Cumbria County Council

Cumbria County Council

Cumbria Local Government Pension Scheme

Annual Report and Accounts 2014/15

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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 2014/15.

The report shows not only another successful year for our investment portfolio but also achievement across a wide range of other activities which are being driven by local decisions and national regulatory changes both to the wider pensions sector and specifically to the LGPS. Through work to support national initiatives the Fund has continued to ensure that the views and issues faced by medium sized, County Funds such as ourselves are represented nationally.

The year-end position saw the Fund assets exceed the £2bn watermark valuation for the first time, with the assets increasing in value over the year by £252.586m (total Fund value rose from £1,774.730m (31/03/14) to £2,027.316m (31/03/15)). Investments returned 15.2% during the year representing an outperformance of 2.0% on the Fund's bespoke benchmark of 13.2%. However, pension fund investing has a long term time horizon. While the in-year results are very credible, the focus remains on performance over longer time periods. I am therefore pleased to report that the strong in year performance has contributed to the results delivered over both the medium and the longer term, with the three-year return of 12.0% outperforming the benchmark of 10.6% (per year), five-year return 9.8% outperforming benchmark of 9.0% (per year); and ten year return delivering 8.1%, again slightly above the benchmark of 8.0% (per year).

The Fund has also continued its progress towards completion of the 2012 asset allocation review with further new asset classes being added bringing greater diversification to the portfolio. As at the year-end £868m, 92.3% of the strategy changes were complete. Further detail is available at section **4.2**.

Conversely, due to continued historically low Government bond yields, liability assessments remain a concern. This continues to be an issue faced by all defined benefit (DB) contribution pension schemes, both in the public and private sector. For the LGPS the pressing concern is the upcoming triennial valuation in March 2016. If there is no upward movement in yields before then, in all likelihood deficits will increase for the Cumbria and most other LGPS's (despite the outperformance in investment returns shown above) which will put pressure on employer contribution rates. In light of this officers are already working with the Fund's Advisors and the Fund Actuary to explore all available options to balance the competing objectives of ensuring the long term sustainability of the fund while maintaining stable employer contribution rates.

Externally, I have to report that the LGPS is still awaiting the response from Government to the consultation on structural reform and opportunities for wider cost savings, which closed on 11th July 2014 (a copy of our response can be found at **www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp**). As I reported last year, although the consultation indicated Fund mergers were off the table at that time, we were disappointed that it focused solely on investment management costs as opposed to the central issue of deficit management and that it offered only limited options for consideration. So it remains unclear the extent of the changes the Government may seek to introduce in the future regarding investment strategies permissible by individual Funds.

Of most concern to LGPS Funds regardless of size is the proposal to limit Funds' future exposure to actively managed investments. There are currently no indications of what such a cap on active management may be or how it would be defined if one were to be imposed. However, if it is set to limit the Fund's projected allocation to actively managed assets the evidence would suggest that for Cumbria, future net returns would be reduced. To redress this lost income, local employer contributions would have to be increased and / or the cost cap mechanism may be deployed nationally, thus potentially also sharing this burden by increasing future contribution rates for active members across the Fund. To add some context to this for 2014/15 the Cumbria Fund is estimated to have returned £23m net of fees (3.33% outperformance) in excess of benchmark passive returns as a result of its allocation to active management. Investment performance helps mitigate the impact on employer contribution rates and costs when rates are set at the triennial valuation.

Internally, the LGPS has continued to deliver on its recent year's positive collaborative work. During 2014/15 the focus has been to address some of the wider concerns that arose during this consultation. One of the most prevalent concerns raised was the lack of data comparability and thereby any means of objectively identifying Funds that may benefit from support. To try to address such matters the National Scheme Advisory Board (SAB) has trialled a proposed "dash board" of performance and governance measures. When finalised and agreed, all Funds will be required to complete a return which will then be published enabling wider scrutiny. Cumbria was pleased to contribute to this work by being one of the 13 funds that supplied their data and feedback on the initial measures proposed. Work will continue on this, including full consultation, throughout 2015/16, with a target to make the proforma return mandatory in April 2016 and using it as a tool for assessing and supporting funds accordingly by December 2016. All details of this and the wider work of the SAB can been obtained from their web site **www.lgpsboard.org/**

Procurement work aimed at harnessing the purchasing power of the wider LGPS continued with legal services being added to the National LGPS Framework during the year.

The Local Government Association and the SAB also worked to produce national guidance to help Administering Authorities fulfil the new statutory requirement to implement Local Pension Boards by 1st April 2015. Again Cumbria was pleased to support this national work.

At a local level the Constitutional changes required to establish the Cumbrian Local Pensions Board were approved by full Council on 15th January 2015. All members and employers were contacted to seek applications for representation to the Board and the selection process to appoint members to the Board was completed early in June. To ensure compliance with DCLG guidance the Board held its first meeting on 20th July. I look forward to working closely with the members of this Board to build a positive and constructive relationship which will be to the benefit of all 53,000 members and 118 employers now in the Cumbrian Fund.

In regards to the Fund's management of Benefits and Administration activities, last year I reported the successful implementation of changes to the Funds administration systems, to support the introduction of the "2014 Scheme" from 1st April. The move from a final salary to a career average revalued earnings (CARE) benefits structure for the LGPS in 2014, (which was mirrored by all other public sector pension schemes from April 2015), was a major change, but one which it is hoped will help to secure the continuance of the defined benefit nature of pensions across the public sector. For many of our active members this means they will now have their pension calculated across three sets of benefit regulations and we have been keen to help them interpret what this may mean for their individual pension planning. Face to face pension surgeries offered across the county; webinars and plain English written communication on the matter has been offered throughout the year. The feedback from members attending these events has been very positive but as ever any suggestions as to how to improve (and I am pleased to report the most common being that "we need more such events please") were welcomed and we will endeavour to incorporate them into future planning.

Further to this, throughout 2014/15 Officers have worked to support our employers, both large and small, in meeting the changes required to their systems and processes to enable them to supply the more timely and detailed information required to enable us as the Fund Administrators to effectively and efficiently operate the new benefits structure for all our 53,000 members.

We also recognise the difficulties being faced by many of our members and employers as they undertake the difficult processes to downsize their organisations in light of the continued national austerity measures facing all local government. Pensions planning is a key aspect of this for many of the individuals involved and as such officers from the Pension team have given support to our major employers in meetings with staff across the county.

On a more positive note I am pleased to share that Cumbria has yet again been recognised nationally as demonstrating best practice for its governance arrangements. Grant Thornton's 2013 review of governance in LGPS funds, "Coming of Age: development of the LGPS", saw Cumbria recognised for its governance structure for the management of investments and its innovative and comprehensive training policy, and the 2015 Review "All Aboard" referred to the Fund as an exemplar of best practice this time for our risk management procedures.

In light of increasing interest from Fund members, coupled with the legal opinion obtained by the SAB regarding a Fund's fiduciary duty and to whom it was owed[1] the Committee sought to clarify and strengthen its shareholder corporate governance activities by becoming a member of the Local Authority Pension Fund Forum (LAPFF) and by revising and retendering its proxy voting contract to deliver an enhanced level of shareholder engagement. LAPFF now represents 64 out of the 89 local government pension funds, and uses this collaborative bargaining power to engage firms on behalf of its members on matters of corporate governance and promoting practices aimed at delivering longer term shareholder value.

Looking forwards, the outlook for the LGPS and the Cumbrian Fund specifically appears very much as it did when I made my report to you last year. 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; balance the need to close deficits while maintaining stable employer contributions but also managing the effects of a maturing scheme liability profile (due to continued reduction in staffing across the public sector by the major scheme employers). Additionally we also have the further uncertainty brought about by the awaited response from Government on potential changes to investment regulations.

That said I believe the active engagement and work by the Committee and the Fund's Officers both nationally and locally aimed at strengthening governance arrangements, moves to complete the asset restructuring; modelling to enable better understanding of the Fund's liability profiling and initiatives to develop 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 in section **14**.

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 Fund.

Finally I would like to thank my fellow Committee Members for their contributions during 2014/15.

Cllr. Melvyn Worth
Chairman
June 2015

1. Available at: **http://lgpsboard.org/images/PDF/Publications/QCOpinionApril2014**

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.

A new LGPS scheme, as per the Local Government Pension Scheme Regulations 2013, commenced with effect from 1st April 2014 and the scheme rules in force during 2014/15 are contained within the Local Government Pension Scheme Regulations 2013 which came into force on 1st April 2014, the LGPS (Benefit, Membership and Contribution) Regulations 2007, the LGPS (Administration) Regulations 2008 and the LGPS (Transitional Provisions) Regulations which came into force on 1st April 2008.

Whilst the regulations are set on a national basis, individual Funds 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 Fund for the benefit of its own employees and the employees of scheduled bodies and Admission Bodies. Full details of the 118 employers participating within the Fund are set out in the Pension Fund Accounts on page **138**. Further details of the responsibilities and arrangements relating to Fund 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[2] into Cumbria LGPS but have the freedom to opt-out should they so wish. Details of Cumbria LGPS membership numbers are set out in section **3.5.3** 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 (see **2.3** opposite) on an ongoing basis (subject to the cost cap mechanisms[3]).

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:
http://www.yourpensionservice.org.uk/

2.3 Contribution Rates

2.3.1 Employee Contribution Rates

Employee contribution rates are set by regulation. During 2014/15 rates payable were between 5.5% and 12.5%:

Standard pay band table from 1st April 2014 to 31st March 2015	
If your whole time pay rate is:	**You pay a contribution rate of:**
up to £13,500	5.5%
£13,501 - £21,000	5.5%
£21,001 - £34,000	5.5%
£34,001 - £43,000	6.8%
£43,001 - £60,000	8.5%
£60,001 - £85,000	9.9%
£85,001 - £100,000	10.5%
£100,001 - £150,000	11.4%
Over £150,000	12.5%

2.3.2 Employer Contribution Rates

Employer contribution rates are set by the Fund's Actuary every 3 years as part of the Actuarial Valuation. For further detail see section **3.3.1** of this report.

2.4 Regulatory Changes

The following key changes to regulations (both to LGPS specific regulations and the wider pension's regulations) were announced during or impacted on 2014/15:

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 Fund. The date by which employers must implement auto enrolment depends upon their size with the largest employers 'going live' first. Cumbria County Council (the largest employer within Cumbria LGPS) commenced automatic enrolment of its employees on 1st June 2013. The phasing in of automatic enrolment will continue until 2017 when all the employers within the Fund will be required to have implemented it.
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 Services Pensions Act 2013

As noted in the 2013/14 Annual Report the Public Services Pensions (PSP) Act 2013 which was enacted into law on 24th April 2013 is the most significant piece of legislation to affect public service pensions in over 40 years. The provisions of the Act were 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.

The main areas affecting the LGPS include:

- any defined benefits must be provided on a CARE basis (Career Average Revalued Earnings);
- normal pension age to align with state pension age or age 65 whichever is higher;
- existing benefits built up in current scheme will continue to be linked to final salary until leaving;
- employer cost cap mechanism where HM Treasury can amend schemes to keep them within set cost parameters;
- Pension boards to be set up with duties similar to those of private sector trustees in respect of knowledge and understanding; and
- The Pension Regulator's remit extended to cover public service schemes.

For the LGPS in England many of the changes required under the Act were implemented via the Local Government Pension Scheme Regulations 2013 (the '2013 Regulations'). The 2013 regulations included the creation of the LGPS 2014 Scheme (key features of which are detailed below at '**2.5** LGPS 2014') came into effect from 1st April 2014. However a number of amendments were issued after that date and therefore had a later effective date. The majority of these later amendments provided further clarification, additional detail or corrections to the 2013 Regulations, however they also included the governance amendment regulations[4] which set out the LGPS specific provisions for the creation of Local Pension Boards with an effective date of 1st April 2015.

In order to achieve the 1st April 2015 deadline for the creation of Local Pension Boards, Cumbria LGPS commenced work on the set up process for Cumbria Local Pension Board on the basis of draft governance amendment regulations and the Constitutional changes required to enable the creation of the Cumbria Local Pension Board were approved by Full Council on 15th January 2015 (the terms of reference of the Cumbria Local Pension Board are detailed in the Fund's Governance Policy Statement at **7.2** of this report). The final governance amendment regulations, issued later that month, were substantively consistent with the draft regulations therefore no material amendments to the Constitution were required, and work to appoint members of the Board was completed in June 2015 with the first meeting held on 20th July. Details of the Board's first year of operations will be provided in the 2015/16 Annual Report.

Good to know:

For details of membership of the Cumbria Pensions Board please see the Cumbria County Council website. The members can be contacted if you wish for any matters to be raised.

