
Pooled investment vehicles	890,270	312,173	(379,601)	65,627	(32,532)	855,937
Unit Trusts	68,553	31,148	(78,460)	35	82	21,358
Managed funds	64,737	22,772	(41,863)	1,162	440	47,248
Property (See Note 10b)	92,155	32,857	(9,158)	(375)	7,689	123,168
Derivatives (forward foreign exchange contracts, futures)	4,266	11,194	(34,715)	23,532	(2,523)	1,754
	1,636,810	**1,383,372**	**(1,399,170)**	**138,348**	**(45,117)**	**1,714,243**
Cash	7,192					47,518
Total Net Investments	**1,644,002**					**1,761,761**

Analysis of gains/(losses) for the year	2013/14 £'000
Realised - Profit and losses on disposal of investments	138,348
Unrealised - Changes in the market value of investments	(45,117)
	93,231

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

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 £0.359m, which is 0.01% of the purchases and sales proceeds (for comparison the costs in 2012/13 were £0.192m, 0.01% of trades).

NOTE 10(e): INVESTMENTS ANALYSED BY FUND MANAGER

Manager	Asset Class	31 March 2013		31 March 2014	
		£'000	%	£'000	%
Legal & General Policy No. 1	Equities, bonds, cash	435,703	26.5%	488,627	27.7%
Legal & General Policy No. 2	Index-linked bonds	261,626	15.9%	250,203	14.2%
Schroders Investment Management	UK equities	210,374	12.8%	237,857	13.5%
Nordea	Global equities	0	0.0%	161,278	9.2%
Loomis Sayles	Global equities	0	0.0%	158,396	9.0%
Standard Life	UK corporate bonds	130,347	7.9%	131,458	7.5%
Aberdeen Asset Management	Direct property	95,833	5.8%	124,927	7.1%
Legal & General Policy No. 3	Global equities	192,941	11.8%	117,107	6.6%
BlackRock	Alternatives	106,040	6.5%	40,375	2.3%
Strategic cash allocation	Cash	0	0.0%	36,030	2.0%
Partners Group	Infrastructure	0	0.0%	10,236	0.6%
Aberdeen Asset Management	Indirect property	0	0.0%	2,946	0.2%
Legal & General Passive Currency	Currency overlay	3,690	0.2%	1,764	0.1%
M&G	Real Estate Debt	0	0.0%	537	0.0%
GMO UK / Transition residual	Overseas equities	207,448	12.6%	20	0.0%
Total Net Investments		**1,644,002**	**100.0%**	**1,761,761**	**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 (Policy Number 3). This was a transitional measure while the procurement process secured new managers. Independent advice was sought which recommended this to be the most efficient and lowest acceptable risk option to undertake this transitional process.

Holding	31 March 2014 £'000	% of Total Net Investments
Policy 1 Legal and General UK Equity Index	201,283	11.4%
Policy 1 Legal and General North America Index	100,478	5.7%
Policy 1 Legal and General AAA Over 15yr Index	69,366	3.9%
Policy 1 Legal and General Sterling Liquidity Fund	35,008	2.0%
Policy 1 Legal and General Europe(Ex UK)Equity Index	28,119	1.6%
Policy 1 Legal and General Over 5 Yr Index-Linked Gilts Index	27,348	1.6%
Policy 1 Legal and General Japan Index	13,812	0.8%
Policy 1 Legal and General Other Pacific Basin Index	13,213	0.7%
Policy 1 Total	488,627	27.7%
Policy 2 Legal and General Over 5 Yr Index-Linked Gilts Index	250,203	14.2%
Policy 3 Legal and General FTSE World Equity Index	117,107	6.6%
	855,937	**48.5%**

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 2013 £'000	31 March 2014 £'000
Financial Instruments	1,559,070	1,645,303
Statutory debts / liabilities & provisions	7,840	6,259
Investment Property	92,155	123,168
Net Assets of the Fund	**1,659,065**	**1,774,730**

	31 March 2013				31 March 2014			
	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	386,820			386,820	533,896			533,896
Fixed interest securities	130,009	-	-	130,009	130,882	-	-	130,882
Pooled investment vehicles	1,023,560	-	-	1,023,560	924,543	-	-	924,543
Derivative contracts	4,720	-	-	4,720	1,780	-	-	1,780
Cash deposits	-	13,669	-	13,669	-	53,096	-	53,096
Current & long-term assets	-	5,858	-	5,858	-	9,399	-	9,399
	1,545,109	**19,527**	**-**	**1,564,636**	**1,591,101**	**62,495**	**-**	**1,653,596**
Financial Liabilities								
Derivative contracts	(454)	-	-	(454)	(26)	-	-	(26)
Current/long-term liabilities	-	-	(5,112)	(5,112)	-	-	(8,267)	(8,267)
Total Financial Instruments	**1,544,655**	**19,527**	**(5,112)**	**1,559,070**	**1,591,075**	**62,495**	**(8,267)**	**1,645,303**
ANALYSIS OF NET GAINS AND LOSSES FOR YEAR ENDED 31st MARCH								
Financial Assets	181,376	-	-	181,376	85,943	-	-	85,943
Financial Liabilities	(285)	-	-	(285)	(26)	-	-	(26)
Total Net Gains/(Losses)				181,091				85,917

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

31 March 2013			31 March 2014	
Book Cost £'000	Fair Value £'000		Book Cost £'000	Fair Value £'000
		Financial Assets		
1,203,550	1,545,109	Fair Value through profit and loss	1,345,020	1,591,101
19,527	19,527	Loans and receivables	62,495	62,495
1,223,077	**1,564,636**	**Total Financial Assets**	**1,407,515**	**1,653,596**
		Financial Liabilities		
-	(454)	Fair Value through profit and loss	-	(26)
(5,112)	(5,112)	Financial Liabilities at amortised cost	(8,267)	(8,267)
(5,112)	**(5,566)**	**Total Financial Liabilities**	**(8,267)**	**(8,293)**
1,217,965	**1,559,070**	**Total Financial Instruments**	**1,399,248**	**1,645,303**

We are required to disclose the difference between the carrying value and the fair value; the fair values disclosed are the same as the carrying value.

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 assessment is subjective, but as with any assessed additional investment risk investors should expect to be rewarded through higher 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, managers and products, making use of its strong covenant as an open Public Sector Pension Scheme. As such it can take advantage of the potentially higher 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 – 47% of the Scheme's Holding in Financial Instruments (2012/13: 39%)

These are considered the most reliably quantifiable and easily liquidated i.e. 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 – 51% of the Scheme's Holding in Financial Instruments (2012/13: 59%)

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 Scheme's Holding in Financial Instruments (2012/13: 2%)

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. Cash deposits, current & long term assets/liabilities are not measured at 'fair value through profit and loss' per Note 11, but have been included in the table to illustrate a reconciliation to the financial instruments figure quoted in Note 11.

VALUATION CLASSIFICATION LEVEL	31 March 2013				31 March 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
FINANCIAL INSTRUMENT CLASSIFICATION								
Financial Assets								
Investments								
Equities	386,059	-	761	386,820	532,868	-	1,028	533,896
Fixed interest securities	130,009	-	-	130,009	130,882	-	-	130,882
Pooled investment vehicles	71,469	923,235	28,856	1,023,560	58,880	826,523	39,140	924,543
Derivative contracts	-	4,720	-	4,720	-	1,780	-	1,780
Cash deposits	13,669	-	-	13,669	53,096	-	-	53,096
Current & long-term assets	-	5,858	-	5,858	-	9,399	-	9,399
	601,206	933,813	29,617	1,564,636	775,726	837,702	40,168	1,653,596
Financial Liabilities								
Derivative contracts	-	(454)	-	(454)	-	(26)	-	(26)
Current & long term liabilities	-	(5,112)	-	(5,112)	-	(8,267)	-	(8,267)
Total Financial Instruments	601,206	928,247	29,617	1,559,070	775,726	829,409	40,168	1,645,303
Percentage of Financial Instruments	38.6%	59.5%	1.9%	100.0%	47.1%	50.5%	2.4%	100.0%

The decrease in level two category and increase in level one category reflects the temporary arrangement in 2012/13 whereby assets were held in pooled investment vehicles within the Legal and General passive portfolio while full procurement processes for new managers were undertaken. Because all the underlying assets were identifiable, easily quantified and the pooled fund is tradable at relatively short notice, the minimal increase in risk was considered acceptable. The new global equity manager mandates began in December 2013, involving the transfer out of pooled vehicles (level two) to quoted global equities (level one).

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 £0.439m (£0.640m unrealised gain and £0.201m realised loss) was recognised in the analysis of net gains for the year to 31 March 2014 (total £85.917m) in Note 11. Purchases of £16.224m and sales of £6.112m 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 31 March. The following table shows those expected to be realised more than twelve months from the Net Assets Statement date.

	31 March 2013 £'000	31 March 2014 £'000
Long Term Debtors		
Long term debtors - contributions	-	-
Long term debtors - employer exit	1,981	1,643
Total Long Term Assets	**1,981**	**1,643**
Long Term Debtors relating to (per IFRS headings):		
Central Government bodies	1,981	1,643
Other entities and individuals	-	-
Total Long Term Assets	**1,981**	**1,643**

'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 £0.329m is shown within 'Employer exit from the scheme due < 1 year' (see Note 12(b)) and the remainder of £1.643m 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 31 March. The following table shows those expected to be realised within twelve months of the Net Assets Statement date.

	31 March 2013 £'000	31 March 2014 £'000
Cash balances	**6,477**	**5,578**
Current Debtors		
Securities sold awaiting settlement	69	3,982
Investment income accrued	4,100	4,372
Property debtors	979	777
Contributions due	5,184	5,009
Employer exit from scheme due < 1 year	1,374	329
Miscellaneous	989	528
Total Current Debtors	**12,695**	**14,997**
Total Current Assets	**19,172**	**20,575**
Current Debtors relating to (per IFRS headings):		
Central Government bodies	844	624
Other local authorities	4,462	4,289
Other entities and individuals	7,389	10,084
Total Current Debtors	**12,695**	**14,997**

Securities sold awaiting settlement varies due to the timing of investment sales; this is the value of sale trades in progress at 31 March 2014. The volume of active trade transactions has increased in 2013/14 as two new global equity managers began mandates in December 2013.

Contributions due at 31 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 by Agilisys was accrued for in 2012/13 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 31 March. The following table shows those expected to be realised more than twelve months from the Net Assets Statement date.

	31 March 2013 £'000	31 March 2014 £'000
Long term Creditors		
Interest provision on long-term debt	392	350
Total Long term Liabilities	**392**	**350**
Long Term Creditors relating to (per IFRS headings):		
Other entities and individuals	392	350
Total Long term Liabilities	**392**	**350**

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 31 March. The following table shows those expected to be realised within twelve months of the Net Assets Statement date.

	31 March 2013 £'000	31 March 2014 £'000
Current Creditors		
Securities purchased awaiting settlement	271	3,753
Property creditors	2,146	2,266
Investment Managers fees	720	841
Tax payable	554	590
Interest provision on long-term debt	32	42
Miscellaneous	1,975	1,407
Total Current Liabilities	**5,698**	**8,899**
Current Creditors relating to (per IFRS headings):		
Central government bodies	554	590
Other local authorities	1,214	1,284
Other entities and individuals	3,930	7,025
Total Current Liabilities	**5,698**	**8,899**

Securities purchased awaiting settlement varies due to the timing of investment purchases; this is the value of buy trades in progress at 31 March 2014. The volume of active trade transactions has increased in 2013/14 as two new global equity managers began mandates in December 2013.

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 **www.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 (SIP) and the Cash Investment Policy can both be found in the Scheme Policy Document published on-line at: **www.cumbria.gov.uk/finance**.

During 2011/12 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 both 2012/13 and 2013/14, and are expected to be finalised during 2014/15. The SIP 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. The aim during 2014/15 is for the Investment Sub Group, introduced towards the end of 2013, to take on more responsibility for tactical investment manager performance monitoring from the Pension Committee thus freeing up Committee time to focus on more strategic issues.

As a further control, a substantial amount of due diligence is performed at the appointment stage both by Officers and 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 (i.e. it collects more in annual income than it requires to fulfil all obligations). However, on contributions alone, the Scheme experienced a cash deficit of £5.351m in 2013/14 (£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 the medium term, in light of further anticipated reductions in local government budgets and the resultant workforce reductions, coupled with possible 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 31 March 2014 the value of assets which could be converted to cash within three months, without significant loss to the Scheme, is £1,595.736m, i.e. 90% of net assets (31 March 2013 £1,523.595m 92%). The value of the illiquid assets was £178.994m which represented 10% of net assets (31 March 2013 £135.486m, 8%).

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 2013 £'000	31 March 2014 £'000
Due 1 to 2 years	42	52
Due 2 to 5 years	183	211
Due 5 to 10 years	167	87
Total Long term liabilities	**392**	**350**

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. Market risk reflects interest rate risk, currency risk and other price risks.

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 (e.g. infrastructure and real estate debt) 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.

	2013/14 £'000	% Change	Value on Increase	Value on Decrease
UK Equities	458,565	12.4%	515,427	401,703
Overseas Equities	557,085	12.2%	625,049	489,121
Bonds	200,248	6.7%	213,665	186,831
Index Linked Gilts	277,552	8.9%	302,254	252,850
Alternatives	47,248	4.9%	49,563	44,933
Cash	101,719	0.1%	101,821	101,617
	1,642,417		**1,807,779**	**1,477,055**

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 31 March 2014, the Scheme had overseas investments (excluding forward foreign exchange contract) of £618.551m and £4.710m 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 £31.163m, or 1.8% of the Scheme's total value. The fund holds many difference currencies. To assess the risk the Scheme is exposed to as a result of holding these currencies Officers have concluded, taking into account information provided by Scheme's performance monitoring advisor (State Street Investment Analytics), that a 5% movement is a reasonable measure to apply across the basket of currencies.

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 known for LGPS's 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 in line with recognised practice 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 31 March 2014, 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 and cash-like holdings as at 31 March 2014 were £5.578m (2012/13: £6.477m) within current assets (see Note 12(b)), £47.518m (2012/13: £7.192m) shown as cash within investments (see Note 10), and a further £13.615m shown as unit trusts in Note 10 where BlackRock and Schroders invest in their in-house Money Market Funds as part of their portfolios. In addition to this, £35.008m of the Scheme's holding in unitised insurance policies shown in Note 10 under pooled investments, is ultimately held in the passive manager's Money Market Fund (Legal and General), and as such is included below. The credit ratings of the accounts and funds were as follows:

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 as our fiduciary agent to demonstrate 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.

Summary	Rating	Balances as at 31 March 2013 £'000	Balances as at 31 March 2014 £'000
Money Market Funds			
SSGA GBP Liquidity Fund	AAA	-	40,526
SSGA EUR Liquidity Fund	AAA	-	43
Legal & General Sterling Liquidity Fund	AAA	-	35,008
BlackRock Institutional Sterling Cash	AAA	44,219	-
BlackRock Institutional Cash USD	AAA	-	7,460
Schroder Offshore Cash Guernsey	AAA	-	6,155
Bank deposit accounts			
National Westminster Bank	A	6,477	5,578
Bank current accounts			
State Street Bank & Trust	A+	3,474	4,721
Barclays Bank	A	3,678	1,759
Short Term Deposit			
Bank of New York call account	AA-	40	469
Total		**57,888**	**101,719**

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 i.e. £1.754m gain at 31 March 2014.

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 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	2012/13 £'000	2013/14 £'000
Fixed interest securities (including pooled investments)	522,157	477,800
Cash and cash equivalents	13,669	12,527
Money market funds and pooled cash vehicles	44,219	89,192
	580,045	**579,519**

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 Scheme and 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. The Scheme is increasing its allocation to infrastructure, and other alternative investment and debt products, and unquoted pooled funds give an efficient method of accessing exposure to these assets.

Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31 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 31 March 2014 are in the table below.

Asset Class	2012/13 £'000	2013/14 £'000	Manager	Holding Details
Equities				
Equity unquoted - UK	761	1,028	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	890,270	855,937	Legal and General	Index tracking funds.
Other managed funds	61,821	31,014	Blackrock	Alternative funds - hedge funds, private equity, commodities. A mix of in-house funds and funds external to BlackRock.
	0	2,946	Aberdeen	Overseas property funds (ex-BlackRock).
	0	10,237	Partners Group	Infrastructure fund.
	0	537	M&G	Real Estate Debt funds.
	952,852	**901,699**		

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 in the table overleaf.

	2012/13 £'000	2013/14 £'000
Standard Life	1,004	1,014
Scottish Widows	1,170	1,074
Equitable Life	1,006	923
Total AVCs	**3,180**	**3,011**

AVC contributions of £0.114m were paid directly from employees pay to the providers during the year (2012/13: £0.147m).

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 has not for example invested 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 2013/14 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 2013/14.

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 2013/14 (see Note 15 to those statements).

In the interests of transparency the Scheme has incorporated disclosure of the remuneration of Senior Officers employed by Cumbria County Council who have responsibility of the management of the Scheme to the extent that they have power to direct or control the major activities of the Scheme (in particular activities involving the expenditure of money) whether solely or collectively with other persons:

Note 1: Following a change in the Corporate structure of the Senior Management of the Council, the direct involvement of the Corporate Director – Resources in the day business of the Pensions Committee ceased after March 2013 and the involvement of the Assistant Director – Finance (s.151 Officer), increased correspondingly. The Senior Manager – Technical Finance (deputy s.151 – LGPS) undertook work for the Scheme in 2012/13 but did not meet the criteria for disclosure as a Senior Officer with significant management responsibilities for Cumbria LGPS in that year, however following the realignment of responsibilities as a result of the change in structure, the Senior Manager has been included in Senior Officer disclosure for 2013/14.

In addition to the Remuneration of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS details, there was one officer working on Cumbria LGPS who received annual remuneration in the £50,000 to £54,999 range during the year, however the remuneration of the Officer in respect of work undertaken on behalf of the Scheme was less than £50,000 during the year.

During 2012/13, in addition to the Remuneration of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS, one officer received remuneration in the £50,000 – £54,999 range and one officer in the £65,000 – £69,999 range however the remuneration of both Officers in respect of work undertaken on behalf of the Scheme was less than £50,000 during the year.

2013/14 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:

Post Title	Salary recharged to Cumbria LGPS £	Bonuses paid or receivable recharged to Cumbria LGPS £	Expenses allowance paid or receivable recharged to Cumbria LGPS £	Payment upon Termination of Employment recharged to Cumbria LGPS £	Total Remuneration excluding pension contributions recharged to Cumbria LGPS £	Employer's Pension contributions recharged to Cumbria LGPS £	Total Remuneration including pension contributions recharged to Cumbria LGPS £
Assistant Director – Finance (s.151 Officer)	11,250	0	0	0	11,250	1,458	12,708
Senior Manager – Technical Finance (deputy s.151 - LGPS)	52,527	0	0	0	52,527	6,776	59,303
Total	**63,777**	**0**	**0**	**0**	**63,777**	**8,234**	**72,011**

2012/13 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:

Post Title	Salary recharged to Cumbria LGPS £	Bonuses paid or receivable recharged to Cumbria LGPS £	Expenses allowance paid or receivable recharged to Cumbria LGPS £	Payment upon Termination of Employment recharged to Cumbria LGPS £	Total Remuneration excluding pension contributions recharged to Cumbria LGPS £	Employer's Pension contributions recharged to Cumbria LGPS £	Total Remuneration including pension contributions recharged to Cumbria LGPS £
Corporate Director – Resources (note 1)	6,403	0	0	0	6,403	826	7,229
Assistant Director – Finance (s.151 Officer)	6,452	0	0	0	6,452	829	7,281
Total	**12,855**	**0**	**0**	**0**	**12,856**	**1,655**	**14,510**

Notes

- Salary - includes salary in respect of the post and other payments received by the officer, for example, allowances for special duties.
- Expense allowances – includes expense allowances liable for taxation including for example, travel and mileage expenses. For 2013/14 (and 2012/13) the Council's mileage rate was at or below the HMRC rate so there is deemed to be no benefit received.
- Employer's Service Pension Contribution – LGPS 12.9% (current service cost).
- Time spent on LGPS – as noted above no officers are employed by Cumbria LGPS. The Scheme is therefore charged by Cumbria County Council for the time spent by officers undertaking Scheme work. These percentages are the time spent by Senior Officers during 2013/14 on Cumbria LGPS specific work.

NOTE 17: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

At 31 March 2014, the Scheme was legally obliged to complete the development at Acrewood Park, St. Albans of a new-build, multi-let trade counter estate of six units, following purchase of the site in March 2014. Work has commenced and monthly development payments will be made up to the maximum commitment of £7.073m, with the expectation that development will be complete in January 2015. See Note 10(b).

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 2013/14. The estimated value of claims still outstanding is £3.877m.

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, the Austrian settlement received in 2012 and the partial repayments received from the Spanish Tax Authorities in 2013 lend some optimism as to the success of recovering additional income for the Scheme. Additional Fokus “top-up” claims have been submitted in Germany and Italy during 2013/14.

Further claims have also 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 £0.767m, 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 £0.396m, 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 2013/14 are considered to be recoverable with no impairment.

There were no impairments of investments during 2013/14.

Financial assets that are past due as at 31 March but not impaired:

The Scheme generally allows a payment period of 30 days. Included within current debtors (see Note 12(b)) are £0.095m of debtors aged between two and six months (£0.016m 2012/13). Debtors aged greater than six months are fully provided for; these totalled £0.011m as at 31 March 2014 (£0.048m 2012/13).

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 25% during March 2014.

Securities on loan at the 31 March 2014 of £53.713m (2012/13: £35.101m) are included in the net asset statement to reflect the scheme's continuing economic interest in the securities, and consist of £47.415m UK equities and £6.298m overseas equities (2012/13: £30.330m UK equities and £4.771m overseas equities). The related collateral totalled £56.406m (2012/13: £37.103m), consisting £34.403m overseas bonds and £22.003m UK equities (2012/13: £21.800m overseas bonds and £15.303m UK equities).

For the year to 31 March 2014, the scheme earned income of £0.063m (2012/13 £0.118m) through stock lending of the various assets (as detailed in Note 8).

NOTE 21: POST BALANCE SHEET EVENTS

The membership of the Cumbria Probation Trust transfers to the Ministry of Justice from 1 June 2014, along with Probation Trusts nationally and will be run from the Greater Manchester Pension Fund (GMPF). The corresponding transfer of assets to GMPF is expected to happen during 2014/15 and the mechanics for this is to be agreed nationally by October 2014 (current estimates value the transfer at approximately £35m).

There are no other 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	Investments at Level 1 & 2 - Valuations depend on market forces impacting the current price of stocks, shares and other investment instruments. Investments have been valued at the IFRS accepted method of 'Fair Value' since 2008/09, this being the 'bid price' where possible. Investments Level 3 – the hardest to value holdings often do not depend on market forces, but are subject to uncertainties unique to each holding. Valuations are mostly based on future cash flow so will depend on the expectations of the specific income streams and inflation linkage. Property – valuations use the expected cashflow streams from current leases with reference also to the value of the property on the open market.	For every 1% increase in market value, the value of the Scheme will increase by approx £17.6m, with a decrease having the opposite effect. Level 3 investments – often income will be inflation linked eg RPI uplifts, based on throughput eg power production or infrastructure usage, or underlying company performance in the case of private equity. If actual outcomes for these variables differ greatly from expectations, valuations can be lower than expected and also higher too. Manager skill and experience is essential in predicting the variables, planning and controlling the outcomes. Property – when properties are marketed for sale, the bids received from interested buyers can be above or below valuation due to market reasons; for each case the underlying factors would be considered before acceptance or otherwise of the sale.
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 £50m increase in deficit shortfall (ie £457m to £507m). The Actuarial Valuation at March 2013 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 31 March 2013 is available on the County Council's website, at **www.cumbria.gov.uk/finance**.