2.5 LGPS 2014 Scheme

With effect from 1st 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 LGPS 2014 Scheme. The Scheme remains a defined benefit scheme with the following changes arising from the introduction of the LGPS 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).

2. 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 1st June 2013. See also section **2.4.1** of this report.

3. Further details of cost control in the LGPS can be found on the LGPS Advisory Board website at:
http://www.lgpsboard.org/images/PDF/Publications/CostControlMembsEmpsv2FINAL.pdf

4. Local Government Pension Scheme (Amendment) (Governance) Regulations 2015. These were laid before Parliament 28th January 2015 and, in the main, came into force on 1st April 2015 (some elements came into force 20th February 2015).

- 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.

Good to know:

Members who have already or are considering opting out of the scheme may want to consider the '50/50 option'. This means that you elect to pay half contributions for half the pension, while still retaining the full value of other benefits. For more information on this please see:

www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=43946&e=e

or contact Your Pension Service:
t: **0300 123 6717**
e: **AskPensions@lancashire.gov.uk**

- For current scheme members, benefits for service prior to 1st 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).

Good to know:

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

2.6 Other matters arising in 2014/15

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 1st May 2014. Robust, evidence-based responses from many sections of the industry 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 1st 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 May 2014 consultation drew heavily on the key themes of the Hymans' analysis and set out the Government's preferred approach to reform. In summary:

- The Government would not 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, among other things, 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 be very expensive and take in the region of 10 years.

At the time of writing the Government's response to the consultation was still awaited. In the interim Cumbria LGPS, like many other LGPS Funds, has continued to actively seek to drive down the costs of administering the Fund whilst maintaining and enhancing its governance arrangements.

- For details of the Fund's governance arrangements (including recognition by Grant Thornton of the Fund's robust arrangements relating to the Investment Sub Group, the Training policy & plan and the risk management process) see section **7** of this report.
- Examples of the Fund's achievements in driving down costs include:
  - Renegotiation of property mandate fee in light of intended growth to a £150m portfolio which resulted in a substantial one off and continuing fee reductions.
  - Use of internal resource to procure and monitor alternatives investments following termination of contract with manager; and
  - Negotiation, prior to agreeing to invest, over 1% fee on commitments on infrastructure investments – commitment fee removed.

3/ Management and Financial Performance

3.1 Fund Management and Advisors

Officers responsible for the Fund

Julie Crellin
Assistant Director – Finance (s.151 Officer)

Cumbria County Council
Chief Executive's Department
Finance,
Lonsdale Building,
The Courts,
Carlisle CA3 8NA

Fiona Miller
Senior Manager – Pensions & Financial Services (deputy s.151 Officer LGPS)

Cumbria County Council
Chief Executive's Department
Finance,
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	**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 I Stewart Mr GB Strong	Mr MH Worth (Chair) Mr J Airey Mr SB Collins (Vice Chair) Mr G Humes Mr NH Marriner Mr DE Southward Ms H Wall Mr GB Strong
District Council Elected Member - Ms G Troughton	
Trade Union Non-Voting Members - Ms J Trueick (to June 2014) - Mr Ken McDonald (from March 2015) - Mr Richard Bevan (from March 2015)	

Investment Managers

Manager	Notes	Core Asset Class
Aberdeen Property Investment Management		Direct & Indirect property
Aviva	(from June 2014)	Long lease property
BlackRock Investment Management	to June 2012 – remaining funds held until maturity)	Alternatives
GMO	(to November 2013 – funds being transitioned out)	Overseas equities
Healthcare Royalty Partners	(from July 2014)	Healthcare royalties
JP Morgan	(from June 2014)	Infrastructure
Legal and General Investment Management		Passive equities and bonds, cash
Loomis Sayles		Global Equities
M&G		Real estate debt & long lease property
Nordea		Global Equities
Partners Group		Infrastructure
Schroder Investment Management		UK equities
Standard Life Pension Funds Ltd		UK corporate bonds
SL Capital Partners	(from December 2014)	Private Equity Secondaries
Unigestion	(from March 2015)	Private Equity Secondaries

Custodian
State Street Bank and Trust Company

Additional Voluntary contribution providers:
Prudential
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
Mrs J Bellard, 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
t: **0300 123 6717**
e: **AskPensions@lancashire.gov.uk**

Good to know:
For how to contact the Fund see section **14** of this report

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 Fund maintain a Cumbria LGPS risk register (details of the format of the register and the methodology for measurement of risk can be found in the Governance Policy Statement at section **7.2** of this report) 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. The quarterly monitoring report incorporates details of the major risks facing the Fund and includes a traffic light scoring system to categorise the anticipated likelihood and impact of each risk. Members actively monitor progress in relation to controls and actions taken to mitigate risk. Any emerging significant issues being escalated by Officers to the Chair and Vice Chair in the intervening periods.

Good to know:

During 2014/15 the oversight and management of risks by Members of the Cumbria LGPS Pensions Committee was quoted as an example of best practice in Grant Thornton's Annual Governance Review 'Stronger futures: development of the LGPS' February 2015.

3.2.1 Risks identified at June 2015:

There were no risks in the red category as at June 2015 however there were three risk areas (risks 1.2, 3.1 and 3.2) out of a total of eighteen risks identified as amber.

Details of the amber risks are set out below at **3.2.1.1**. In addition to this note 14 to the Financial Statements (page **80**) details the nature and extent of risks arising from Financial Instruments.

3.2.1.1 Amber risks identified at June 2015:

Risk Ref	Owner	Risk area	Impact	Likelihood	Overall risk rating	Control(s)	Comment
			1: lowest, 5: highest		(impact x likelihood)		
			Previous quarter score in brackets *Target score for risks above green shown in italics*				
1.2	Scheme Manager	Member data incomplete or inaccurate	3 *Target by 31/03/16 = 3*	4 (2) *Target by 31/03/16 = 2*	12 (6) Amber *Target by 31/03/16 = 6*	Internal audit work undertaken on YPS controls to provide assurance that internal controls over the operation and administration Cumbria's data are adequate and effective (annually). Monthly reconciliation of largest employer in Fund (CCC) contribution data to payroll to ensure consistency. Monthly reconciliation of employer contributions to data submitted by employers. Quarterly YPS key performance indicators include measures of timeliness of update of records. Reasonableness testing of detailed data by Actuary (annually as part of IAS19/FRS17 and triennially as part of triennial valuation work). Analytical review undertaken by officers in movements in membership numbers (quarterly with more in-depth review undertaken annually).	Direction of travel ↓ Impact on year end accounting: external auditors have identified this as a key risk. Internal audit work completed in May 2014 concluded substantial assurance over pension's administration at YPS. Under CARE scheme employers are required to provide monthly data. Officers are working closely with employers to assist them in the provision of this information to the Fund. Data from 2 large bodies and a number of smaller bodies has not yet been received (representing c. 5,979 Fund members in total). Officers and YPS continue to work closely with these bodies to ensure the data is received in time for year end. Significant data cleanse work completed in preparation for the 2013 triennial valuation and introduction of the 2014 Scheme. YPS exceeded all LGPS KPI targets in 2013/14 and Q1 & Q2 of 2014/15.

3. Funding

Risk Ref	Owner	Risk area	Impact	Likelihood	Overall risk rating	Control(s)	Comment
			1: lowest, 5: highest		(impact x likelihood)		
			Previous quarter score in brackets *Target score for risks above green shown in italics*				
3.1	Scheme Manager	Employer failure to pay contributions into scheme (e.g. due to employer error, business failure or general impact of increases in employer contribution rates)	4 *Target by 31/03/16 = 2*	2 *Target by 31/03/16 = 2*	8 Amber *Target by 31/03/16 = 4*		Direction of travel →
						Monthly monitoring of contribution payments by Scheme Manager to ensure contributions received are timely and accurate. This reconciliation is considered as part of the annual audit process.	Monitoring and reconciliation of contributions undertaken monthly. Full reconciliation completed and checked as part of year end process
						Ongoing dialogue with employers over ability to pay.	Officers are available for dialogue with employers throughout the year. In addition to this specific opportunities for employers to discuss issues include the annual Pensions Forum (Oct/Nov each year) and Employer surgeries (held at various locations throughout the county at least once a year).
						Exercise to review employer covenants undertaken as part of triennial valuation process	
						Use of bonds and guarantees	All entities seeking admitted body status are required to have an appropriate bond/guarantee in place prior to their admission being approved. Arrangements relating to existing employers were reviewed as part of the triennial valuation process.
3.2	Scheme Manager	Significant financial downturn occurs – '1 in 20' year event.	4 *Target by 31/03/16 = 4*	3 *Target by 31/03/16 = 3*	*12* Amber *Target by 31/03/16 = 12*	Diversification of managers and asset classes. Attendance at relevant training events, the monitoring of industry press and dialogue with independent advisors, investment managers and colleagues to identify and monitor market trends and ascertain options available to further mitigate market volatility where appropriate.	Direction of travel → The Fund undertook a detailed review of its investment strategy in 2012. A key element of the review was to ensure the fund was appropriately diversified to mitigate, as far as reasonable, against such systemic market risk This is subject to ongoing review (e.g. quarterly monitoring of Fund performance to confirm investments are delivering expected performance in light of market conditions) to ensure that it remains fit for purpose.

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 Fund remains solvent whilst also maintaining as stable employer contribution rates as possible. Where covenant risk is perceived as high the Administering Authority works closely with the employer to seek to mitigate the risk to the Fund 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 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 Fund'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 Fund has a diversified portfolio which it has developed in consultation with expert investment advisors and the Fund's Independent Advisors. This spreads the risk associated with any particular form of investment whilst facilitating the growth potential of the Fund. The investment risks are spread further as a result of employing different active fund managers and also by using passive managed funds.

The detailed selection and timing of investment purchases and sales 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 each 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 Investment Sub Group every quarter.

3.3 Financial Performance

This section of the report looks at the management of pension fund income and expenditure other than that relating to the management of pension fund investments (which is detailed in section **4** of this report).

3.3.1 Amounts due from employers

Details of amounts due to the fund from employers are disclosed in note 3 to the Financial Statements (see page **63**). During the year there were 9 instances (relating to 7 employers) of late payment where payment was received more than 20 days after the due date mainly due to applying revised contribution rates from April 2014 (2013/14: 7 instances relating to 5 employers). These late payments represent 0.06% of total contributions due in 2014/15 (2013/14: 0.04%). 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 2014/15 (2013/14 £nil) 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).

3.3.1.1 Amounts due from employers - employer specific issues in 2014/15

Cumbria County Council is the only Fund employer who, in agreement with the Actuary, opted 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 Fund 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 2013 triennial valuation fund was an allowance of up to £7.312m for non-ill-health early retirements. Details of this can be found in the Funding report of the Actuarial Valuation as at 31st March 2013 at: **www.cumbria.gov.uk/elibrary/Content/Internet/536/654/1129/41754144322.pdf**

3.3.2 Performance against budget

The budget for administering the Cumbria LGPS for 2014/15 was £4.769m[5]. The outturn for 2014/15 was £4.551m (excluding pooled fund costs and entry fees and transaction costs) resulting in an under spend of £0.298m as detailed below.

	2014/15 Budget £'000	2014/15 Actual £'000	Variance £'000
Administrative costs:			
Pensions Administration	939	869	(70)
Employee costs	133	114	(19)
Legal advice	30	4	(26)
	1,102	987	(115)
Investment Management costs:			
Fund management fees	3,109	2,962	(147)
Custody fees	110	127	17
Pooled fund costs and entry fees*		3,214	3,214
Transaction costs*		328	328
	3,219	6,631	3,412
Oversight and governance costs			
Employee costs	206	176	(30)
Pension fund committee	51	43	(8)
Investment consultancy fees	54	55	1
Transition management services		-	-
Performance monitoring service	24	24	-
Shareholder voting service	15	13	(2)
Actuarial fees	40	7	(33)
Audit fees	35	24	(11)
Legal and tax advice	54	89	35
Other	49	14	(35)
	528	445	(83)
	4,849	**8,063**	**3,214**
	-		
Excluding pooled fund costs and entry fees and transaction costs*	-	(3,542)	(3,542)
	4,849	**4,521**	**(328)**

* The 2014/15 budget did not incorporate pooled fund costs and entry fees and transaction costs. This is because historically these had been incorporated within change in market value and net income. During 2014/15 Cumbria LGPS adopted CIPFA guidance on accounting for management expenditure and as a result of this these costs are now accounted for as management expenses.

5. The 2014/15 budget did not incorporate pooled fund costs and entry fees and transaction costs. This is because historically these had incorporated within change in market value and net income. During 2014/15 Cumbria LGPS adopted CIPFA guidance on accounting for management expenditure and as a result of this these costs are now accounted for as management expenses.