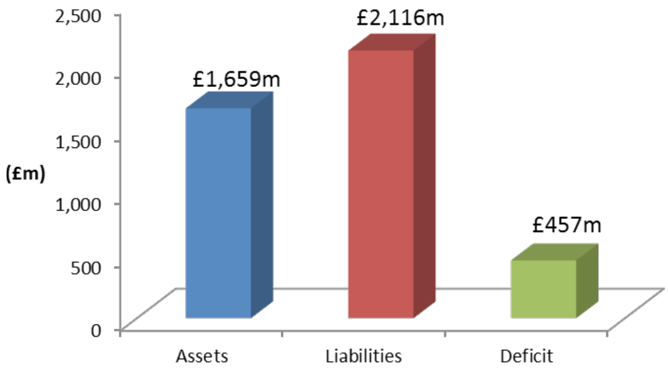
CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

Accounts for the year ended 31 March 2014 – Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2013.

An actuarial valuation of the Cumbria Local Government Pension Scheme was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Scheme's assets of £1,659 million represented 78% of the Fund's past service liabilities of £2,116 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £457 million.



78% funded

The valuation also showed that a common rate of contribution of 14.2% 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. It allows for the new LGPS benefit structure effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 83% with a resulting deficit of £343 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Scheme, the updated deficit would be eliminated by a contribution addition of £20m per annum increasing at 4.1% per annum (equivalent to approximately 8.0% of projected Pensionable Pay at the valuation date) for 19 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the 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.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of 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)	4.6% pa	5.6% pa
Rate of pay increases	4.1% pa*	4.1% pa
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% pa	2.6% pa

*allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Scheme is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

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 2014 (the 31 March 2013 assumptions are included for comparison):

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% pa	4.5% pa
Rate of pay increases	4.15% pa	3.9% pa*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% pa	2.4% pa

*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. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.). The pay increase assumption at the year end has also changed to allow for a short-term public sector pay restraint as detailed in the actuarial valuation.

The value of the Scheme's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £2,302 million. The effect of the changes in actuarial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by c£159 million. Adding interest over the year increases the liabilities by a further c£97 million, and allowing for net benefits accrued/paid over the period increases the liabilities by another £7 million (including any increase in liabilities arising as a result of early retirements/augmentations). Finally, allowing for actual vs expected membership experience, which emerged at the 2013 valuation, gives a reduction in liabilities of c£41 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £2,206 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited, June 2014

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 2013/14.

From 1 April 2013, the Code of Practice on Local Council Accounting in the United Kingdom (the Code) has not introduced any changes in accounting policies required for 2013/14. The only change considered to have an impact on LGPS employers and not the Pension Scheme Accounts is:

- IAS 19 Employee Benefits – IAS19 changed for accounting years starting on or after 1 January 2013, and this affects the LGPS employers only, rather than the Pension Scheme.

NOTE 25: PARTICIPATING EMPLOYERS OF THE SCHEME

As at 31 March 2014 the scheduled and admitted bodies within the Cumbria Local Government Pension Scheme were:

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 (48)

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
Cumbria Police & Crime Commissioner
Cumbria Probation Service
Cumbria Waste Management
Dallam Academy
Dearham Primary Academy
Eaglesfield Paddle Academy
Furness Academy
Furness College
Ghyllside Academy
Gilsland Academy
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
Orian **(New)**
Penny Bridge Academy **(New)**
Queen Elizabeth Academy
Queen Elizabeth Grammar Academy
Richard Rose Academies
Seaton Academy
Settlebeck High Academy
Stramongate Academy
The Queen Katherine School Academy
Trinity Academy
Valuation Tribunal Service
Ulverston Town Council
West Lakes Academy
Whitehaven Academy **(New)**
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 (36)

Attendo Monitoring (Leaving)
Barrow & District Soc for Blind
Barrow Citizens Advice (Leaving)
Carlisle Leisure Allerdale
Carlisle Leisure Ltd
Commission for Social Care Inspection
Creative Management Services (Leaving)
Creative Management Support **(New)**
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 - Police
Mellors Catering Services - Whitehaven
Morton Community Centre
North Country Leisure (Copeland)
Oaklea Trust
People First - No. 2 **(New)**
People First
Riverside Housing
Soundwave
South Lakeland Leisure (Leaving)
South Lakes Housing
South Lakes Services **(New)**
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

9 Funding Strategy Statement

In line with CIPFA guidance the below Funding Strategy Statement (FSS) at 9.1 is as it stood at the beginning of the reporting period (1 April 2013). In conjunction with the completion of the triennial valuation in 2013 the FSS was updated and approved by the Pensions Committee in March 2014. A copy of the revised FSS is included at 9.2 with key changes since the March 2011 version highlighted in grey.

9.1 Funding Strategy Statement (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.

1.1 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.

1.2 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.

1.3 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).

1.4 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.

1.5 Solvency Issues and Target Funding Levels

1.5.1 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.

1.5.2 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 three 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.

1.5.3 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.

1.5.4 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.

1.6 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 **www.cumbria.gov.uk/finance**.

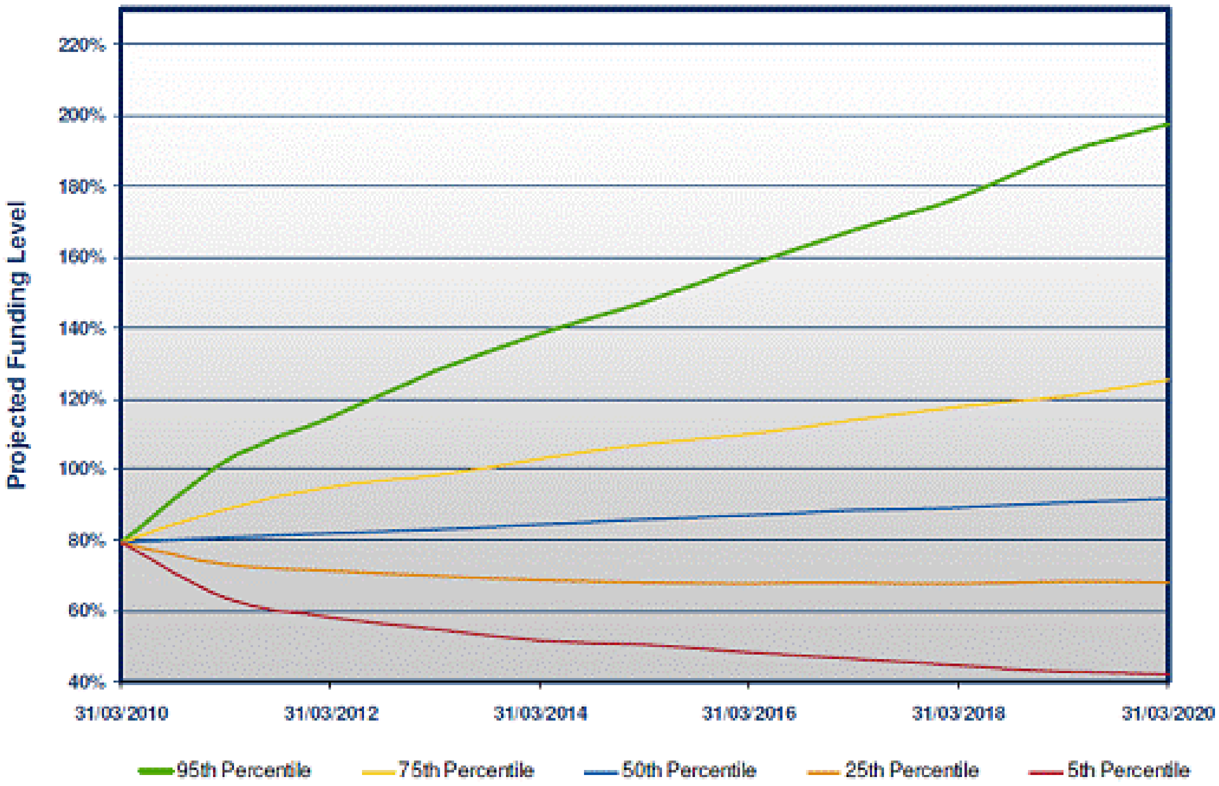
The funding strategy adopted for the 2010 valuation is based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 1% in respect of post-retirement liabilities. Based on the liability profile of the Fund at the valuation, this equates to an overall long-term asset out-performance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

1.7 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 ten year



period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower).

The CIPFA guide identifies the following key risks:

Financial

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

Demographic

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

Regulatory

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

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Further details concerning the governance of the fund can be found in the Scheme's Governance Policy Statement, which is included in the Cumbria LGPS Annual Report and Accounts, and is available on-line at **www.cumbria.gov.uk/finance**.

1.8 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.

1.9 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.

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

1.10.1 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" (i.e. active and deferred pensioner) liabilities than for the "post-retirement" (i.e. pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the Fund as the liability profile of the membership matures over time.

1.10.2 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.

1.10.3 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.

1.10.4 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.

1.10.5 Pension increases

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

1.10.6 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.

1.10.7 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.

1.10.8 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.

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

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

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

- contributions will be invested in market conditions applying at future dates, which are unknown at the

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

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

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

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

1.12 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.

9.2 Funding Strategy Statement (March 2014)

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 October 2012 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1 Introduction

1.1 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 (FSS). The key requirements for preparing the FSS can be summarised as follows:

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

1.2 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 Scheme published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);

1.3 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.

1.4 Benefits payable under the Scheme 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.

1.5 The Scheme 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). Updated regulations (The Local Government Pension Scheme Regulations 2013) covering a new Local Government Pension Scheme (LGPS) were laid before Parliament in September 2013. The new Scheme will replace the existing Scheme with effect from 1 April 2014 and will provide for members to accrue pension on a career average revalued earnings basis rather than final salary. There is also the introduction of a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution. The actuary has taken this into account in determining employer contribution rates in the 2013 actuarial valuation. The required levels of employee contributions are also specified in the Regulations.

1.6 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 Scheme 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.

2 Purpose of the FSS in policy terms

2.1 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.

2.2 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 desirability of maintaining as nearly constant a common contribution rate as possible; and
- to take a prudent longer-term view of funding those liabilities.

2.3 This framework is designed to ensure the funding strategy is both cohesive and comprehensive for the Scheme as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the funding strategy applicable to individual employers or categories of employers must be reflected in the FSS, its focus should at all times be on those actions which are in the best long-term interests of the Scheme. Consequently the FSS should remain a single all-employer-encompassing strategy for the Administering Authority to implement and maintain, for it is to the Administering Authority that the obligation to pay pension benefits ultimately falls. It is the strength of the relationship between the interested parties which will support the long-term sustainability of each pension fund and the appropriate funding of its liabilities.

3 Aims and purpose of the Cumbria Local Government Pension Scheme

3.1 The aims of the Scheme are to:
- enable employer contribution rates to be kept as nearly constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency, which should be assessed in light of the risk profile of the fund and the risk appetite of the Administering Authority and employers alike;
- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due; and
- seek returns from investments within reasonable risk parameters.

3.2 The purpose of the Scheme 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).

4 Responsibilities of the key parties

4.1 The Administering Authority should:
- operate a pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in LGPS Regulations;
- pay from the pension fund the relevant entitlements as stipulated in LGPS Regulations;
- invest surplus monies in accordance with the Regulations;
- take measures as set out in the regulations to safeguard the fund against the consequences of employer default;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the Scheme's actuary;
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties;
- monitor all aspects of the Scheme's performance and funding and amend the FSS/SIP as and when appropriate; and
- effectively manage any potential conflicts of

interest arising from its dual role as both fund administrator and scheme employer.

4.2 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;
- develop a policy on certain discretions and exercise those 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.

4.3 The Scheme 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, such as pension strain costs, ill health retirement costs, compensatory added years costs, etc.;
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds or other forms of security against the financial effect on the fund of employer default;
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the regulations;
- ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the fund; and
- advise on funding strategy, the preparation of the FSS, and the interrelationship between the FSS and the SIP.

5 Solvency Issues and Target Funding Levels

5.1 The funding objective

5.1.1 To meet the requirements of the Regulations the Administering Authority's long term funding objective is for the Scheme 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.

5.2 Determination of the funding target and recovery period

5.2.1 The principal method and assumptions to be used in the calculation of the funding target are set out in sections 9 and 10 below.

5.2.2 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.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:

- some allowance for interest rates and bond yields to revert to higher levels over the medium to long term; and
- whether some allowance for increased investment return can be built into the funding plan over the agreed recovery period.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

5.2.3 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.

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

- The Scheme 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 Scheme 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.
- Where an employer is closed to new members the Scheme will look to recover the deficit over the employer's average future working lifetime (AFWL) although, in exceptional circumstances and subject to considerations of risk including the strength of the employer covenant, there may be some scope to extend this period.
- For fixed term contracts with an outstanding period (where known) of less than 19 years (open contracts) / AFWL (closed contracts) the Scheme will look to use the lower period for deficit recovery.
- For academies the Scheme applies a deficit recovery period of 19 years (with no option for extension).
- 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 2014, following completion of the 2013 actuarial valuation, the increase from the rates of contribution payable in the year 2014/15 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 2014. In such cases the amount of that reserve will be taken into account in determining the employer's contribution rate from 1 April 2014. 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.

5.2.5 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.

5.2.6 Employer covenant – as part of the 2013 valuation the Scheme in consultation with the Actuary has undertaken a review of the financial covenants of employers participating in the Scheme. This risk based approach includes assessment of their pension liabilities, this includes assessment of the employers liabilities under the Scheme and contingent security available such as a guarantor or bond arrangement, charges over assets, etc.

5.2.7 This is monitored in-between valuations on a risk assessed approach.

5.3 **Deficit recovery plan**

5.3.1 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.

5.3.2 Additional contributions will be expressed as lump sum £ amounts.

5.3.3 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 Scheme or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

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

5.4.1 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 section 10.

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

6.1 The results of the 2013 valuation show the accrued liabilities to be 78% covered by the current assets, with the funding deficit of 22% being covered by future deficit contributions due from participating employers.

6.2 In assessing the value of the Scheme'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 Scheme, as set out in the Statement of Investment Principles (SIP).

6.3 It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outflow. 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.

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

6.5 If, at the valuation date, the Scheme 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 Scheme investments. On this basis of assessment, the assessed value of the Scheme's liabilities at the 2013 valuation would have been significantly higher, by approximately 35% (figure subject to final confirmation) and the declared funding level would be correspondingly reduced to approximately 58% (figure subject to final confirmation).

6.6 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.

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

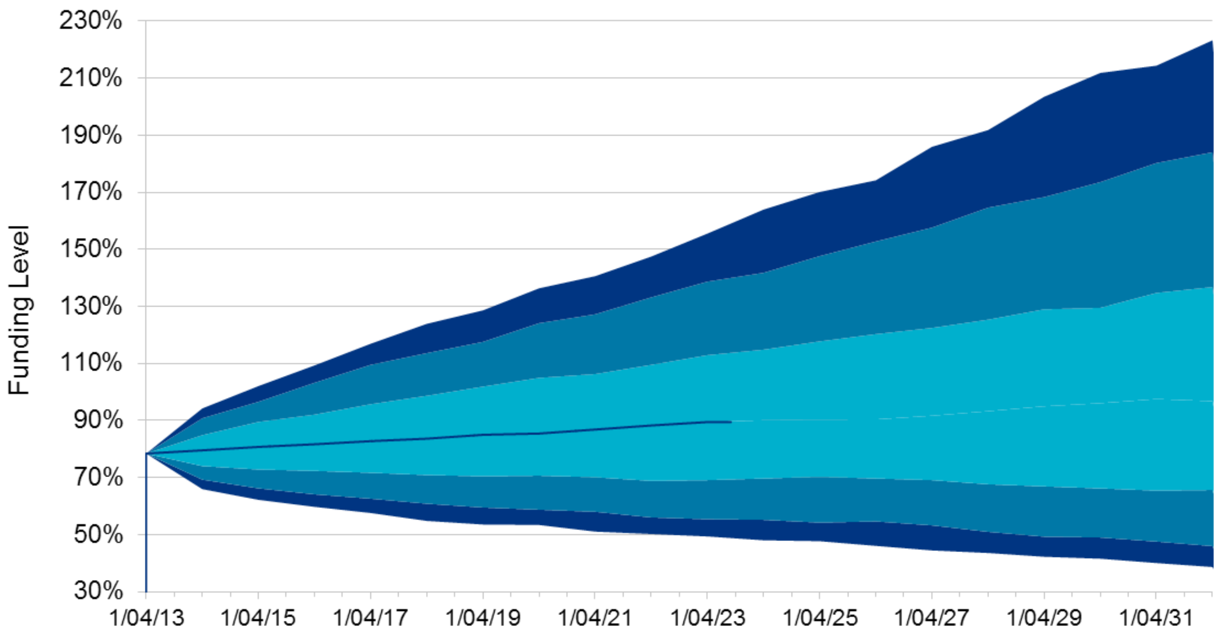
6.8 The funding strategy adopted for the 2013 valuation is based on an assumed asset out-performance of 1.4% per annum in respect of liabilities pre and post-retirement. The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the investment strategy adopted as set out in the SIP.

7 Identification of risks and counter-measures

7.1 The funding of defined benefits is by its nature uncertain. Funding of the Scheme 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.

7.2 The Administering Authority has been advised by the actuary that the greatest risk to the Scheme'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 2013 valuation assumptions.

7.3 The chart over the page 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 20 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower).



7.4 The CIPFA October 2012 guidance identifies the following key risks:

- Investment risk – the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:
  - assets not delivering the required return (for whatever reason, including manager underperformance).
  - systemic risk with the possibility of interlinked and simultaneous financial market volatility.
  - insufficient funds to meet liabilities as they fall due.
  - inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon.
  - counterparty failure.

  The specific risks associated with assets and asset classes are:
  - equities: industry, country, size and stock risks.
  - fixed income: yield curve, credit risks, duration risk and market risks.
  - alternative assets: liquidity risk, property risk, alpha risk.
  - money market: credit risk and liquidity risk.
  - currency risks.
  - macroeconomic risks.

- Employer risk – those risks that arise from the ever-changing mix of employers; from short-term and ceasing employers; and the potential for a shortfall in payments and/or orphaned liabilities.

- Liquidity/maturity risk – the LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery, which result in active members leaving the LGPS; transfers of responsibility between different public sector bodies; scheme changes which might lead to increased opt-outs; the implications of spending cuts (the ONS recently reported that 204,000 jobs were cut in local government during 2011/12) – all of these will result in workforce reductions that will reduce membership, reduce contributions and prematurely increase retirements in ways that may not have been taken account of fully in previous forecasts.

- Liability risk – inflation, life expectancy and other demographic changes, interest rate and wage and salary inflation will all impact upon future liabilities.

- Regulatory and compliance risk – occupational pensions in the UK are heavily regulated, with thousands of pages of both general and LGPS-specific legislation that must be complied with.

The LGPS is also going through major structural changes as administering authorities assess the implications of, and prepare for, LGPS 2014.

7.5 Further details concerning the governance of the Scheme (including risk management) can be found in the Scheme's Governance Policy Statement, which is included in the Cumbria LGPS Annual Report and Accounts, and is available on-line at **www.cumbria.gov.uk/finance**.

8 Monitoring and Review

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

8.2 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.

8.3 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 Scheme membership, and/or funding maturity profile, and/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 Scheme.

9 Method used in calculating the funding target and recovery plan

9.1 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.

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

10.1 **Investment return (discount rate)**

10.1.1 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 1.4% p.a. for the period pre and post-retirement.

10.1.2 The asset out-performance assumption represents the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Scheme 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. Implicitly this allows for a higher assumption in respect of the "pre-retirement" (i.e. active and deferred pensioner) liabilities than for the "post-retirement" (i.e. pensioner) liabilities, but then presented as a single average overall rate. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the Scheme as the liability profile of the membership matures over time.

10.2 **Inflation (Consumer Prices Index)**

10.2.1 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
- An allowance for long term CPI to be less than long term RPI
- The overall reduction to RPI inflation at the valuation date is 1.0% p.a.

10.3 **Salary increases**

10.3.1 The long term assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. A short term pay growth adjustment will also apply at 1% p.a. for three years.

10.4 **Pension increases**

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

10.5 **Mortality**

10.5.1 The mortality assumptions have been updated since the 2010 actuarial valuation in the light of an investigation carried out by the Scheme's actuaries. For the 2013 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 2012 projections model, with longer term improvements being set at 1.5% p.a.

10.5.2 Members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older (for existing pensioners) / 4 years older (for current active members).

10.6 **Commutation**

10.6.1 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.

10.7 **Other demographics**

10.7.1 Following an analysis of scheme experience carried out by the Actuary, the retirement age, ill health and proportions married assumptions have been modified from the 2010 valuation. Other assumptions are as per the 2010 valuation. In addition, allowing for take-up of the 50:50 option will be made up to a maximum of 10% of current and future members for certain employers (on agreement with the Administering Authority).

10.8 **Method and assumptions used in calculating the cost of future accrual**

10.8.1 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.

10.8.2 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.

10.8.3 The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of CPI price inflation) of 3.0% per annum. This give rise to an overall discount rate of 5.6% p.a.

10.8.4 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 2013 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.

10.8.5 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.

11 Summary of key whole Scheme assumptions used for calculating funding target, recovery plan and cost of future accrual (the "normal cost") for the 2013 actuarial valuation

Financial assumptions

Long-term gilt yields

Fixed interest	3.2% p.a.
Index linked	-0.4% p.a.
Market implied RPI inflation	3.6% p.a.
Inflation adjustment	-1.0% p.a.

Past service Funding Target financial assumptions

Investment return	4.6 % p.a.
CPI price inflation	2.6% p.a.
Salary increases	4.1% p.a.*
Pension increases	2.6 % p.a.

Future service accrual financial assumptions

Investment return	5.6% p.a.
CPI price inflation	2.6% p.a.
Salary increases	4.1% p.a.
Pension increases	2.6 % p.a.

*For past service funding target calculations only, in the short term salaries are assumed to increase at 1% per annum for three years.

Demographic assumptions

The mortality tables adopted for this valuation are as follows:

	Table	Adjustment
Active members:		
Male normal health	S1PMA CMI_2012_M [1.5%]	92%
Female normal health	S1PFA CMI_2012_F [1.5%]	87%
Males ill health	As for male normal health pensioners +4 years	
Female ill health	As for female normal health pensioners +4 years	
Male future dependants	S1PMA CMI_2012_M [1.5%]	106%
Female future dependants	S1DFA CMI_2012_F [1.5%]	98%
Deferred members:		
Male	S1PMA CMI_2012_M [1.5%]	112%
Female	S1PFA CMI_2012_F [1.5%]	101%
Male future dependants	S1PMA CMI_2012_M [1.5%]	106%
Female future dependants	S1DFA CMI_2012_F [1.5%]	98%
Current pensioner members:		
Males normal health	S1PMA CMI_2012_M [1.5%]	98%
Female normal health	S1PFA CMI_2012_F [1.5%]	96%
Males ill health	As for male normal health pensioners +3 years	
Female ill health	As for female normal health pensioners +3 years	
Male current dependants	S1PMA CMI_2012_M [1.5%]	162%
Female current dependants	S1DFA CMI_2012_F [1.5%]	111%
Male future dependants	S1PMA CMI_2012_M [1.5%]	110%
Female future dependants	S1DFA CMI_2012_F [1.5%]	101%

Other demographic assumptions have been based on LG scheme specific experience.