Good to know:

Total Management expenses paid in 2014/15 (excluding £3.174m of one-off entry costs) equates to 0.24%.

Putting this into context: during 2014/15 active management of assets by Fund managers (60% of the Fund is under active management) delivered **outperformance** (i.e. excess return above that achieved by the equivalent passive portfolio) for the Fund **in the region of 3.33%** (net of fund management fees). This equates to **additional growth of approximately £23m** over and above that which would have been achieved had this element of the Fund been managed passively.

Narrative on variances

- Pensions Administration – the budget incorporated a one-off increase for necessary additional costs for IT in Pensions Administration due to the new 2014 Scheme and additional data cleansing costs to resolve historical issues. Membership numbers had increased during 2013/14 but the growth slowed in 2014/15 due to ongoing austerity measures. As a result of this, and work by YPS and officers, to curtail costs the actual costs in 2014/15 were lower than budgeted.
- Legal costs – the Fund has specialist pensions lawyers appointed as requirements for legal advice fluctuate greatly and costs depend on both activity and complexity. Fewer issues requiring legal input have arisen in 2014/15.
- Investment manager fees account for two thirds of the total budget and are linked directly to asset performance, and also affected by timing of any asset allocation or manager changes. The underspend is predominantly a function of negative equity market returns occurring after the budget was proposed (leading to a fall in asset value and therefore fees for that period).
- Pooled fund costs - the Fund has invested in two pooled property funds during 2014/15, committing £35m to each. As with any property investment, these pooled funds have an entry cost mostly relating to stamp duty paid on property purchases. The one-off cost of entry (mainly stamp duty) into the two funds at around 4.5%, £3.174m, is shown in Investment Management costs above. These funds are viewed as long-term illiquid investments; the valuation of each fund at March 2015 is close to exceeding the price paid for the investments i.e. recouping the costs of entry within a matter of months.
- Transaction costs – along with the pooled fund costs mentioned above, these are inherent in investment activity. The costs arise from active management investment trading (i.e. purchases and sales), one-off costs at entry into funds, activity within pooled funds, and from transitions between asset types due to restructuring, and as such are not included in the budget for administering the Cumbria LGPS. As stated though, they are accounted for as management expenses from 2014/15.
- Actuarial costs - this is always a relatively light year in the 3 yearly valuation cycle which drives actuarial fees. Staff training has meant that initial employer queries, which previously would, have needed input from the actuary (at a fee), can now be dealt with internally and has contributed in lower than budgeted costs. Employers are fully recharged actuarial costs for provision of their year-end accounting disclosures or for any specific work undertaken on their behalf.
- Employee costs – the 14/15 budget assumed that previously vacant posts would be filled during 2014/15. It is now anticipated that these posts will be filled later in 2015/16.

3.3.3 Analysis of pension overpayments, recovers and amounts written off.

The Cumbria Pension Fund pays over 14,000 pensioners every month and annual net pensions paid totalled £60.612m in 2014/15 (£58.620m in 2013/14). Unfortunately, with such a large volume of pensioner payments, there will be times when a member is paid more pension than they are entitled to. The main cause of overpayments is the late notification of the death of a pensioner. Wherever possible the Fund, while sympathetic to individual circumstances, will attempt to recover any overpayment and will only write off an overpayment as a last resort when it is uneconomical to pursue or all other avenues have been exhausted.

2014/15		
	£	Number of cases
Overpayments	37,936	69
Overpayments as % of annual pensions paid	0.06%	
Overpayments recovered	30,333	64 fully recovered
Overpayments in process of recovery	7,603	4 recovery ongoing
Overpayments in process of recovery as a % annual pensions paid	0.01%	
Overpayments written off	82	1

This is the first year this information has been required and, in future years, data will be built up to enable a 5-year analysis to be provided.

3.4 Performance against Business Plan 2014/15

As part of its governance arrangements the Pensions Committee approves a detailed Business Plan and associated budget prior to the start of the year and then reviews the half year performance against both to ensure that items are on track for delivery. The Committee received a report in November 2014 detailing the half year position for 2014/15 and an end of year update report in March 2015 outlining the expected final year outturn.

The purpose of the Cumbria LGPS annual Business Plan is to outline the Fund'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. While the plan is reviewed annually it builds on those prepared for earlier years.

The substantive work plan objectives in the 2014/15 Business Plan have either been achieved or are in progress of completion and are on track to be delivered within budget. The main actions completed during 2014/15 were (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 at section 3.5.2):-

- Significant progress has been made in delivering the asset allocation changes required following the Investment Strategy review, including commitments to infrastructure and other opportunistic investments. Approximately half of the total portfolio was to be restructured, of which 92.3% (£868m) in total had been completed as at March 2015.
- The implementation of a revised tiered performance reporting framework designed to ensure the three managerial tiers of the Fund (Pensions Committee, Investment Sub Group, Officers/Advisers) receive the right information to support the specific role in investment management, governance and oversight of the Fund that they perform.
- Scrutiny of fund management fees of existing managers during 2014/15 has secured further fee reductions in the region of £0.690m per annum along with a one-off saving of approximately £0.187m.
- The successful completion of the retender of the Fund's proxy voting service provider, and subsequent appointment of PIRC. The Fund has initially adopted the PIRC 'standard voting template' for UK shares with the intention of increasing the Fund's involvement in the voting process and moving towards a bespoke Cumbria voting template across the directly held equity portfolio.
- The review and subsequent extension of the contract to Mercers to provide the Fund's actuarial services.
- Submission of Cumbria LGPS specific responses to all key LGPS-related consultations during the year, including: the consultation on opportunities for collaboration, cost savings and efficiencies and both consultations on the draft regulations on Scheme Governance.

3.4.1 Looking Forwards - Business Plan 2015/16

The forthcoming year 2015/16 is again expected to be a busy one for the Pension Fund. 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 2015/16 include:-

- Governance and Procurement (including contract management)
  - Review and update of Fund risks, policies and strategies;
  - Reviewing, measuring and delivering training to Members and Officers as outlined in the dynamic Training Plan;
  - Development and enhancement of contract review procedures and performance monitoring at both Committee and Officer level;
  - Continuing to monitor arrangements for the 2014 Scheme, including employer communication and employer data submission issues;
  - Involvement in consultations and assessment of impact on Cumbria of national decisions on the future structure of the LGPS;
  - Review of governance arrangements in response to financial, regulatory and structural changes resulting from the 2013 Public Service Pensions Act, e.g role of the Pensions Regulator;
  - Development of the Fund's stewardship and corporate engagement framework; and
  - Creation, establishment and training for the Cumbria Local Pension Board.
- Fund Management
  - Implementing the final aspects of the Strategic Asset Allocation Review (e.g. continuing to progress infrastructure and opportunistic investment options and continual review of temporary overweight to equities);
  - Consideration of maturing nature of the Fund post 2013 valuation; and
  - Recruiting and training new staff.
- Employers, Funding and Accounting
  - Undertake initial discussions with the actuary and larger employers regarding the 2016 triennial actuarial valuation;
  - Communication with Fund employers and implementation of the required technology changes to embed the CARE 2014 Scheme and meet the data requirements of the Pensions Regulator;
  - Completion of the 2014/15 Cumbria LGPS Annual Accounts and Annual Report incorporating any new regulatory/technical changes; and
  - Recruiting and training new staff.

3.5 Administration Management Performance

The overall performance for 2014/15 against key pensions' administration indicators was 98% 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 2014/15.

3.5.1 Key Performance Indicators

Indicator	Target %	Actual 2014/15 %	Actual 2013/14 %
Estimate benefits within 10 working days	90	98	95
Payment of retirement benefits within 10 working days	90	99	96
Payment of death benefits within 10 working days	90	99	97
Implement change in pensioner circumstance by payment due date	95	100	97
Respond to general correspondence within 10 working days of receipt	90	98	96
Action transfers out within 15 working days	90	94	96
Action transfers in within 15 working days	90	96	96
Pay refunds within 10 working days	90	96	97
Provide leaver statement within 15 days	90	97	97
Amend personal records within 10 working days	90	100	99
	90	**98**	**97**

At the time of writing, benchmarking data for 2014/15 was not yet available.

The current work ongoing by the national Scheme Advisory Board recognises the importance of comparable data to evaluate Funds and work at a national level is ongoing to ensure this data is more consistent across Funds 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.

Good to know:

As well as delivering across all KPIs the most recent CIPFA benchmarking (2013/14) showed Cumbria LGPS's cost of administration per Fund member as comfortably lower than average (CLGPS cost per member per CIPFA benchmarking was £18.92 compared to the CIPFA average of £20.75 per member).

3.5.2 Performance against Key Administration Deliverables in 2014/15 Business Plan

The 2014/15 Business Plan the key deliverables and progress thereon for the Pensions Administration function of the Cumbria LGPS were:

Area	Why	Progress during 2014/15
Employer communications	Good governance	Communication with employers is a key function of administration of an LGPS Fund and this has been particularly so during 2014/15 due to the data required from employers in relation to the 2014 Scheme. In addition to undertaking 'standard' employer communications (e.g. email circulars, website, surgeries) Fund officers and YPS have worked closely with employers to support them in the development of processes to deliver the required data.

Effective and timely communications with and feedback from Fund employers and members has been the pivotal element of scheme administration in 2014/15, contributing significantly to the delivery of all the above. As part of this commitment to raise awareness of pensions issues and the services available officers and YPS have again undertaken numerous communications and events during the year (see **11.2** for further details).

3.5.3 Number of members in the fund

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	2014/15	2013/14
Actives	16,506	16,776
Deferred	21,768	20,045
Pensioners	14,403	14,117
TOTAL	**52,677**	**50,938**

4/ Investment Policy and Performance

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

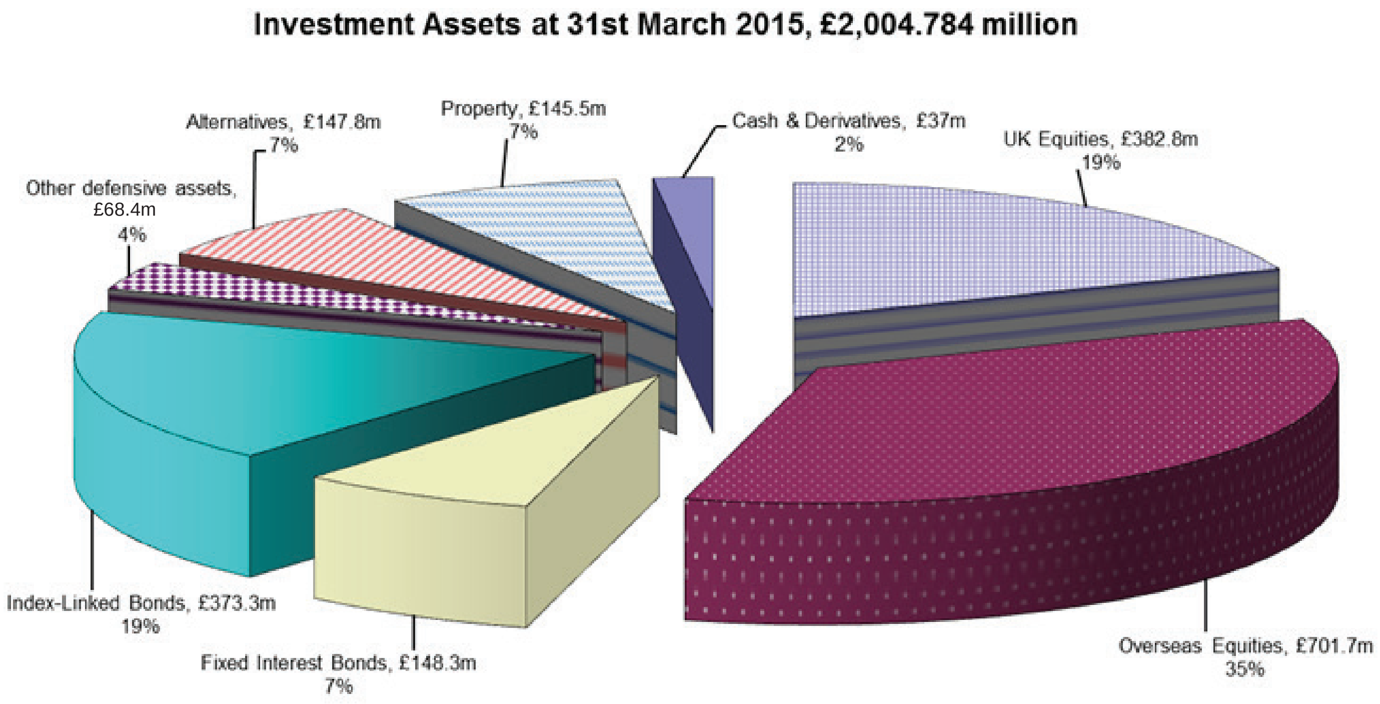
The Pension Committee is charged with the responsibility for the governance and stewardship of the Fund. The Fund has a prudent, risk aware investment strategy, which is kept continually under review through an annual evaluation of the Funding Strategy.