12 Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the two exceptions:

- **Changes in Financial Conditions after the Valuation Date**

  Subsequent to the valuation date, market conditions moved such that the funding position improved, most notably due to an increase in long-dated real yields. It has been agreed that these funding level improvements, as measured approximately up to the end of August 2013, will be taken into account in determining the recovery plans for employers.

- **Further Future Yield Reversion**

  In addition to the above, for certain employers which are considered by the Administering Authority to provide a high level of financial covenant and are required to increase contributions (compared to the 2014/15 levels that would have been payable under the previous funding plan), an allowance may be made as part of the recovery plan for interest rates and bond yields to revert to higher levels over a period of 10 years.

  In isolation, the effect of this increase in yields is to reduce the funding deficit by primarily lowering the value of the fund's liabilities over time, thus reducing the level of deficit contributions required by the employer during the recovery period. The effective further increase in fixed and index linked gilt yields, as measured as at 31 August 2013, is 0.4% p.a. reflecting assumed increases in gilt yields over a 10 year period.

As indicated above, this variation to the assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of increased gilt yields over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the impact of the anticipated increases in gilt yields will be limited so that the total employer contributions emerging from the valuation will be no less the 2014/15 levels that would have been payable under the previous funding plan.

10 Statement of Investment Principles – March 2014

In line with CIPFA guidance the below Statement of Investment Principles (SIP) is the current version of the SIP. Details of the Investment policy and performance of the Scheme are detailed in section 4 of this report. Details of the risks relating to the Scheme's Financial Instruments are detailed in note 11 of the Pension Fund Accounts (included at section 8 of this report).

1.1 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.

1.2 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 approving the investment policy for the Pension Fund.

Cumbria Pensions Investment Sub Group
There has been a change in structure during 2013/14 with the formation of a dedicated Investment Sub Group to allow delegation of some investment manager monitoring and appointments, thus speeding up decision making. This will free-up limited Committee agenda time and allow Members to focus on the issues that add most value to the Scheme. The Investment Sub Group consider, and continually review the investment management structure for the Pension Scheme and are responsible for overseeing the appointment and termination of investment managers and the establishment and review of performance benchmarks and targets for investment. The group will also consider the detail of any regulatory changes to investment limits or national policy changes that are made in this area, reporting to the Pensions Committee on their findings and recommendations.

Strategy Review

A Strategic Investment Review was carried out during 2012 leading to alterations to the investment structure of the Fund. Standard Life were appointed in October 2012 to manage a 'buy and maintain' bond mandate, and two new global equity managers were appointed in December 2013, Nordea and Loomis Sayles. Changes to the asset structure of the Fund's fixed income is currently being considered. We expect all other changes to take place over the next 12 – 24 month period. The latest SIP was approved by the Pensions Committee held on 13/14 March 2014.

1.3 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 nineteen year period from April 2013. This target is reviewed after periodic actuarial valuations and consultation with scheme employers and may be undergo a partial or full review at other times should circumstances warrant it.
- The funding level of the scheme to move towards 100% over a maximum fund recovery period of nineteen years from April 2013. 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 be paid to this Universe over the longer term.

1.4 Types of investments to be held

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

1.5 Balance between different types of investments

The Scheme currently holds assets across a range of products and managers to diversify risk. At March 2014 the Scheme employed eight managers to diversify the investment manager risk. Pooled funds will be chosen for the infrastructure and opportunistic investments. The allocations to both manager and asset classes are reviewed on an ongoing basis by the Scheme's 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 are transition target asset allocations for 2013/14 and 2014/15, and the final which the Scheme hopes to achieve following 2014/15.

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

Asset/Manager	Allocation at Dec 2013 %	Transitional SIP aim March 2014 %	Transitional SIP 2014/15 %	Final SIP %
Equity				
-UK	26.2%	24.4%	14.5%	10%
-Global Other	24.5%	24.5%	24.5%	20%
-Global Low Volatility	9.0%	9.0%	10.0%	10%
Alternatives				
- Infrastructure	0.9%	0.9%	5.0%	9%
-Opportunistic	2.8%	2.2%	7.0%	9%
Property	6.4%	9.0%	9.0%	9%
Growth total	**69.8%**	**70.0%**	**70.0%**	**67.0%**
UK Gilts	0%	0%	0%	0%
Corp Bonds	14.8%	7.5%	7.5%	14%
IL Bonds	13.8%	17.0%	17.0%	17%
Strategic Cash	1.6%	5.5%	5.5%	2%
Defensive total	**30.2%**	**30.0%**	**30.0%**	**33.0%**
	100.0%	100.0%	100.0%	100.0%

Throughout the period of change, an appropriate weighted benchmark will be used. 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 31/12/2013	Mandate
Schroder (UK Equities)	14.1%	To outperform the FTSE All Share Index by 1% after fees over rolling three year periods.
Nordea (Global Equity – Low Volatility)	9.0%	To outperform by 2% after fees the MSCI All Country World index (net dividends reinvested) over rolling five year periods, with volatility of less than 75%.
Loomis Sayles (Global Equity – High Conviction)	9.2%	To outperform by 3% after fees the MSCI All Country World index (net dividends reinvested) over rolling five year periods.
Legal and General Passive (Multi Asset)	48.7%	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.

Manager	Percentage of total fund 31/12/2013	Mandate
Aberdeen (UK Property)	6.2%	To outperform the IPD Quarterly Universe after fees over rolling three-year periods.
Standard Life	7.5%	Buy and then hold a diversified portfolio of corporate bonds, avoiding those with downgrades and defaults, maintaining a low turnover.
Infrastructure, opportunistic and other alternatives pooled funds	5.3%	N/A
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 kept under ongoing review by the Investment Sub Group.

1.6 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, which reflect the circumstances of the Scheme. A new scheme-specific benchmark will be put in place once the implementation of the Strategic Investment Review changes has been completed.

1.7 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 (as amended). 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 increased limits enable the Fund to implement its management structure.
   The limit on a contribution to any single partnership is unchanged at 5% (of total assets of the Cumbria Fund).

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

1.8 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 £342 million as at 31 March 2013. (Actuarial Valuation)

1.9 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 Senior Investment Officer to the Scheme before they make any sales or purchases.

1.10 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.

1.11 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.

Note (1) CIPFA Pensions Panel: Management and Investment of Funds Shareholder responsibilities

1.12 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 a number of 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. Two independent Investment Advisers normally attend Pension Committee meetings. The formation of a dedicated Investment Sub Group allows delegation of some investment manager monitoring and appointments, thus speeding up decision making. This will free-up limited Committee agenda time and allow Members to focus on the issues that add most value to the Scheme. The investment sub-group will also consider the detail of any regulatory changes to investment limits or national policy changes that are made in this area, reporting to the Pensions Committee on their findings and recommendations. The Group comprises three Members of the Pensions Committee (including the Chair of the Committee), Senior Officers of the Council with responsibilities for the management of the Scheme including the Section 151 Officer and the senior investment officer to the Scheme Independent Advisors, and Investment Consultants to the Scheme at the invitation of the Sub Group. A smaller dedicated Investment Sub Group not only enables more nimble decision making but also that the members of the group can receive more intensive training in the relevant areas. The Pension Committee have their skills and experience developed through training events, external seminars and fund manager visits on a regular basis. 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.
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.

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, four managers have been terminated or replaced for under-performance. Investment Managers are constantly under review.

Principle 4 : Performance Assessment	Not Compliant	Fully Compliant
The Investment Sub-Group is responsible for continual review of the investment management structure for the Pension Scheme and for overseeing the appointment and termination of investment managers, and the establishment and review of performance benchmarks and targets for investment. 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 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.

11 Communications

11.1 Introduction

In a drive to improve access to relevant communications the Business Plan for 2014/15 has allocated resources to the development of a Cumbria LGPS specific website. We have also undertaken throughout the year both member and employer surgeries and briefing sessions across the County to keep interested parties informed of ongoing changes. The development and use of member and employer self-service has continued to be a key focus during 2013/14.

Regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008 requires that administering authorities prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities. The Cumbria LGPS Communications Policy forms part of the Administration Policy set out in section 5.4 of this report.

11.2 Methods of communication

The Communications Policy referenced above contains details of how information is provided to members, their representatives and employers and in what format. To make information more easily accessible to members and to provide value for money the principal method of communication is via electronic media (although where requested paper copies of all documentation are available). Through the shared service website (**www.yourpensionservice.org.uk/local_government**) Cumbria LGPS enables Scheme members, their representatives and employers to access detailed documents and information for example:

- A summary of the benefits of the Scheme and how to join the Scheme;
- The Scheme's Policy document;
- The Actuary's triennial valuation at March 2007, March 2010 and March 2013;
- Annual Reports for 2011/12 and 2012/13 (the 2013/14 Annual Report will also be available once published);
- 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 for Employers' including:
  - employer guides;
  - details of communications and conferences;
  - a range of other guides and factsheets; and
  - a useful links page.
- Employer Self Service – this enables employers to view pension database records for their employees and to calculate estimated benefits for their employees.
- Member Self Service – this allows members to go online at the YPS website (**www.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; and
  - View and download Scheme documents, guides, factsheets and leaflets.

In addition to this key documentation relating to Cumbria LGPS is also available on Cumbria County Council's website at: **www.cumbria.gov.uk/finance/finance/cumbrialgps.asp**

The Scheme recognises that not everyone has access to the internet and this information can also be obtained by calling YPS on 01772 530530 or by writing to Your Pension Service, PO Box 100, County Hall, Preston, Lancashire, PR1 0LD.

Additions to online services and communications, during 2013/14 with members and employers included:

- Ad hoc mailshots to employers: these are sent throughout the year to inform employers of key issues such as up and coming events and changes to the Scheme.
- November 2013 Practitioner Conference: the conference updated practitioners on the new 2014 Scheme and future data requirements.
- 2013 Scheme Talk publication sent to members and employers: this included details of how to obtain annual benefit statements and 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.
- November & December 2013 employer awareness sessions: a series of sessions were held across Cumbria to provide employers with the opportunity to learn more about the new 2014 Scheme.
- January to March 2014 Pension Roadshows: a series of road shows were held across Cumbria. These were aimed at bringing to the attention of all members the 2014 LGPS changes. The sessions consisted of presentations on the new Scheme followed by an opportunity of members to ask questions or speak to one of the advisors.

12 Other statements and information

12.1 Cumbria Local Government Pension Scheme Training Policy – June 2014

Contents

1.0 Cumbria LGPS Training Policy

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.

Key themes for training in 2014/15 will be:

- Strengthening internal governance arrangements in response to financial and regulatory changes resulting from the 2013 Public Service Pensions Act.
- Future structural changes expected from the outcome of consultations on reform of the LGPS's structure and investment policy.
- Investment in new asset classes for example the Healthcare Royalties product which is being reviewed by the Investment Sub Group.

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. In the context of LGPS reform, the Code and Framework are seen as meeting the requirements of the Public Sector Pensions Act 2013 and the reform agenda.