Depending on market cycles and movements in Fund membership a more in depth review is undertaken by the Fund 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 and address any cashflow requirements. Therefore to ensure the current strategy is fit for purpose under the current and future market conditions the strategy was stress tested under different market scenarios.

The process of implementing the resultant changes in asset allocation commenced in 2012/13 and is expected to be finalised during 2015/16, at which point we expect to be fully committed and cash deployed within the following four years. As at March 2015 approximately 92.3% of the Investment Strategy review outcomes had been implemented including in 2014/15:-

- Further commitments to progress the Fund's allocation to opportunistic investments (final allocation: 9%) including:
  - A $40m (£25m) commitment to the Healthcare Royalty Partners Fund III in July 2014;
  - A $25m (£16m) commitment to SL Capital Secondary Opportunities Fund II in December 2014; and
  - A €30m (approx. £22m) commitment to Unigestion's Secondary Opportunities Private Equity Fund III.
- Completion of the Fund's allocation to infrastructure investments with a commitment and full drawdown of $125m (£75m) to JP Morgan Infrastructure Fund IIF UK 1 LP in June 2014.
- Other defensive assets including a £35m commitment in June 2014 to the Aviva Lime Long Lease Property Fund, also fully drawn by March 2015.

Investment assets as at 31st March 2015:
The following chart shows the distribution of the total investment assets held by the investment managers across all the asset classes at the year-end:



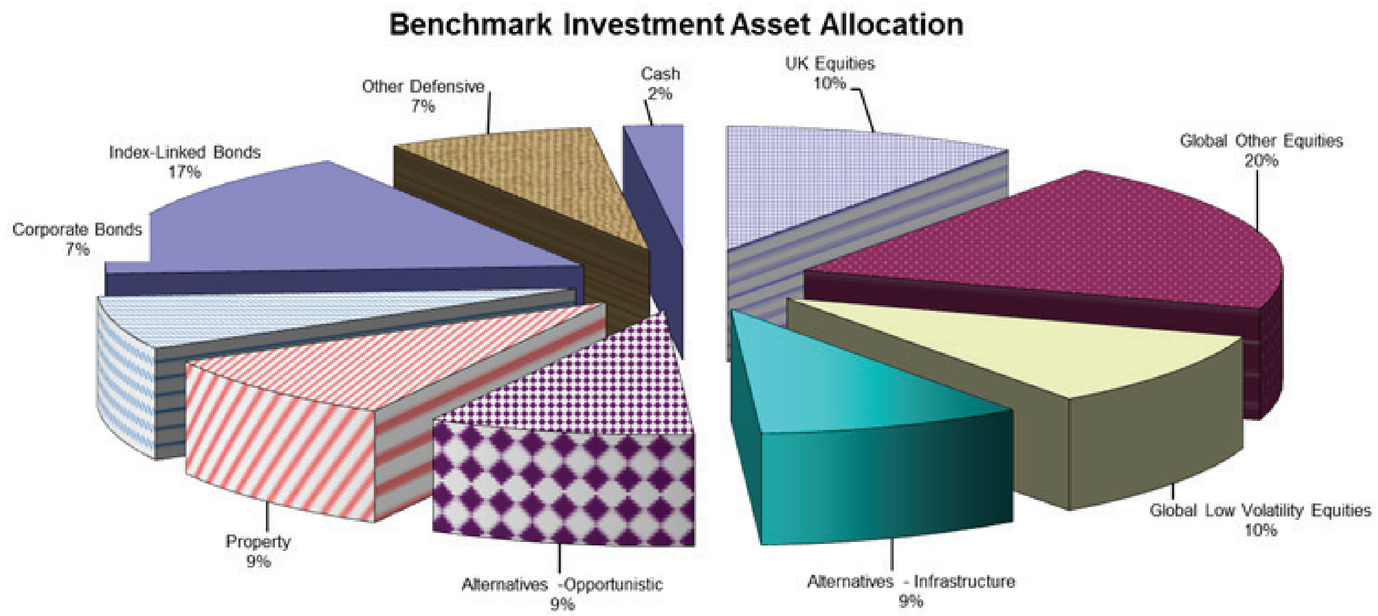
The percentage (%) asset allocation has moved as follows since 1st April 2014:

	Assets as at 1st April 2014	Assets as at 31st March 2015	Movement
UK Equities	26%	19%	(7%)
Overseas Equities	32%	35%	3%
Fixed Interest Bonds	11%	7%	(4%)
Index-Linked Bonds	16%	19%	3%
Alternatives	3%	11%	8%
Property	7%	7%	0%
Cash & Derivatives	5%	2%	(3%)
	100%	**100%**	**0%**

The key changes in asset holdings since the start of the year are reductions in UK equities and in fixed interest bonds (-7% and -4% respectively) and increases in alternatives and index-linked bonds (8% and 3% 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 section **10**).

In order to implement the final allocations per the SIP the Fund is temporarily overweight equities than per the revised SIP (this position is discussed quarterly at the Investment Sub Group and reported to each Committee meeting). This overweight position will reduce as the Fund meets current commitments to and completes further allocations to alternatives. At April 2015 current commitments to alternatives totalled £243m (roughly 12% of Fund assets compared to the target SIP allocation to alternatives of 18%) of which £119m (roughly 6% of Fund assets) had been drawn down. The drawdown of these current committed and as yet unallocated amounts will be funded from the overweight element of the equity holdings.

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



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 Fund's assets through efficient use of the Pension Committee's 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**).

Good to know:

The Cumbria Sub Group was highlighted by Grant Thornton in their November 2013 report on governance as an example of good practice.

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

Good to know:

Cumbria LGPS's investment managers adhere to the Stewardship Code.

Cumbria is also a member of the Local Authority Pension Fund Forum (LAPFF) which uses its collective presence in the market to progress matters of corporate governance in the companies owned by its member funds.

The Kay Review followed in December 2012 aiming to make companies more accountable to shareholders and the public. The 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 Fund 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 Fund 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

The informed use of votes, while not a legal duty, is a responsibility of the owners of companies (shareholders or ourselves as a Pension Fund) and as such is an implied fiduciary duty of pension fund trustees and investment managers to whom they may delegate this function. Members as "de-facto Trustees" have a duty to safeguard shareholder value and in this regard there is an increasing body of evidence to suggest that a well governed company is more likely to deliver stronger long term investment performance.

Until 31st December 2014 the responsibility for the exercise of all voting rights (i.e. both UK and overseas equities) was delegated to the investment managers. To demonstrate better oversight, engagement and stewardship of companies that the Fund is a shareholder of the Committee is working towards agreement of a Cumbria-specific voting template. Whilst doing so, the current responsibility for the exercise of voting rights in relation to the UK active portfolio is delegated to PIRC. They vote in accordance with their 'standard voting template' which is based upon relevant law, best practice, accounting standards and regulatory considerations. When considering voting recommendations PIRC also consider Board explanations, potential impact of oppose votes on corporate structure, materiality, opportunities for further votes in the future on the issue and market implications from any precedent created. However, we have the opportunity to override votes should we so choose.

For the global active portfolio responsibility is currently delegated to the investment managers. Investment managers 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 and PIRC are required to report quarterly on their voting actions for every appropriate investment. Any responses received from companies concerned should also be reported. The Fund requires a full voting audit trail 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 Members 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 Members are satisfied that the Fund Managers Corporate Governance policy reflects the key principles of Socially Responsible Investment. All investment managers are required to adhere to the Stewardship Code.

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

Prior to the adoption of the PIRC voting template in January 2015, the Fund utilised 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 was based upon UK best practice as established by the Stewardship Code, Myner's Principles regarding shareholder activism, and took account of the latest recommendations from other sources such as the UK Corporate Governance Code. Managers were then required to justify their voting actions where discrepancies occurred.

Cumbria are also members of the Local Authority Pensions Fund Forum (LAPFF), (n.b. for further details of bodies the Fund is a member of – see **5.3**), and so Members and officers have been able to use the expertise of the Forum to enhance their understanding of Corporate Governance issues. LAPFF is a collaborative shareholder engagement group which brings together 64 local authority pension funds from across the UK with combined assets of over £160 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 Funds should vote where voting issues arise in relation to particular companies.

Key voting issues affecting Cumbria LGPS investments during 2014/15:

Focus continued to be placed on remuneration and incentive schemes, as this was an area Members are keen is kept under review. Where investment managers voted to approve policies where we perceived there was 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.

Since the appointment of PIRC as the new proxy voting service provider in January 2015, votes for the UK equity portfolio have been cast in line with their 'UK Shareholder Voting Guidelines' rather than delegated to investment managers. These incorporate law, best practice, accounting standards and regulatory considerations. There is a clear rationale reported for each voting intention in advance of the relevant meeting. Oppose votes were cast in such areas as approval of remuneration policies and reports, re-election of Directors, Approval of Annual Reports and re-election of Auditors, across a range of companies.

Members and Officers continue to attend quarterly meetings of LAPFF (Local Authority Pension Fund Forum). They have continued with their active engagement, pushing companies on their executive pay arrangements, rewards for sub-par performance and complexity. They also continue to inform members on key corporate governance issues, such as board diversity and independence, carbon management, employment standards, reliable accounting, and human rights.

4.4.3 Compliance with Myners Principles

Good to know:

During 2014/15 the Fund was fully compliant with the Myners Principles.

Details of the Fund's compliance with the Principles are set out in the Statement of Investment Principles (the SIP) (see section **10**).

4.5 Investment Performance

Good to know:

In 2014/15 the Fund outperformed its Fund specific benchmarks for the 1, 3, 5 and 10 years periods.

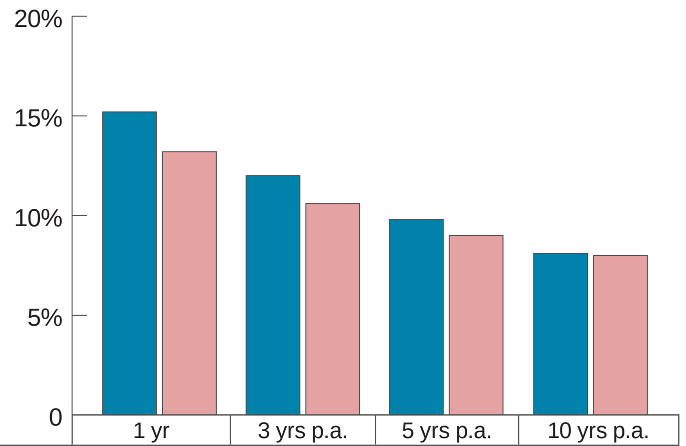
Detailed performance figures are shown at **4.5.1** to **4.5.4** below.

Asset allocation is widely held to drive approximately 80% of returns (see section **4.2** for detailed consideration of Cumbria LGPS asset allocation during 2014/15 and going forwards). During 2014/15 many asset classes performed well (see **4.5.4** below), with UK index-linked bonds in particular providing strong returns (21.1%) Global Equities and Property also performed well with returns around 18%, although for equities there were variations by sector and geography. Equity performance was particularly strong in North American markets increasing by 25.1%, Japan 27.1%, and Emerging markets 19.9%; but for UK (6.6%), Europe (excluding UK) 7.5%, and Pacific (ex-Japan) 12.7%, equity index performance was less strong. Corporate bonds also rose in value by 7.6%.

The Fund made the active decision to temporarily transfer half its holding in corporate bonds to equities to preserve capital value. Equities have performed strongly and consequently this decision has contributed to the outperformance of the Fund during the year.

4.5.1 Investment Performance of the Fund against Benchmark (net of fees):

As it is investment performance net of fees that ultimately contributes to Fund returns all internal reporting is undertaken on a net of fees basis. The following two tables are therefore shown on a net of fees basis.



	1 yr	3 yrs p.a.	5 yrs p.a.	10 yrs p.a.
Fund	15.2%	12.0%	9.8%	8.1%
Benchmark	13.2%	10.6%	9.0%	8.0%

4.5.2 Investment Fund Manager Performance (net of fees)

Fund Manager	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
Aberdeen	18.4	11.5	10.4	5.9
Legal & General	16.9	12.3	11.3	9.4
Loomis Sayles	23.5	n/a	n/a	n/a
Nordea	23.1	n/a	n/a	n/a
Schroders	9.4	13.1	9.4	8.9

Source: WM

4.5.3 Investment Performance of the Fund Relative to LGPS Universe (gross of fees):

As detailed earlier at **4.5.1** as it is investment performance net of fees that ultimately contributes to Fund returns all internal reporting is undertaken on a net of fees basis. The current standard for comparing performance against peers, however, is undertaken on a gross of fees basis. The following two tables are therefore shown on a gross of fees basis.