3.0 Measurement, Assessment and Training Provision

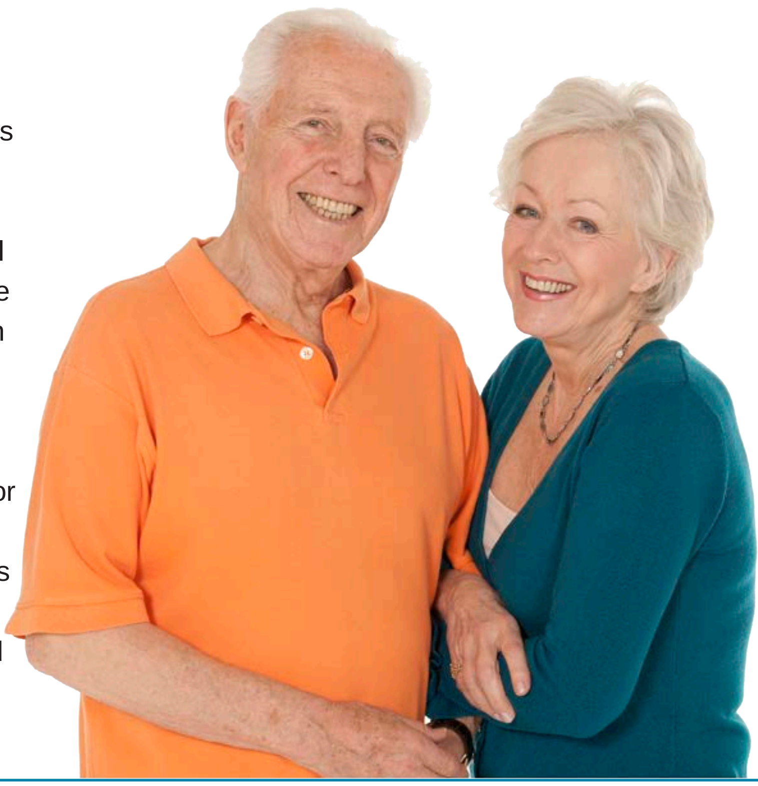
In order to identify training needs and assess whether we are meeting the CIPFA Framework requirements we will:

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.
- “Substitute 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 (e.g. 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 e.g. progress in the Schemes’ Annual Report and Accounts, and Governance Statement compliance with the CIPFA knowledge and Skills Framework and the Myners Principles.

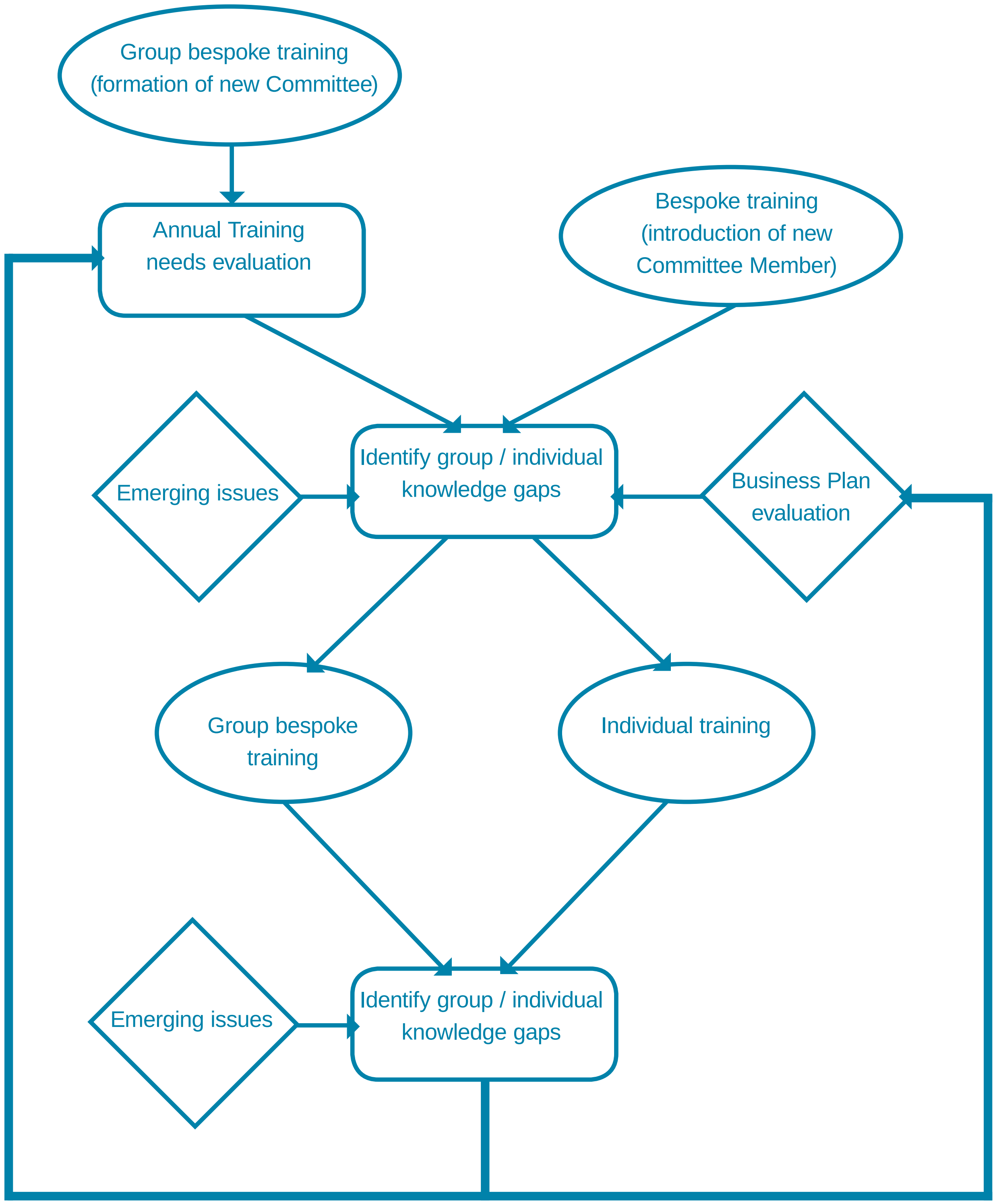
3.2 Officers

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 (e.g. 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 Plan (per the Business Plan Agreed at Committee March 2014)

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
May/June 2014 – Quarterly Pension Committee in Carlisle (6th June 2014)	**Pension Fund Management** Report from Investment Sub Group. Quarterly Monitoring Report to March 2014. **Governance and Procurement** Review of corporate governance monitoring arrangements. Update on structural reform and consultation response. **Training and Development** Training Policy & Plan 2014/15 Kieran Quinn – Corporate Governance
September 2014 – Quarterly Pension Committee in Carlisle (26th September 2014)	**Pension Fund Management** 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 Monitoring Report to June 2014. **Employers, Funding and Accounting** Annual Report & Accounts 2013/14 (audited). Review of Pensions Administration Contract. **Training and Development** Opportunistic Investing / Governance – to be confirmed.
October 2014 – Annual Pension Forum	**Other Issues** Annual Report and Accounts 2013/14 (audited). Performance report from Your Pension Service
November 2014 – Quarterly Pension Committee in Carlisle (25th November 2014)	**Pension Fund Management** Quarterly Monitoring Report to September 2014. **Governance and Procurement** Review Cash Investment Policy. Update of Scheme Discretions post finalisation of 2014 regulations. Annual Budget & Business 2014/15 Plan Half Year Update. **Training and Development** Training Policy & Plan 2014/15 Review.
March 2015 – Quarterly Pension Committee (9th & 10th March 2015)	**Pension Fund Management** Quarterly Monitoring Report to December 2014. **Governance and Procurement** Annual Budget & Business Plan 2015/16. Annual Review of Scheme Policy Document. **Training and Development** To be organised on review of emerging issues.

12.2 Discretions

All employers within the Scheme are required by regulations to formulate, publish and keep under review a policy statement in relation to the exercise of a number of discretionary functions under the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended). These discretionary functions relate to:

- The power of employing authority to increase total membership of active members (regulation 12);
- The power of an employing authority to award additional pension (13);
- Flexible retirement (18);
- Choice of early payment of pension (30); and
- Choice of payment of pension: pensioner member with deferred benefits (30A).

Following the introduction of the 2014 Scheme, CLGPS updated the Administration Authority discretions policy. Additionally each employer within the LGPS was required to review and update their individual employer discretions policy and submit these to the Administration Authority. At the time of writing, whilst a number of policies had been received, the Scheme was awaiting policies from 61 employers which it is actively chasing.

For details of Cumbria LGPS's Discretions Policy see section 12.2.1 of this report.

12.2.1 Discretions Policy – June 2014

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 13/14 March 2014 and amendments approved by the Cumbria Pension Committee held on 6 June 2014.

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

Discretions from 1.4.14 in relation to post 31.3.14 active members (excluding councillor members) and post 31.3.14 leavers (excluding councillor members), being discretions under:

- The Local Government Pension Scheme Regulations 2013 [prefix R]
- The Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [prefix TP]
- 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 (as amended) [prefix L]

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to issue actuarial guidance to administering authorities	R2(3)	Exercised by the Secretary of State
Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or care Quality Commission	R4(2)(b)	Depending on circumstances, and only in accordance with the published Fund Admission Policy
Whether to agree to an admission agreement with a body applying to be an admission body	R5(5) & RSch 2, Part 3, para 1	Depending on circumstances, and only in accordance with the published Fund Admission Policy
Whether to approve / withdraw approval of an admission body providing a public service in the UK and the conditions for such approval / withdrawal	RSch 2, Part 3, paras 1(e) and 2	Exercised by the Secretary of State
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	RSch 2, Part 3, para 9(d)	Yes as stated in termination policy. However in exceptional circumstances this may be varied.
Define what is meant by “employed in connection with”	RSch 2, Part 3, para 12(a)	After taking guidance from the transferor employer, and in accordance with the Fund Admission Policy.
Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment).	R16(1)	To turn down request where the monthly payment is below £10, or in the absence of a satisfactory medical report.
Whether to require a satisfactory medical before agreeing to an application to pay an APC / SCAPC and whether to turn down an application to pay an APC/SCAPC if not satisfied that the member is in reasonably good health.	R16(10)	Application from an employee wishing to spread the cost 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 (where AVC/SCAVC arrangement was entered into before 1/4/14)	TP15(1)(d) & A28(2)	Not to charge for work performed associated with the calculation of the membership credit for Additional Voluntary Contributions transfer into the Fund.
Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member.	R17(12)	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.
Pension account may be kept in such form as is considered appropriate.	R22(3)(c)	To maintain pension accounts in accordance with the approved administration policy.
Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment).	TP10(9)	In the absence of an election from the member the Administering Authority will make the final decision.
Whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement.	R30(8)*	Not to waive actuarial reductions on flexible retirement.
Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age.	R30(8)*	Not to waive actuarial reductions on benefits drawn voluntarily.
Whether to require any strain on Fund costs to be paid “up front” by employing authority following payment of benefits under R30(6) (flexible retirement), R30(7) (redundancy / business efficiency), or the waiver (in whole or in part) under R30(8) of any actuarial reduction that would otherwise have been applied to benefits which a member voluntarily draws before normal pension age or to benefits drawn on flexible retirement.	R68(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.

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether, in respect of benefits from pre 1/4/14 membership, to "switch on" the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60 (subject to a minimum actuarial reduction to the date the member meets the 85 year rule or to age 60, whichever is the later).	TPSch 2, para 2(2)*	Not to waive actuarial reductions or "switch on" the 85 year rule on benefits drawn voluntarily.
Whether to waive, on compassionate grounds, the actuarial reduction applied to benefits from pre 1/4/14 membership where the employer has "switched-on" the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60.	TPSch 2, para 2(3)*	Not to waive actuarial reduction on compassionate grounds.
Whether to require any strain on Fund costs to be paid "up front" by employing authority following waiver of actuarial reduction under TPSch 2, para 2(3).	TPSch 2, para 2(5)	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.
Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement.	R32(7)	Not to extend the time limit unless there are exceptional circumstances.
Decide whether to commute small pension.	R34(1)	Do this at the members request.
Approve medical advisors used by employers (for ill health benefits).	R36(3)	Delegated to Employer.
Whether to use a certificate produced by an IRMP under the 2008 Scheme for the purposes of making an ill health determination under the 2014 Scheme.	TP12(6)	To adopt this discretion.
Decide whether deferred beneficiary meets criteria of being permanently incapable of former job because of ill health and is unlikely to be capable of undertaking gainful employment before normal pension age or for at least three years, whichever is the sooner.	R38(3)	To take the advice of the Scheme IRMP, before any decision is made.