	1yr	3 yrs p.a.	5 yrs p.a.	10 yrs p.a.
Fund	15.3%	12.2%	10.0%	8.2%
Universe	13.2%	11.1%	8.7%	7.9%
Ranking	16th	18th	16th	34th

4.5.4 Fund returns over 1, 3 and 10 years by Asset Class (gross of fees):

To 31 March	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
UK Equities	9.1	12.3	9.1	8.5
N. America Equities	25.6	18.4	13.3	11.4
Europe ex UK Equities	11.3	17.0	8.6	9.7
Japan Equities	28.9	14.9	7.8	6.4
Pacific Equities	25.8	11.9	10.3	13.8
Other International Equities	17.0	10.8	4.0	8.9
UK Corporate Bonds	13.6	8.6	8.2	6.1
Overseas Bonds	4.5	n/a	n/a	n/a
UK Index Linked Bonds	21.3	9.0	10.9	8.6
Cash / Alternatives	9.7	6.3	5.2	2.1
Property	16.0	11.3	10.7	6.5
Total Assets	**15.3**	**12.2**	**10.0**	**8.2**

5/ Fund Administration Report & Administration Strategy

5.1 Fund 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 Assistant Director - Finance 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 complete the implementation of the 2014 Scheme including the implementation of key software changes to the core administration system, during 2014/15 all LGPS specific KPI targets were exceeded (see **3.5** for further details of performance in 2014/15).

The Cumbria and Lancashire Funds 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 changes affecting members e.g. auto enrolment, changes to the pensions tax allowances 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 Fund** Administration

As per recommended practice the Fund 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 fund 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 so as to benchmark itself against other Funds, the Administering Authority was a subscriber to the following bodies during 2014/15:

- 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 Authority (LGA)
- Society of County Treasurers (SCT)

5.4 Internal Dispute Resolution Procedure

Although the majority of problems relating to members benefits are normally the result of misunderstandings or incorrect information and can therefore be dealt with informally, the LGPS Regulations provide a formal complaint procedure known as the Internal Dispute Resolution Procedure (IDRP). This formal process consists of two stages, although most of the complaints received are resolved during the first stage. More detailed information can be found by going to the Active Members section of the Your Pension Service website at the following web address: **http://www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=44218&e=e** and downloading the guide entitled 'IDRP Employee's Guide' under the 'Guides, factsheets and forms' section. Alternatively you can contact Your Pension Service by telephoning: **0300 123 6717**

The Fund has undertaken approximately 25,300 contact points with members during 2014/15. During the year the Fund had 15 new IDRP appeals, 8 of which were resolved, 7 are under investigation and 1 progressed to the Pensions Ombudsman which is awaiting final adjudication.

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

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

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

5.5.1 External Administration Provider

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

This report will include:

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

5.5.2 Communications Policy

The external administration provider is bound by agreement 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 make available 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 Fund 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 employer's 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 Fund and published on the Cumbria County Council website: **http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp.**
- 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 Fund.

6/ Actuarial Report on Funds

6.1 Introduction

Legislation requires that all individual local government pension funds undertake an actuarial valuation every three years. The purpose of the valuation is to inform long term policy and strategy to ensure the Fund 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 (Regulation 62 of the Local Government Pension Scheme Regulations 2013) and the most recent valuation was carried out as at 31 March 2013. Changes to employer contribution rates as a result of this valuation took effect from 1 April 2014.

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 Fund 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.

In the period immediately following the date of the valuation (i.e. between 31 March 2013 and 31 August 2013, however, there were 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 meant the funding level increased to approximately 83%. This was taken into consideration when setting employer contribution rates.

2013/14 saw a continuation of this rally in yields (resulting in the Fund valuation rising to 85% as at 31st March 2014) however during 2014/15 the rally stalled and yields again fell (to a level below that seen in 2012/13). In light of this the Actuary estimates that despite strong growth in investment assets, on consideration of financial factors alone, the funding position has only improved by 1% to 79% as at 31st March 2015.

It should be recognised that valuations across the LGPS are carried out using a variety of assumptions and methodologies. So, while at a first glance the funding level and default deficit recovery period (see **6.2.2.2**) would place Cumbria in the mid ground of 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. Should this be the case Cumbria should be well placed to protect employer contribution rates going forward if standardisation is required.

6.2.2 Contribution Rates

In addition to calculating the value of the assets and the liabilities of the Fund 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 2014/15 were therefore set by the 2013 Actuarial Valuation. In setting employer contribution rates the Actuary and the Fund must have regard to two fundamental principles;

- To set contribution rates which are sufficient to secure the Funds' 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 Contrubution 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 Fund (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 Fund 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 Fund 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		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 (% / £)	
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	
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	TBC	TBC	TBC	TBC	TBC	TBC	TBC
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	
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	

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 (% / £)	
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	
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	

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 (% / £)	
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 Trust	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	
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	

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 (% / £)	
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	
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	

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 (% / £)	
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	
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.

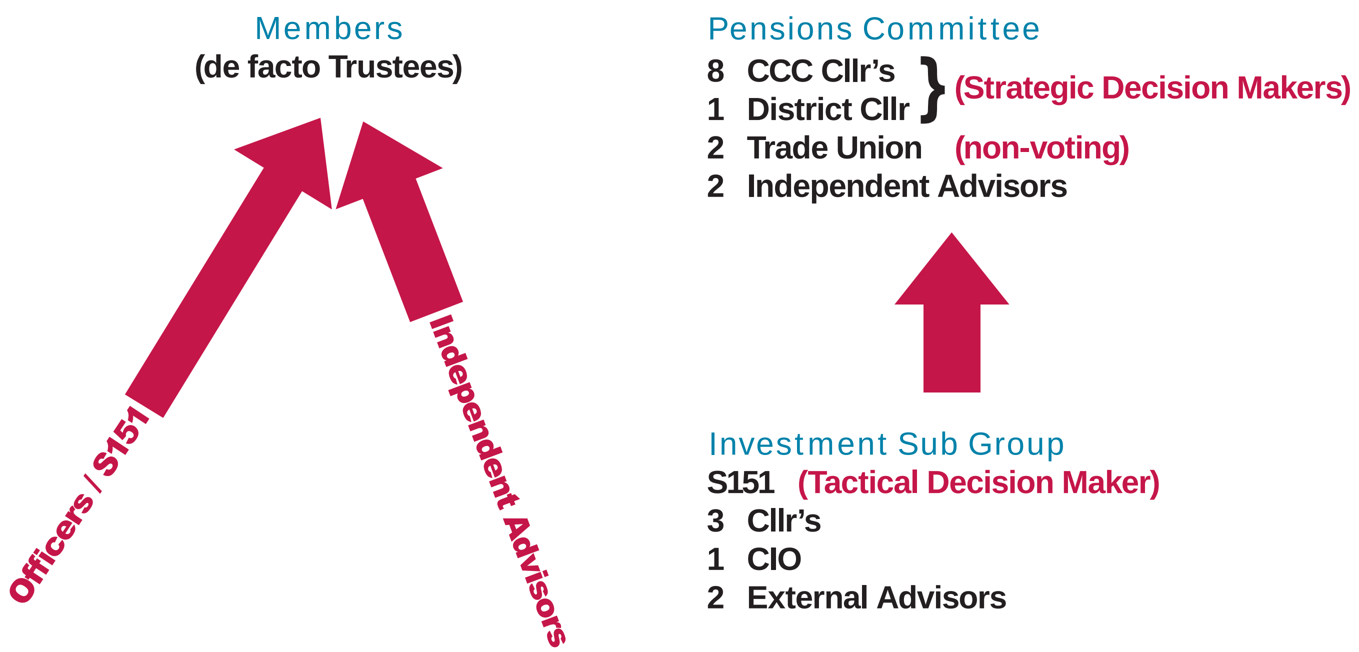
To ensure good governance of the Fund the policy framework and all aspects of management of the Fund are set out in the various Fund Policy Statements.

The purpose of each is summarised as follows:

- **Governance Policy Statement** (see section **7.2**) – sets out the roles and responsibilities, describes risk management (which is also considered in section **3.2** of this report), and reports compliance against a set of best practice principles.
- **Administration Strategy & Communications Policy** (see section **5.5**) – details the formal arrangements for pensions and benefits administration for the Fund, and the communications with members, employers and pensioners.
- **Statement of Investment Principles** (see section **10**) – details how the Fund's assets are invested, the fund managers and benchmarks, and the Fund's compliance with Myners Principles.
- **Cash Investment Policy** (see section **12.4**) – the management of the pension Fund's cash, bank account and investment of surplus cash.
- **Funding Strategy Statement** (see section **9**) – identifies how the Fund'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 Fund.
- **Discretions Policy** (see section **12.2**) – detailing the policy regarding the exercise of certain discretions to assist in the management of the Scheme.
- **Training Policy** (see section **12.1**) – sets out the policy concerning the training and development of members of all committees and officers responsible for management of the Fund.

7.1.1 Governance arrangements within the Cumbria LGPS

During 2014/15 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 (**7.1.1.5**).



From 1st April 2015 this will increase to five with the creation of the Cumbria Pensions Board. For details of the Board see **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 Committee has 11 members (8 County Councillors, 1 District Councillor and 2 non-voting employee representatives).

Advice is given by Cumbria County Council's Assistant Director – Finance who is the statutory 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 Fund actuary Mercers, and by other consultants and lawyers wider services.

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://moderngov.ccc/documents/s39268/Part%20 6C.pdf** 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

The dedicated Investment Sub Group advises the Section 151 Officer in the exercise of their delegated powers to appoint / terminate non-SIP investment managers, thus speeding up decision key strategic and governance issues that add most value to the Fund.

The Investment Sub Group consider, and continually review the investment management structure for the Pension Fund and are responsible for advising the Section 151 Officer on the appointment and termination of non-SIP investment managers and the establishment and review of performance benchmarks and targets for investment. The group also considers 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. Grant Thornton recognised this mode of operation as any example of best practice in their November 2013 report on governance[6].

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 Fund and discuss items of common interest in relation to pensions. Membership of the Forum is open to all employer bodies within the Fund. Further details of the Forum, including its Terms of Reference are detailed in the Governance Policy Statement below at **7.2**.

The Forum meets annually and during 2014/15 met on 6th October 2014. The meeting date for 2015/16 has been scheduled for 15th October 2015 and we would be delighted to see stakeholders at this meeting.

7.1.1.4 Cumbria Pensions Board

The Board is constituted under the Public Service Pension Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014. It is required from 1 April 2015, and will be established to assist the Administration Authority to fulfil its functions in relation to all aspects of governance and administration of the Pension Fund. The Board will have no remit as a decision making body.

7.1.1.5 Advisors & 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 investments, actuarial matters and wider pensions issues.

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

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

7.1.1.6 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 2014/15 any related party transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

7.1.1.7 Training 2014/15
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 an example of best practice in the Grant Thornton annual LGPS governance review 2013[7]. 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 Fund.

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 2015/16 (the 2014/15 Training Plan is set out in the 2013/14 Annual Report which can be found at:
www.cumbria.gov.uk/elibrary/Content/Internet/536/654/1129/41978112552.pdf and reflects the 2015/16 Business Plan draft Committee Timetable.

The formal training undertaken by Members and Officers during the 2014/15 financial year has consisted of:

i. the provision a number of targeted internally held (although delivered primarily by external experts) training sessions including:

Date	Training Course/Information Report
June 14	Information Report – Future Structure of the LGPS
June 14	Educational Presentation by LAPFF – Stewardship
June 14	Training/Information Session – New Asset Classes/Products: JP Morgan - Infrastructure, Health Care Royalties Partners and AVIVA – Long Lease Property
Sep 14	Presentation by Fiona Miller – Future Governance Structures in LGPS
Sep 14	Presentation by State Street Investment Analytics – Investment trends in Local Government Pension Schemes
Sep 14	Training Session by State Street - Stock Lending
Oct 14	Up & Coming Changes by Fiona Miller – Governance & Consultations impacting the LGPS
Oct 14	Actuarial Valuation presentation by Mercers – Results comparator / financial considerations
Nov 14	Update Report – Future Structure Consultation
Nov 14	Stewardship Training by PIRC – Bespoke Voting Template
Mar 15	Training session by Officers - Fund Policies
Mar 15	Training by Hendersons - Fixed income
Mar 15	Training by Unigestion - Key considerations in alternatives asset allocation strategy
Mar 15	Training by JP Morgan - Economic update (with a focus on market risks as they affect UK globally diversified pension funds)
Mar 15	Training by JP Morgan - ESG infrastructure & investments in the portfolio
Mar 15	Information report – Initial planning considerations for the 2016 Actuarial Valuation

ii. and ad hoc attendance by individuals at externally run events where they have been identified as appropriate for the individual, including:

Date	Training Course/Information Report	Attendees/ Members	Officers
Apr 14	CIPFA Pensions Network – Technical Workshop		3
Apr 14	AXA – Smart Beta		2
May 14	Standard Life - Scenarios and Strategies	2	
May 14	NAPF Local Authority Conference		3
Jun 14	PIRC Corporate Governance Conference		1
Jun 14	LAPFF Business Meeting	1	1
Jul 14	CIPFA – Implementing Governance & Efficiency		2
Sep 14	SPS – Adding Value in Bonds		1
Sep 14	LGC - Investment Summit		1
Sep 14	CIPFA Scottish Pensions Group		1
Oct 14	LAPFF Business Meeting	1	2
Oct 14	Local Gov't Pension Investment Forum 2014	2	2
Nov 14	SPS - Investment Strategies for Pension Funds		2
Nov 14	CIPFA Pensions Network – Annual Conference		1
Dec 14	LAPFF Conference		1
Feb 15	LAPF Strategic Investment Forum	1	1
Feb 15	CIPFA – Year-end accounting workshop		3
Feb 15	Eversheds training – Local Pension Boards		1
Feb 15	LGC Investment Seminar 2015	1	2
Mar 15	NAPF Investment Conference		1
Mar 15	Investment strategies and current Issues		2
Mar 15	LAPFF Business Meeting	1	1

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

7.1.1.8 Summary of Committee & Sub Group Attendance and formal training in 2014/15

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	8.5
Cllr. SB Collins	Vice Chair - Committee & Sub Group	Yes	9	2.5
Cllr. NH Marriner	Committee & Sub Group	Yes	9	3.0
Cllr. DE Southward		Yes	3	4.0
Cllr. G Strong		Yes	3	2.0
Cllr. I Stewart	*(to May 2014)*	Yes	n/a*	-
Cllr. H Wall	*(from May 2014)*	Yes	1	0.5
Cllr. G Troughton	Co-opted District Councillor	Yes	2	1.5
J Trueick	Employee representative (to June)	No	1	1.5
R Bevan	Employee representative (from March 2015)	No	1	0.5
K McDonald	Employee representative (from March 2015)	No	1	-
Substitutes				
Cllr. B Doughty		-	-	-
Cllr. DS Fairburn		-	-	0.5
Cllr. N Hughes		-	-	-
Cllr. D Roberts		-	-	1.0

* No meetings were held during April – May 2014

7.1.1.9 Audit
The finance and operational arrangements of the Fund are subject to review and audit both by Grant Thornton and the Cumbria's and Lancashire County Council's (as part of the shared service) 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 2013/14 Pension Fund accounts received an unqualified and unmodified positive opinion and the Fund's external auditor (Grant Thornton) noted that the working papers accompanying the financial statements were of a good standard and provided in accordance with the agreed timetable.

7.2 Governance Policy Statement – March 2015

In accordance with regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (Regulation 55 of the Local Government Pension Scheme Regulations 2013) 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 and approved by the Pensions Committee held on 9 & 10 March 2015.

The Administering Authority, Members of Pension Committees and Boards are expected to operate in compliance with any requirements imposed by the Pensions Regulator. Although not statements of law, the Regulator issues Codes of Practice which set out standards of conduct and practice expected, including practical guidance to help them comply with legislation.

The Pensions Committee is governed by Cumbria County Council's procedural rules under the Council's Constitution:

Terms of Reference of the Pensions Committee

Functions
To carry out the Council's functions as the delegated decision making body of the Administering Authority for the management of the Cumbria Local Government Pension Scheme ("the Pension Fund").

These responsibilities will include, but not be limited to:
- To submit the Pension Fund Accounts to the Council in line with current financial regulations.
- To submit reports to the Council (as a minimum three times a year) updating it on the governance, risk monitoring and performance of the Fund following meetings of the Committee.
- To receive and where necessary instruct corrective action, in response to both internal and external auditor reports.
- To approve the formal Triennial Actuarial Valuation of the Fund, with due consideration being given to balancing the Fund's objectives of ensuring the long term solvency of the Fund while aiming to maintain stable employer contribution rates.
- To (as a minimum) annually review and approve any amendments to the statutory policy statements as required by LGPS regulations (currently the Funding Strategy Statement, the Governance Policy Statement, Admissions and Terminations Policy, Administration and Communications Policy, Discretions Policy, Cash Investment Policy, and the Statement of Investment Principles).
- To produce and maintain an Administration and Communications Policy for the Pension Fund for the admission of employing bodies as contributors to the Fund; that fulfils all communication and consultation requirements with employers of the Fund.
- Prior to the commencement of the financial year to approve an Annual Business Plan and associated Budget for that year to cover all matters of expenditure to be charged to the Fund. To review performance against this throughout the year.
- To approve and annually review the Fund's Training Policy to ensure those charged with the management of the Fund (Members and Officers) are appropriately experienced and qualified.
- To receive minutes and consider recommendations from and ensure the effective performance of the Pension Fund Forum and the Investment Sub Group.
- To receive and consider recommendations from the Cumbria Local Pension Board. 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 review an appropriate management and governance structure of the Investment Sub Group to achieve the effective delivery of the Pension Fund objectives.
- To contribute nationally to the development of policy and regulation in regards to the Local Government Pension Scheme and wider Public Sector Pensions policy.

Committee Membership
Eight county councillors, plus one co-opted district councillor representing the six district councils in Cumbria and two non voting employee representatives. Equal weight will be given each Members vote with the Chair having the casting vote should the need arise.

The Committee will meet as a minimum quarterly. Meetings will be held during normal working hours and will predominantly be held within county boundaries.

Committee Operating Structure
The Pension Committee is a committee constituted under section 101 of the Local Government Act 1972 therefore key functions and terms of the Committee, including the following, are as detailed elsewhere in the Constitution:
- Appointment the Chair / Vice Chair,
- Reimbursement Members allowances,
- Quoracy,
- Code of Conduct,
- Conflicts of Interest, and
- Publication and Data protection

In addition to these, to ensure compliance with pension-specific regulations and guidance, the functions and terms of reference of the Pension Committee also include:-

Knowledge and Understanding
- To ensure that Members involved in the governance and monitoring of the Pension Fund meet the requisite knowledge and skills requirements. A general level of attendance at meetings and training events is required.
- Nominated substitutes are permitted to represent Members at meetings provided that they have completed the minimum training requirement per the Funds Training Policy.

Creation of Working Parties / Sub Groups
- The Committee have the delegated authority to establish Working Parties / Sub Groups to more effectively consider matters in more detail, these working groups will have no power to make decisions.
- Sub Groups which have delegated decision making powers can only be established with the approval of Council.

Role of Advisors

- The Committee is required to ensure all Members have access to appropriate professional advice and representation prior to making any decisions concerning the general management of the Fund.
- To assist in the above the Committee will be required to appoint industry specific advisors to enable it to fulfil its obligations e.g. Fund Actuary; tax specialists; etc. these contracts are to be awarded through the Councils normal procurement process and once appointed will be managed on behalf of the Committee by the Section 151 Officer.
- The Committee may also appoint Independent Advisors, their role being to assist and support Members in their understanding and challenge of either service providers or Officers.
- Independent Advisors will be appointed by the Members, and thereafter report directly to the Chair of the Committee.
- All Members of the Committee have the right to access the support of Independent Advisors appointed to the Fund, however due regard has to be taken of securing value for money and as such whether in the first instance Officers could provide the assistance required.
- On appointment all Independent Advisors will be required to sign a declaration statement outlining any potential conflicts they may have. Once appointed they must immediately report any changes of circumstance directly to the Chair of the Committee for their consideration and further action should this be necessary.

Terms of reference of the Investment Sub Group

The Constitution of the Investment Sub Group is:

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

These responsibilities are:

- 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.
- To carry out monitoring at an individual manager level of the performance of the Fund's investment managers and to escalate any matters of concern to the Pension Committee.
- To consider, and continually review an investment management structure for the Pension Fund and to be responsible for assisting the Section 151 Officer in:-
  - the appointment and termination of investment managers with holdings of less than 5% of the portfolio; and
  - the establishment and review of performance benchmarks and targets for investment.

Membership
The Group will comprise three Members of the Pension Committee (including the Chair of the Committee). Members, excluding the Chair, will be selected by the Pension Committee.

Independent Advisors or Investment Consultants to the Fund at the invitation of the Pension Investment Sub Group.

Two senior Officers of the Council with responsibilities for the management of the Fund including the Section 151 Officer and the officer with the responsibility of senior investment officer to the Fund

At any meeting where consideration by the Pension Investment Sub Group of a recommendation to change an investment manager is undertaken the following must be available:-

- at least two of the three elected members
- senior Officers of the Council with responsibilities for the management of the Fund including the Section 151 Officer and an officer with the responsibility of senior investment officer to the Fund.
- at least two external advisors
- attendance by electronic media, provided that the prior approval of the Chair has been secured.

Group Operating Structure

- The Group will meet as a minimum four times a year. Meetings will be held during normal working hours and will predominantly be held within County boundaries.
- To help fulfil a function of this group, which is to assist the Section 151 Officer to enact investment decisions more nimbly, additional meetings can be convened by any two members of the group with five working days' notice.
- Creation of Working Parties / Sub Groups – as a non-decision-making body the Group have no authority to establish Working Parties / Sub Groups.

The Public Sector Pensions Act sets out a requirement for all public service pension schemes to establish a Local Pension Board by 1st April 2015.

Terms of Reference of the Pensions Board

Functions
To assist the Administering Authority of the Cumbria Local Government Pension Scheme to secure compliance with:-

- The regulations covering administration of a local government pension scheme;
- Other legislation relation to the governance and administration of the LGPS; and
- The requirements imposed by the Pensions Regulator in relation to the LGPS.

And to

- Ensure the effective and efficient governance and administration of the LGPS.

To have a policy and framework to meet the knowledge and understanding requirements of section 248A of the Pensions Act 2004.

In their role in assisting the Administering Authority as described above, the Board shall report twice yearly to the Pension Committee on matters reviewed and suggestions for their consideration. Where the Board is concerned that due consideration has not been given to matters of non-compliance the Board may submit a report for consideration by the Audit and Assurance Committee as the body designated by the Administering Authority with the capacity to investigate such matters on its behalf.

The Board is constituted under the Public Service Pension Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014 and is therefore not subject to the requirements of s.101 of the Local Government Act 1972. The Board has no remit as a decision making body but is established to assist the Administration Authority fulfil its functions which shall be deemed to cover all aspects of governance and administration of the Pension Fund.

Board Membership
Equal representation between Fund employers and Fund members is required. The Cumbria Local Pension Board will have three scheme member representatives and three scheme employer representatives. Three Member representatives, three employer representatives, substitutes are not permitted.

Appointment of Board members - To ensure an open and transparent selection process and to ensure the Administration Authority meets its obligation to ensure appointed members have the relevant experience and capacity, the selection process will be through application, matching to a role profile and interview. The Appointment Panel will consist of the Section 151 Officer, Monitoring Officer and Portfolio Holder for Finance.

Appointment of the Chair / Vice Chair – the Administering Authority will appoint the Chair and the Vice Chair. The roles will be split with one being a Fund representative member rep and one being a Fund representative employer rep and this will be alternated on a two yearly cycle,

Appointments will be for four years and there will be no limit on the number of times a member of the board can seek to be reappointed.

The three employer representatives will be allocated 1 to the County Council; 1 to the District Councils and 1 for all other employers in the Fund.

The three Fund member representatives will be selected to ensure all membership groups within the Fund are covered.

Reimbursement of reasonable expenses for attendance at meetings and training sessions will be per the Council's agreed policies and rates for Elected Members. All such costs will be met directly by the Pension Fund.

Relevant experience and capacity – the administering authority must ensure that each person appointed to the Board has the relevant experience and the capacity to represent the employers or members (as appropriate) of the Fund. Initially this will be done through selection by the Administration Authority but, following appointment, it is a member's individual responsibility to ensure they attend all training etc. to enable them to continue to fulfil the experience and capacity requirements. Full training will be provided and all reasonable costs will be met by the Fund. To ensure compliance with the above a general level of attendance at meetings and training events is required.