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Decide whether a suspended ill health tier 3 member is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health.	R38(6)	To take the advice of the Scheme IRMP, before any decision is made.
Decide to whom death grant is paid	TP17(5) to (8) & R40(2), R43(2) & R46(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.
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.	R49(1)(c)	Always pay the highest benefit to a member of the scheme.
Whether to set up a separate admission agreement fund.	R54(1)	Not to set up a separate admission agreement fund.
Determine assets to be transferred from main fund to admission agreement fund.	R54(4)(b)	Not applicable
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 sub-committee or an officer of the admin authority and, if they do so delegate, state - the frequency of any committee or sub-committee meetings - the terms, 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	R55*	A Governance Policy Statement was prepared and approved by the Pensions Committee held on 4 June 2013

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
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, and - the terms, structure and operational procedures appertaining to the local Pensions Board		
Decide on Funding Strategy for inclusion in funding strategy statement	R58*	This was approved by the Pensions Committee at the meeting held on the 13/14 March 2014.
Whether to have a written pensions administration strategy and, if so, the matters it should include.	R59(1) & (2)	An administration strategy has been set out in the Governance Policy Statement.
Communication policy must set out the policy on provision of information and publicity to, and communicating with, members, representatives of members, prospective members and Scheme employers; the format, frequency and method of communications; and the promotion of the Scheme to prospective members and their employers.	R61*	An communications policy has been set out in the Governance Policy Statement.
Whether to extend valuation report and certificate deadline	R62(2)	Exercised by the Secretary of State
Decide assumptions to be used in making a “cost sharing” valuation under R63.	R63(5)	Exercised by the Secretary of State
Whether to obtain revision of employer’s contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer.	R64(4)	Only do this if advised to do so by the scheme actuary.

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
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 R63.	R65	Only do this if advised to do so by the scheme actuary.
Decide frequency of payments to be made over to Fund by employers and whether to make an admin charge.	R69(1)	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.	R69(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.	R70 &TP22(2)	Issue such a notice following advice by the scheme actuary.
Whether to charge interest on payments by employers which are overdue.	R71(1)	The interest charge will be calculated in accordance with statutory requirements i.e. Base rate plus 1 %.
Whether to extend six month period to lodge a stage one IDRP appeal.	R74(4)	Adjudicator making stage one IDRP decision.
Decide procedure to be followed by adjudicator when exercising stage one IDRP functions and decide the manner in which those functions are to be exercised.	R74(6)	Procedure laid down.
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.	R76(4)	Procedure laid down.
Whether admin. authority should appeal against employer decision (or lack of a decision).	R79(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.	R79(3)(b)	Exercised by the Secretary of State.
Specify information to be supplied by employers to enable admin. authority to discharge its functions.	R80(1)(b) & TP22(1)	Employers to supply information in accordance with the approved administration policy.

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to 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 where payment is less than amount specified in s6 of the Administration of Estates (Small Payments) Act 1965.	R82(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.
Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	R83	Would normally require power of attorney, but each case will be individually determined.
Date to which benefits shown on annual benefit statement are calculated.	R89(5)	Benefits to be based as at 31 March.
Whether to issue a forfeiture certificate.	R91(1)	Exercised by the Secretary of State.
Agree to bulk transfer payment.	R98(1)(b)	Take the advice of the scheme actuary.
Agree set aside of bulk transfer assets / cash and acquisition of rights in new scheme.	R98(4)(a)	Fund actuary / new scheme actuary.
Determine amount of, and adjustments to, bulk transfer payment.	R99(1) & (2)	On the advice of the Fund actuary.
Determine who should bear bulk transfer actuarial costs (where more than one employing authority is involved in the transfer).	R99(5)	On the advice of the Fund actuary.
Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS.	R100(68)	Not to extend the normal time limit unless there are exceptional circumstances.
Allow transfer of pension rights into the Fund.	R100(7)	Allow following advice from the scheme actuary.
Agree bulk inter fund adjustment terms (where 10 or more members affected by a single event).	R103(3)	As determined by the Actuaries for both Funds.

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Where member to whom B10 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.	TP3(6), TP4(6) (c), TP8(4), TP10(2)(a), TP17(2)(b) & B10(2)	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.).	TP3(6), TP4(6) (c), TP8(4), TP10(2)(a), TP17(2)(b) & TSch 1 & L23(9)	Always pay the highest benefit to or on behalf of a member of the scheme.
Decide to treat child as being in continuous education or vocational training despite a break.	RSch 1 & TP17(9)	Adopt this discretion.
Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member.	RSch 1 & TP17(9)(b)	Rely on the nomination form, or require evidence of co-habitation and financial interdependence.
Decide appropriate Fund if employer applies to be moved to a different Fund.	RSch 3, Part 2, para 3	Exercised by the Secretary of State.
Decide policy on abatement of pre 1 April 2014 element of pensions in payment following re-employment.	TP3(13) & A70(1)* & A71(4)(c)	To abate pensions following re-employment in accordance with the abatement policy approved by Pensions committee on 24 September 2012.
Extend time period for capitalisation of added years contract	TP15(1)(c) & TSch1 & L83(5)	Not to extend time period

* These are matters about which the regulations require there must be a written policy.

Discretions in relation to scheme members (excluding councillor members) who ceased active membership on or after 1.4.08. and before 1.4.14., 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 (Transitional Provisions and Savings) Regulations 2014 [prefix TP]
- The Local Government Pension Scheme Regulations 2013 [prefix R]
- The Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

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	A28(2)	Not to charge for work performed associated with the calculation of the membership credit for Additional Voluntary Contributions transfer into the Fund.
Extend time period for capitalisation of added years contract.	TSch1 & L83(5)	Not to extend time period.
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits.	A45(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.	A52(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 early payment, on grounds of ill health, of a deferred benefit or a suspended Tier 3 ill health pension).	A56(2)	Delegated to employer.
Whether to extend six month period to lodge a stage one IDRP appeal.	A58(7)(b)	Person making stage one IDRP decision.
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.	A60(8)	Procedure laid down.
Whether admin. authority should appeal against employer decision (or lack of a decision).	A63(2)	Will decide this depending on the particular circumstances.

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to extend six month period for admin. authority to lodge an appeal against an employer decision.	A63(3)(b)	Exercised by the Secretary of State.
Specify information to be supplied by employers to enable admin. authority to discharge its functions.	A64(1)(b)	Information to be supplied in accordance with the approved administration policy.
Decide policy on abatement of pensions following re-employment.	TP3(13) & A70(1)* & A71(4)(c) & T12	To abate pensions following re-employment in accordance with the abatement policy approved by Pensions committee on 24 September 2012.
Whether to issue a forfeiture certificate.	A72(1)	Exercised by the Secretary of State.
Where member to whom B10 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.	B10(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.	B27(5)	Yes, depending on individual circumstances.
Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	A52A	Would normally require power of attorney, but each case will be individually determined.
Whether to grant application for early payment of deferred benefits on or after age 55 and before age 60.	B30(2)*	Only to grant application where there is no cost to the Fund.
Whether to waive, on compassionate grounds, the actuarial reduction applied to deferred benefits paid early under B30.	B30(5)*	Not to waive actuarial reduction on compassionate grounds.
Whether to grant an application for early payment of a suspended tier 3 ill health pension on or after age 55 and before age 60.	B30A(3)*	To take the advice of the Scheme IRMP, before any decision is made.

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to waive, on compassionate grounds, the actuarial reduction applied to benefits paid early under B30A	B30A(5)*	Not to waive actuarial reduction on compassionate grounds.
Decide whether deferred beneficiary meets permanent ill health and reduced likelihood of gainful employment criteria.	B31(4)	To take the advice of the Scheme IRMP, before any decision is made.
Decide whether a suspended ill health tier 3 member is permanently incapable of undertaking any gainful employment.	B31(7)	To take the advice of the Scheme IRMP, before any decision is made.
Decide to whom death grant is paid.	B23(2) & B32(2) & B35(2) & TSch1 & L155(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 co-habitee on scheme member or financial interdependence of co-habitee and scheme member.	B25	Rely on the nomination form, or require evidence of co-habitation and financial interdependence.
Decide to treat child as being in continuous education or vocational training despite a break.	RSch1 & TP 17(9)	Adopt this discretion.
Decide whether to commute small pension.	B39 & T14(3)	To do so at the member's 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.	B42(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.).	TSch 1 & L23(9)	Always pay the highest benefit to or on behalf of a member of the scheme.

* These are matters about which the regulations require there must be a written policy.

Discretions under the Local Government Pension Scheme Regulations 1997 (as amended) in relation to:

a) active councillor members, and
b) councillor members who ceased active membership on or after 1.4.98., and
c) any other scheme members who ceased active membership on or after 1.4.98. and before 1.4.08.

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Frequency of payment of councillors' contributions.	12(5)	Determined that councillors are not eligible for membership of the CLGPS.
Make election on behalf of deceased non-councillor 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.).	23(9)	Always pay the highest benefit to or on behalf of a member of the scheme.
Decide to whom death grant is paid in respect of post 31.3.98. / pre 1.4.08. 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.
Decide to treat child as being in continuous education or vocational training despite a break (children of post 31.3.98. / pre 1.4.08. leavers).	Reg 17(9) of the LGPS (Transitional Provisions and Savings) Regs 2014 and definition in Sch 1 of the LGPS Regulations 2013	Adopt this discretion.
Apportionment of children's pension amongst eligible children (children of post 31.3.98. / pre 1.4.08. leavers).	47(1)	Adopt this discretion.
Pay child's pension to another person for the benefit of the child (children of post 31.3.98. / pre 1.4.08. leavers).	47(2)	Yes, depending on individual circumstances.

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Agree to commutation of small pension (pre 1.4.08. leavers or pre 1.4.08. Pension Credit members).	49 & 156	To do this at member's request.
Commute benefits due to exceptional ill-health (pre 1.4.08. leavers and pre 1.4.08. Pension Credit members).	50 and 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 1.4.08. leavers) – (see Note below).	80(5)	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.
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits (pre 1.4.08. leavers).	89(3)	Adopt this discretion.
Timing of pension increase payments by employers to fund (pre 1.4.08. 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 1.4.08. 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 ill health benefits for pre 1.4.08. preserved benefits payable on health grounds).	97(10)	Delegated to the employer.
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 1.4.08. leavers).	99	Procedure laid down.
Appeal against employer decision, or lack of a decision (pre 1.4.08. leavers).	105(1)	Will decide this depending on the particular circumstances.
Extend appeal period under reg 105.	105(2)	Exercised by the Secretary of State.
Date to which benefits shown on annual deferred benefit statement are calculated	106A(5)	Benefits to be based as at 31 March.

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Abatement of pensions following re-employment (pre 1.4.08. leavers)	109* & 110(4)(b)	To abate pensions following re-employment in accordance with the abatement policy approved by Pensions committee on 24 September 2012.
Discharge Pension Credit liability (in respect of Pension Sharing Orders for pre 1.4.08. Pension Sharing Orders for non-councillor members).	147	Depending on individual circumstances.

*These are matters about which the regulations require there must be a written policy.

Discretions under the Local Government Pension Scheme Regulations 1995 (as amended) in relation to scheme members who ceased active membership before 1.4.98.

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. retirees / pre 1.4.98. deferreds.	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.
Whether to pay spouse's pensions for life for pre 1.4.98 retirees / pe 1.4.98 deferreds who die on or after 1.4.98. (rather than ceasing during any period of remarriage or co-habitation).	F7	To adopt this discretion.
Decide to treat child as being in continuous education or vocational training despite a break (children of pre 1.4.98. retirees / pre 1.4.98. deferreds).	Reg 17(9) of the LGPS (Transitional Provisions and Savings) Regs 2014 and definition in Sch 1 of the LGPS Regulations 2013	Adopt this discretion.
Apportionment of children's pension amongst eligible children (children of pre 1.4.98. retirees / pre 1.4.98. deferreds).	G11(1)	Adopt this discretion.
Pay child's pension to another person for the benefit of the child (children of pre 1.4.98. retirees / pre 1.4.98. deferreds)	G11(2)	Yes, depending on individual circumstances.