Board Operating Structure and Codes of Conduct

- The Board will be quorate if 25% of designated members (i.e. 2) are in attendance.
- Prior to appointment to the Board all members will be required to sign up to the Board's Code of Conduct and Conflicts of Interest Policy. As a body representing the public interest the Code of Conduct and Conflicts of Interest Policy of members of the Local Pension Board will be aligned to those applicable to Members of the Pension Committee and is available on the Councils Website.
- The Board will meet as a minimum twice a year. Meetings will be held during normal working hours and will predominantly be held within County boundaries.
- Where required, a minimum of 2 Board members (one from the Fund member representatives and one from the Fund employer representatives) or the Administering Authority can request a special meeting be convened. Notice of ten working days must be given.
- Creation of Working Parties / Sub Groups – as a non-decision-making body the Board have no authority to establish Working Parties / Sub Groups.
- Voting rights – Each member shall have an equal vote and, should it be required, the Chair will have the casting vote.

Commissioning of Service providers and Advisors

- All Board members have the right to access the support of the experienced Local Government Pension Scheme Independent Advisors, however due regard has to be taken of securing value for money and as such whether in the first instance Officers could provide the assistance required.
- Items of expenditure by the Board must have prior approval from the Section 151 Officer.

Role of Officers

- Reasonable secretarial and professional support will be provided by Officers of the Administering Authority. Costs associated with this will be directly charged to the Fund.

Publication and Data Protection

- As a general principle meetings will be open to the public.
- Paper or electronic versions (as requested) of all agendas and papers will be provided to all members of the Board prior to a meeting. The Chair can accept that items be tabled on the day should such a need arise.
- As a matter of policy the Pension Fund has adopted the principals of paperless working, therefore as a matter of course public access to all agendas, public papers and minutes etc. will be available on the Council's website. On request alternative media versions are available.
- The County Council as the Administration Authority is the registered data controller of the Cumbria LGPS, and as such all policies and practices in this regard applicable within the County Council are directly applicable to the Board.

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.

Delegations to the Assistant Director – Finance (s.151 Officer)

1. 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.
2. To undertake all treasury management activity in accordance with the annual treasury management policy statement and other management policies as determined by the Council.
3. To deal with the County Council's insurances in consultation with the Assistant Director - Corporate Governance in respect of any legal matter arising therefrom and in consultation with the relevant officer in respect of specific claims.
4. To operate such powers as may be conferred on him/her by the County Council in any financial regulations approved by the Council from time to time.
5. To pay sums due to creditors, contractors, and mortgagees in respect of rents, rates, grants, fees and other liabilities, provide that the expenditure has been authorised by the County Council by inclusion in the annual or supplementary estimates and certified by, or on behalf of, the Corporate Director concerned, except such payments as may be made via Departmental Imprest Accounts.
6. To pay pensions, gratuities, grants, etc. to members, other beneficiaries, and creditors of the Pension Fund, in accordance with the Superannuation and Pensions Acts and Regulations and the agreed policy of the Council thereunder.
7. To administer the central car loan and car leasing schemes.
8. A fuller description of the responsibilities of the Assistant Director – Finance is set out in paragraph 1.5 of the Financial Standing Orders (Financial Regulations) (Part 12 B).
9. In consultation with Members of the Cumbria Pensions Investment Sub Group to appoint investment managers to the Cumbria LGPS.
10. To award any other contracts incidental to the discharge by the Pensions Committee of its functions on behalf of the Cumbria LGPS.
11. Approval of expenditure of the Cumbria Local Pension Board.

Since decisions taken in accordance with paragraphs 9, 10 and 11 above are incidental to the non-executive functions of management of the Cumbria LGPS these decisions are not 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 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 and the Pensions Regulator Tool Kit.

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 formally considers risk management on a quarterly basis with any significant emerging issues being escalated by Officers to the Chair and Vice Chair in the intervening periods. Members actively monitor progress in relation to controls and actions taken to mitigate risk.

Risks are assessed in terms of their impact on the Fund and their likelihood using the below matrix:

Impact					
5. Most severe	amber	amber	amber	red	red
4. Major	green	amber	amber	red	red
3. Moderate	green	green	green	amber	amber
2. Minor	green	green	green	green	green
1. Insignificant	green	green	green	green	green
	1. Very unlikely	2. Unlikely	3. Possible	4. Likely	5. Very likely
					Likelihood

Risk matrix

Risks are recorded in the Fund's Risk Register – which is reported to the Pensions Committee on a quarterly basis - using the following template:

Risk Ref	Owner	Risk area	Impact	Likelihood	Overall risk rating	Control(s)	Comment
			1: lowest, 5: highest		(impact x likelihood)		
			Previous quarter score in brackets *Target score for risks above green shown in italics*				
							Where amber / red / score has moved this column will include a direction of travel arrow

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 Fund members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.		✔
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.		✔
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.		✔
Principle B – Representation	**Not Compliant**	**Fully Compliant**
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- i) employing authorities (including non-Fund employers, e.g. admitted bodies); ii) Fund members (including deferred and pensioner Fund members), iii) independent professional observers, and iv) expert advisors (on an ad-hoc basis).		✔
b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.		✔
Principle C – Selection and role of lay members	**Not Compliant**	**Fully Compliant**
a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.		✔
b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda		✔
Principle D – Voting	**Not Compliant**	**Fully Compliant**
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.		✔

Principle E – Training facility time expenses	Not Compliant	Fully Compliant
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.		✔
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.		✔
c) That the administering authority considers the adoption of annual training plans for the committee members and maintains a log of all such training undertaken.		✔
Principle F – Meeting frequency forum	**Not Compliant**	**Fully Compliant**
a) That an administering authority's main committee or committees meet at least quarterly.		✔
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.		✔
c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.		✔
Principle G – Access	**Not Compliant**	**Fully Compliant**
a) That, subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.		✔
Principle H – Scope	**Not Compliant**	**Fully Compliant**
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.		✔
Principle I – Publicity	**Not Compliant**	**Fully Compliant**
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the Fund is governed, can express an interest in wanting to be part of those arrangements.		✔

8/ The Pension Fund Accounts

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8 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 Cumbria County Council's Accounts, in keeping with its significance and because, although the County Council is the administering authority, the Fund 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 Fund transactions for the financial year 2014/15 and the position at the year-end date, 31st March 2015. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 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'.

The Code of Practice does not currently define what constitutes administrative expenses nor does it require any breakdown of these costs. In the interests of greater transparency and comparability CIPFA issued non-mandatory guidance in June 2014 which the Fund has elected to adopt.

To ensure comparability for our readers we have restated the Fund's 2013/14 published financial statements in relation to the aforementioned change in the categorisation of administrative expenses (management costs) on the face of the Pension Fund Account and within the Notes to the Accounts.

Details of the change can be found in note 1(c) to the Financial Statements and details of management costs (administrative expenses) can be found in notes 7 & 8.

8.1 The Financial Statements

Pension Fund Account for the year ended 31st March 2015

	Notes	2013/14		2014/15	
		£000's	£000's	£000's	£000's
Dealings with members, employers and others directly involved in the fund					
Contributions	3		67,960		96,005
Transfers in from other pension funds	4		3,562		2,294
			71,552		**98,299**
Benefits	5		(70,953)		(73,747)
Payments to and on account of leavers / employers exit	6		(4,489)		(39,183)
New additions / (deductions) from members			**(3,920)**		**(14,631)**
Management expenses*	7 & 8		(5,633)		(8,063)
Returns on investments					
Investment Income		31,942		30,654	
Taxes on Income		(314)		(203)	
Net investment income	9	31,628		30,451	
Profit and losses on disposal of investments and changes in the market value of investments	10(d)	93,590		244,829	
Net return on investments			125,218		275,280
Net increase in the net assets available for benefits during the year			**115,665**		**252,586**
Net assets at the start of the year			**1,659,065**		**1,774,730**
Net assets at the end of the year			**1,774,730**		**2,027,316**

* Prior year restated following a change in classification to include all investment fees directly incurred by the Fund, including those charged on pooled fund investments previously accounted for within the valuation of investments. For details see notes 1(c), 7 & 8.

Net Assets Statement as at 31st March 2015

	Notes	31 March 2014	31 March 2015
		£000	£000
Investment assets		1,761,787	2,005,852
Investment liabilities		(26)	(1,068)
Total net investments	10	**1,761,761**	**2,004,784**
Long term assets	12	1,643	1,643
Current assets	12b	20,575	31,187
Long term liabilities	13a	(350)	(298)
Current liabilities	13b	(8,899)	(10,000)
Net assets of the Fund available to fund benefits at the period end		**1,744,730**	**2,027,316**

8.2 Notes to the Financial Statements

Note 1 (a): Description of the Fund

The Purpose of the Fund is to provide pension benefits for current and future Fund 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 Fund's benchmark over the longer term.

Through balancing the strategic investment of the Fund'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 Fund;
- 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.

Membership to the Cumbria LGPS 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 Fund (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.

As at 31st March 2015 the total membership of the Fund was approximately 52,700 (2013/14: 50,900) and consisted of approximately: 16,500 contributors/actives (2013/14: 16,800); 21,800 deferred members (2013/14: 20,000) and 14,400 pensioners (2013/14: 14,100).

At 31st March 2015 there were 118 (2013/14: 111) employer bodies in the Cumbria LGPS (for the full list see Note 25).

Note 1 (b): Activity and Performance During 2014/15
During the year to 31st March 2015 the Cumbria LGPS value increased by £252.586m from £1,774.730m (31/03/14) to £2,027.316m (31/3/15). The Fund returned 15.2% for the year which was an outperformance of 2.0% on the Fund's bespoke benchmark for the year of 13.2%.

Many asset classes performed well over the year, with UK index-linked bonds in particular providing strong returns increasing by 21.1%. Global Equities and Property also performed well with returns around 18%, although for equities there were variations by sector and geography. Equity performance was particularly strong in North American markets increasing by 25.1%, Japan 27.1%, and Emerging markets 19.9%; but for UK (6.6%), Europe (excluding UK) 7.5%, and Pacific (ex-Japan) 12.7%, equity index performance was less strong. Corporate bonds also rose in value by 7.6%.

The Fund made the active decision to temporarily transfer half its holding in corporate bonds to equities to preserve capital value. As equities have performed strongly this decision has contributed to the outperformance of the Fund during the year.

The Fund has also performed well over the medium to longer term with the three-year return of 12.0% outperforming the bespoke hedged benchmark of 10.6% (per year). The ten year Fund return was 8.1%, slightly above the benchmark of 8.0% (per year).

Also as a comparison against its peers Cumbria LGPS ranks well for investment performance, with the average for the year being 15.3% (gross of fees), which results in a ranking of 16th out of 100 for the Cumbrian Fund.

CIPFA specifically recommends that the management of investment returns should be against a Fund specific benchmark derived from the individual Fund's investment strategy which directly reflects the risk and liability profile of the Fund. A simple comparison of performance against other Funds 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 remains noteworthy. The table opposite shows the Cumbria Fund'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
*Gross of fees**				
Cumbria Pension Scheme	15.3	12.2	10.0	8.2
WM LA Universe Average	13.2	11.1	8.7	7.9
Ranking	16th	18th	16th	34th

* Per industry standard the performance figures used above to calculate rankings are gross of fees. Unless stated otherwise performance figures quoted elsewhere are stated net of fees.

The Cumbria Fund 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 Fund, 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 (77% to 23%). 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 Fund'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 progressed steadily since 2012 with the following changes being made this year:-

- The selection of suitable infrastructure investments with investment made into the JP Morgan Infrastructure Investment Fund;
- The selection of suitable opportunistic investments (ongoing) with commitments made to Healthcare Royalty Partners Fund III, SL Capital Secondary Opportunities Fund, and Unigestion Secondary Opportunities Fund (both secondary private equity funds); and
- The liquidation of the BlackRock alternatives portfolio has continued with funds released for investment into infrastructure and opportunistic products.