12.3 Admission and Termination Policy – June 2014

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 and has been updated to reflect the Local Government Pension Scheme Regulations 2013. 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 Regulations 2013 **("Regulations")**, a transferee admission body, or a community admission body.

A – Admissions Policy

1 Background

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.

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 which provides a public service in the United Kingdom otherwise than for the purposes of gain and which:
  - has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise), or

(b) 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) Any Scheme employers; or
  (ii) local authorities or officers of local authorities;

(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.

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 that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of:
  (a) the transfer of the service or assets by means of a contract or other arrangement;
  (b) a direction made under section 15 of the Local Government Act 1999 (20) (Secretary of State's powers); or
  (c) directions made under section 497A of the Education Act 1996 (21) (directions imposed on a failing LEA); and

(b) a body which provides a public service in the UK and which is approved in writing by the Secretary of State for the purpose 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.

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.

1.2.1 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 and Crime Commissioner;
- a Chief Constable within the meaning of Section 2 of the Police Reform and Social responsibility Act 2011;
- the Environment Agency;
- a National Park Authority established under Part 3 of the Environment Act 1995
- an academy;
- a further education corporation, a sixth form college corporation r higher education corporation within the meaning of section 90 of the Further and Higher Education Act 1992.

Employees of the above Scheme employers will automatically be admitted into the Scheme, provided that they are not prevented from eligibility by virtue of Regulation4.

1.2.2 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.

2. Policy Statement

2.1 Admission Bodies

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 e.g. 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.

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.

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; and
(e) advice from its solicitors as to whether the wording of the guarantee is acceptable.

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.

2.1.4 Decisions Regarding Admissions

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

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.
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:
    - o 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;
    - o further information on the employees transferring to them, financial standing/ plans and relationship with previous Scheme employer;
    - o 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.

B – Termination Policy

1 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 i.e. either deferred benefits or immediate retirement benefits.

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

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

2 Policy Statement

2.1 Admission Bodies

A termination assessment will always be carried out for "outgoing" Participating Employers in accordance with Regulation 64 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.

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 her 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.

2.2 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 64 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 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 or pension 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 31 March 2008; or (ii) on or after age 55 and before age 65 where they became a member on or after 1 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.

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.

12.4 Cash Investment Policy – March 2014

12.4.1 Introduction and regulations

The Cash Investment Policy for Cumbria Local Government Pension Scheme was first approved by the Cumbria Pensions Committee on 26 February 2010, with updated versions approved on 1 March 2011, 27 November 2012, 18/19 March 2013, and 13/14 March 2014. 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.

12.4.2 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 1 Jan 2010, and from 1 April 2010 will not pool pension fund cash with its own cash balances for investment purposes.

Any investments made by the pension fund directly with the Administering Authority after 1 April 2010 will comply with the requirements of SI 2009 No 3093.

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

12.4.3 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, investment commitments, and other payments, and
c) the liquidity of its investments.

The Statement of Investment Principles sets the level i.e. percentage of the Fund's total allocation that can be held in cash and/or cash-like investments. Where cash is included in the Scheme's benchmark as an asset, the Administering Authority will use investment managers' pooled funds where most efficient to do so. The Administering Authority should aim to keep the cash balance held outside of investment managers (for day to day working cash requirements) to a minimum, recognising that cash must be available when required to fund commitments to certain of the Fund's investments, such as infrastructure and opportunistic investments.

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.

12.4.4 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.

12.4.5 Investment Strategy for Pension Fund Cash

Subject to the availability priorities as stated in 5.3 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 2% of the Fund's total investments for the NatWest Liquidity account and Money Market Funds in total, and allow officers discretion to invest appropriately between them. At 31 December 2013 2% was £35 million.

It is recognised that on occasion short-term breaches could occur to this cash balance limit, 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.

12.4.6 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.

12.4.7 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.

12.5 Information for Scheme Advisory Board

To assist with the production of a scheme annual report compiled by the LGPS Scheme Advisory Board individual Scheme's within the LGPS are required to provide the following information:

12.5.1 Number of employers in the Scheme analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members):

31 March 2014	Active	Ceased (closed)	Total
Scheduled body	55	11	66
Admitted body	36	9	45
Total	**91**	**20**	**111**

12.5.2 Number of members in the Scheme analysed by active, deferred, pensioner and undecided leavers (i.e. those members who are no longer accruing service and to whom a refund of contributions or transfer out may be due):

Category	2013/14
Actives	16,776
Deferred	19,896
Pensioners	14,117
Undecided leavers	149
Total	**50,938**

12.5.3 Scheme assets as at the reporting date

31 March 2014	UK £m	Non-UK £m	Global** £m	Total £m
Equities	464.7	447.5	117.1	**1,029.3**
Bonds	470.0	7.8	-	**477.8**
Property (direct holdings)	123.2	-	-	**123.2**
Alternatives*	2.7	46.2	-	**48.9**
Cash	77.8	4.7	-	**82.5**
Total	**1,138.4**	**506.2**	**117.1**	**1,761.7**

12.5.4 Investment income accrued during the reporting date:

31 March 2014	UK £m	Non-UK £m	Global** £m	Total £m
Equities	10.0	6.0		**16.0**
Bonds	6.3	0.2		**6.5**
Property (direct holdings)	6.9			**6.9**
Alternatives*	0.2	1.5		**1.7**
Cash	0.0			**0.0**
Total	**23.4**	**7.7**	**0.0**	**31.1**

* “Alternatives” are taken to mean holdings in private equity, hedge funds, pooled property funds, infrastructure funds, derivatives and other assets not falling into any other category.

** “Global” holdings are those that include an element of both overseas and UK listed assets.

12.6 Independent Auditor's Statement to the Members of Cumbria County Council on the Pension Fund Financial Statements

We have examined the pension fund financial statements for the year ended 31 March 2014, which comprise the Fund Account, the Net Assets Statement and the related notes.

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 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 Authority'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 the auditor.

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Assistant Director - Finance is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of Cumbria County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

The other information consists of only: The Local Government Pension Scheme, Management and Financial Performance, Investment Policy and Performance, Actuarial Report on Funds, Funding Strategy Statement and Statement of Investment Principles.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of Cumbria County Council for the year ended 31 March 2014 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester M3 3EB
25th September 2014

13 Glossary (per accounts)

- **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.

- **Actuarial Valuation** – An actuary formally reviews the assets and liabilities of the pension scheme and produces a report on the scheme's financial position.

- **Alternatives** – Alternatives are investment products other than traditional investments of 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.

- **Auto Enrolment** – UK employers have to automatically enrol their staff into a workplace pension if they meet certain criteria. The law on workplace pensions has now changed and every employer must comply.

- **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.

- **Career Average Revalued Earnings (CARE) Scheme** – the pension at retirement will relate to your average salary over your career (while paying into the pension scheme). More precisely, it is based on pensionable earnings, increased in line with inflation as measured by the Consumer Price Index (CPI).

- **Class Action** – An action where an individual represents a group in a court claim. The judgment from the suit is for all the members of the group (class). This is often done when shareholders launch a lawsuit against a company, mainly because it would be too expensive for each individual shareholder to launch their own law suit.

- **Conflicts of Interest** – Real or apparent instances where a person or firm has an incentive to serve one interest at the expense of another. Some of these conflicts are inherent in any large, diversified organisation, while others stem from the nature of the services offered to clients. These conflicts are managed through disclosure and with policies and procedures that are designed to protect client's interests. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties.

- **Corporate Governance** – The system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company – these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

- **Counterparty** – the other party that participates in a financial transaction. Every transaction must have a counterparty in order for the transaction to go through. More specifically, every buyer of an asset must be paired up with a seller that is willing to sell and vice versa.

- **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.

- **Defined Benefit** – An employer-sponsored retirement plan where employee benefits are sorted out based on a formula using factors such as salary history and duration of employment. Public sector pension schemes, including the LGPS, are defined benefit.

- **Defined Contribution** – A retirement plan in which a certain amount or percentage of money is set aside each year by a company for the benefit of the employee. There are restrictions as to when and how you can withdraw these funds without penalties. There is no way to know how much the plan will ultimately give the employee upon retiring. The amount contributed is fixed, but the benefit is not.

- **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.

- **Divestment or divestiture** – The reduction of some kind of asset for financial, ethical, or political objective. A divestment is the opposite of an investment. For investors, divestment can be used as a social tool to protest particular corporate policies.

- **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.

- **Engagement** – A series of actions investors can take to reduce environmental, social and governance risks. This can include raising concerns or making proposals about company practices directly to its directors via correspondence, face-to-face meetings, attendance and voting at shareholder meetings.

- **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.

- **ESG (Environmental, Social and Corporate Governance)** – A set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights. ESG is the catch-all term for the criteria used in what has become known as socially responsible investing. Socially responsible investing is among several related concepts and approaches that influence and, in some cases govern, how asset managers invest portfolios.

- **Exchange Traded Fund (ETF)** – Fund that tracks an index, but can be traded like a stock.

- **Fiduciary Duty** – A legal obligation of one party to act in the best interest of another. The obligated party is typically a fiduciary, that is, someone entrusted with the care of money or property.

- **Final Salary** – another term for the defined benefit pension schemes where employee benefits are based on the person's final salary when they retire. The LGPS 2014 Scheme has moved from this to a CARE (career average) scheme.

- **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.

- **Futures Contract** – a contract that is traded on an organised exchange and subject to rules of the exchange. It is an obligation that the buyer and seller settle the contract through purchase or sale of an underlying asset at the future date.

- **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.

- **Governance** – The procedures and practice associated with decision-making, performance and control, which provide structures and satisfy expectations of accountability in large, mainly commercial, organisations.

- **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.

- **Infrastructure** – The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

- **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.

- **OTC** – A security traded in some context other than on a formal exchange such as the London Stock Exchange, New York Stock Exchange, etc. The phrase “over-the-counter” can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

- **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).

- **Real Estate Debt** – Commercial property loans; the debt is secured against commercial property or portfolios of property, e.g. hotels, shopping centres, offices.

- **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.

- **Shareholder Voting** – Shareholders are people and organisations who buy shares in UK companies. In large companies, shareholders are overwhelmingly large institutional investors, such as pension funds, insurance companies, mutual funds or similar foreign organisations.

  Shareholders have the right to vote on matters of ‘corporate policy’ at the underlying company’s AGM (Annual General Meeting). UK shareholders have the most favourable set of rights in the world in their ability to control directors of corporations. UK company law gives shareholders the ability to:
  - remove the board of directors with a simple majority of votes;
  - change the company constitution with a three quarter vote (unless a higher figure is in the constitution);
  - wind up (i.e. liquidate) the company with a three quarter vote; and
  - veto any sale of a significant percentage of company assets.

  The number of votes corresponds to the number of shares owned. The shareholder does not need to be present at the meeting, and many shares are voted ‘by proxy’. Managers invariably hand over the process of voting to proxy voting agencies.

  In practice many shareholders delegate the voting function to Investment Managers (who have stewardship of their assets).

Resolutions which are voted upon include:
- Approval of Annual Report and Accounts
- Approval of Remuneration Policy, and Remuneration Report
- Election/Re-election of Directors
- Appointment/Re-appointment of auditors
- Approve dividend
- Approve political donations

Voting is the key to exercising ownership rights, and influencing investee company policy

- **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.

- **Stewardship** – The active and responsible planning and management of entrusted resources now and in the longer term, so as to hand them on in better condition.

- **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.

- **Triennial Actuarial Valuation** – every three years the actuary formally reviews the assets and liabilities of the Cumbria LGPS Scheme and produces a report on the Scheme's financial position.

- **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.

14 Contact us

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Access to Pension Committee papers

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

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Alternatively for general LGPS scheme information visit **www.yourpensionservice.org.uk**