The substantive work plan objectives in the 2014/15 business plan have either been achieved or are in progress of completion and all will be delivered within budget. The main actions completed are:-

- Significant progress achieved in delivering the asset allocation changes agreed through the Strategic Investment Review, as detailed above. A substantial portion of the portfolio (approximately £880m) was to be restructured, of which 92%, including allowance for growth in the Fund (£868m), in total had been completed as at March 2015.
- Establishment and embedding of a revised tiered performance reporting framework which was agreed in November 2014 with the aim of ensuring the three operational levels of the Fund (Pensions Committee, ISG and Officers/Advisers) receive the right information to support the specific role in investment management, governance and oversight of the Fund.
- The retender and appointment of a proxy voting service provider to deliver an enhanced level of shareholder engagement. From 1st January 2015 PIRC (Pensions & Investment Research Consultants) vote all UK equity shares held by the Fund.
- The review and extension of the Fund's Actuarial Service Contract with Mercer who were appointed in 2012. The contract which has delivered increased service levels and a stable cost base was extended (per the contract terms) for an additional three years to September 2017.
- Successfully securing fee reductions from existing managers in 2014/15.
- Review and enhancement of Fund governance by including a formal review of each governance document in the Forward Agenda Plan and linking to the Committee Cycle, and through improvements to the quarterly monitoring report so that Members are advised of any material risk, policy changes, governance or financial monitoring issues each quarter.
- Successful implementation of the New LGPS CARE Scheme (career average revalued earnings) at April 2014 and development of new monitoring arrangements to support the changes.
- Successful management of technology changes for the LGPS 2014 CARE Scheme through Officers and YPS working closely and supporting employers to deliver accurate monthly membership data.

- Constitutional changes approved in January 2015 for the establishment of a Local Pensions Board for Cumbria, work to appoint Board Members underway, and on schedule to hold the first meeting in July 2015.
- Ensured Members of the Cumbria Pensions Committee were kept informed and involved in the consultations issued on the structure and regulations of the LGPS.
- Achieved a smooth office move for the Pensions Finance team in Carlisle which has further aligned working practices to more flexible arrangements.
- Timely completion of the Pension Fund Annual Accounts and Annual Report for 2013/14 with an unqualified audit opinion. Additionally improvements were made to the quality, layout and appearance which has enabled efficiency savings and improved readership to be delivered by enhanced web publishing and on-line viewing.
- Review, measurement, and delivery of the training plan to both new and continuing Members and Officers. Resources concentrated on key issues identified by feedback, up and coming national legislative / policy changes and ongoing LGPS work. For example, training on cash flow provided to Members and Officers as they begin to consider the implications on investment strategy of a negative cash flow position; this issue will continue to be addressed in 2015/16 and beyond.

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

- The Investment Sub Group continue to review products that may be a suitable fit for the strategic asset allocation to “opportunistic assets”. The strategic aim is for 9% of the Fund to be held in such assets, and as the Fund value has grown this is currently £180m; to date approximately half of the allocation has been filled. However, in addition the Fund still holds its residual alternatives portfolio within this asset allocation (£48m).
- The Committee have undertaken initial discussions with the actuary and larger employers regarding the 2016 triennial actuarial valuation and these communications and actions will continue as per the high level timetable.

Looking forward, 2015/16 is also expected to be another busy year for Local Government Pension Schemes. Regulation, Governance, deficit management and national consideration of structural arrangements across the LGPS are driving significant changes at an unprecedented speed.

In addition to standard activities such as the review of Fund strategy, risk and policies, and the production of the Annual Report and Accounts, the proposed key deliverables in 2015/16 (grouped under three main headings) include:

Governance and Procurement

- Strategy, Fund risk and policies reviews and updates,
- Monitor progress against Business Plan and Budget,
- Reviewing, measuring and delivering training to Members and Officers as outlined in the dynamic Training Plan and extending this to Local Pension Board Members where appropriate,
- Development and enhancement of contract review procedures and performance monitoring at both Committee and Officer level,
- Continue to monitor arrangements for the LGPS 2014 Scheme, including employer communication and employer data submission issues,
- 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,
- Development of the Fund’s stewardship and corporate governance framework,
- Creation, establishment and training for the Cumbria Local Pension Board.

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;
  - Continue to progress infrastructure and opportunistic investment options,
  - Complete the strategic realignment of UK and global equities, and closure of BlackRock Alternatives portfolio,
  - Continual review of temporary overweight to equities.
- Consideration of options to address the movement of the Fund towards a negative cash flow position,
- Recruit and train additional internal staff resource sought to respond to pressures on the investment area of the Fund.

Employers, Funding and Accounting

- Undertake initial discussions with the actuary and larger employers regarding the 2016 triennial Actuarial Valuation,
- Communication with Fund employers and implementation of the required technology changes to embed the CARE 2014 Scheme and meet the data requirements of the Pensions Regulator,
- Completion of the 2014/15 Cumbria LGPS Annual Accounts and Annual Report incorporating any new regulatory/ technical changes,
- Recruit and train new staff.

The Cumbria LGPS Annual Report and Accounts gives further details of the Fund’s performance, management structure and investment news. The Annual Report and Accounts 2014/15 will be published on-line when finalised (and at the latest by the statutory deadline of 1st December 2015) at **www.cumbria.gov.uk/finance**, where the previous year’s report is also available.

Note 1 (c): Clarification of Accounting Policy & Reclassification – Management Costs
In June 2014 CIPFA published non-mandatory guidance (‘Accounting for local government pension scheme management costs’) in relation to the categorisation and disclosure of management costs. The Fund has elected to adopt this guidance in its 2014/15 accounts.

Reason for change: The CIPFA Code of Practice (the Code) requires that ‘administrative expenses’ in relation to a retirement benefit plan are disclosed on the face of the fund account. The Code does not currently define what constitutes administrative expenses nor does it require any breakdown of these costs. In the absence of formal guidance the Fund, like other LGPS funds, has historically applied its own definition of administrative expenditure. This has meant that there has been a lack of comparability between funds. CIPFA has now issued guidance in relation to the categorisation and disclosure of management costs and, in the interest of seeking to address the issue of comparability and transparency, the Fund has elected to adopt this.

Nature of change: Administrative expenses are now shown on one line (‘Management expenses’) in the Pension Fund Account. Previously they were split as follows:

- ‘Administrative expenses’ were shown within ‘net additions / (deductions) from dealing with members’;
- ‘Investment management expenses’ were shown within ‘Returns on investments’;
- Pooled fund costs and entry fees were included within ‘Investment income’; and
- Transaction costs were included within ‘change in market value’.

In the notes to the accounts the breakdown of the management expenses figure contained within note 7 has been compiled in accordance with the refreshed format recommended by CIPFA (split between ‘Administrative costs’, ‘Investment management costs’ and ‘Oversight and governance costs’). In the interests of transparency and to aid future comparison Note 8 to the accounts provides further details of these amounts.

For the purposes of clarity and consistency comparative figures have been adjusted following this change in classification. The change impacts upon figures within the Fund Account only; it has no effect on the valuation of investments or the net asset value of the Fund therefore no additional net assets statement has been produced. The below table illustrates the adjustments made to comparative figures.

2013/14 Heading	2013/14 £’000	Adjustment £’000	Description of adjustment	2013/14 restated £’000
Administrative expenses	(1,431)	+1,431	New disclosure; Management Expenses.	-
Investment income	31,066	+562	Pooled fund costs moved to expenses.	31,628
Profit and losses on disposal of investments and changes in the market value of investments	93,231	+359	Transaction costs moved to expenses.	93,590
Investment management expenses	(3,281)	+3,281	New disclosure; Management Expenses.	-
Management expenses	-	(5,633)	New disclosure.	(5,633)
	119,585	0		119,585

The following table illustrates what the current period figures would have been had the guidance not been adopted:

	2013/14 prior to recategorisation £'000	2014/15 figures categorised using 13/14 split £'000	2014/15
13/14 headings			14/15 headings
Administrative costs:			
Pensions Administration	886	869	Administrative costs
Employee costs	114	114	Administrative costs
Legal advice	44	4	Administrative costs
Actuarial fees	63	7	Oversight and Governance costs
Audit fees	26	24	Oversight and Governance costs
Legal and tax advice	88	89	Oversight and Governance costs
Other	8	14	Oversight and Governance costs
Employee costs	176	176	Oversight and Governance costs
Pension fund committee	27	43	Oversight and Governance costs
	1,432	**1,340**	
Investment management expenses			
Fund management fees	2,827	2,962	Investment Management costs
Transition management services	160	-	Oversight and Governance costs
Custody fees	121	127	Investment Management costs
Investment consultancy fees	133	55	Oversight and Governance costs
Performance monitoring service	26	24	Oversight and Governance costs
Shareholder voting service	13	13	Oversight and Governance costs
	3,280	**3,181**	
Subtotal	**4,712**	**4,521**	
Previously elsewhere in Fund account			
Pooled fund costs and entry fees (previously in investment income)	562	3,214	Investment Management costs
Transaction costs (previously in change in market value)	359	328	Investment Management costs
	5,633	**8,063**	

For further details of management expenses see notes 7 and 8 to the Financial Statements.

Note 2: Summary of Significant Accounting Policies
There have been no significant changes to accounting policies in 2014/15.

Fund account – revenue recognition

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

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

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 2.15) 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 9)
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 Fund 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 Fund, with management, accommodation and other overheads apportioned to the Fund in accordance with general Council practices. Staff and on-costs related to administration are apportioned to this heading.

2.7. Investment management expenses (Note 7)
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.

Transaction costs and pooled fund fees/expenses are also included as investment management expenses. No employees are currently employed solely on in-house investment management.

2.8. Oversight and Governance costs (Note 7)
All oversight and governance costs are accounted for on an accruals basis. All staff costs of the County Council's Pensions Finance team are charged direct to the Fund. Staff and on-costs apportioned to this activity are charged as oversight and governance expenses.

The cost of obtaining investment advice from external investment consultants and advisors is included in oversight and governance costs, as are transition management costs, actuarial fees, legal fees and shareholder voting services.

Net assets statement

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

Investment Assets
State Street Bank and Trust, as independent Custodian to the Fund, 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 Fund expects to receive on wind-up, less estimated realisation costs. There is one such investment at 31st March 2015 valued at £0.434m, (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 Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association. (See Note 14).
d) Limited partnerships: Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
e) Pooled investment vehicles: Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31st March 2015. Unquoted investments are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers. For further information on Pooled investment vehicles see Note 10(a).
f) Freehold and leasehold properties: The properties are valued at open market value at 31st March 2015 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 Net Assets Statement at amortised cost basis i.e. 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 31st 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.

2.10. Foreign currency transactions
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. State Street Bank and Trust value all overseas securities and foreign currency balances outstanding at year end in local currency then convert to sterling using the WM Reuters 4pm exchange rates at 31st March 2015.

2.11. Derivatives
The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund 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).

2.12. 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.

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

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

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

2.15. Additional voluntary contributions
Cumbria LGPS provides an additional voluntary contributions (AVC) scheme for its members. The Fund currently has three appointed AVC providers: Prudential, 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 three providers by the Fund 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).

2.16. Stock lending
Securities on loan at the 31st March are included in the net assets statement to reflect the Fund's continuing economic interest in the securities.

2.17. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors
Prior period adjustments may arise as a result of a change in accounting policies or to correct material errors.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Fund's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Where the basis for measurement of an amount is uncertain, the Fund will use a suitable estimation technique determined by the Assistant Director – Finance (Section 151 Officer). Where a reasonable estimate has been made, but is subsequently identified as being insufficiently accurate, the Assistant Director – Finance (Section 151 Officer) will amend the Accounts accordingly. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

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 Fund. 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 2014/15 are as follows:

- Employees - range from 5.5% to 12.5% of pensionable pay dependent on the full-time salary of the member.
- Employers - range from 8.6% to 27.2% of pensionable pay, plus a lump sum payment for deficit recovery. 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 Fund Actuary in relation to the employer's covenant and membership profile.

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

By category	2013/14 £'000	2014/15 £'000
Employer contribution to the fund	52,151	79,575
Employee contributions to the fund	15,809	16,430
	67,960	**96,005**
By category	**2013/14 £'000**	**2014/15 £'000**
Scheduled bodies	65,203	92,340
Admitted bodies	2,757	3,665
	67,960	**96,005**

Included in the scheduled bodies figure in the above table are administering authority contributions (Cumbria County Council) of £63.119m (£40.504m 2013/14).

2014/15 shows a large increase in employer contributions (£27.424m) as four scheduled body employers (including Cumbria County Council) opted to pay the three year total of their lump sum deficit contribution in April 2015. This amounted to £37.771m, of which £25.181 relates to years two and three (2015/16 and 2016/17). An admitted body Eden Housing paid an additional £0.500m capital payment to offset their deficit.

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 Fund receives them.

Cumbria County Council is the only Fund employer who, in agreement with the Actuary, opted, from 1st April 2011, to make an additional employer contribution. The rate as determined by the Actuary includes an element to compensate the Fund 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 £7.312m for non-ill-health early retirements. From 1st April 2014 to 31st March 2015, £3.663m 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 31st 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.

	2013/14 £'000	2014/15 £'000
Individual transfers	3,562	2,294
	3,562	**2,294**

Note 5: Benefits
Pension benefits under the LGPS are based on final pensionable pay or career average, 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 1st April 2008, during the period 1st April 2008 to 31st March 2014, and employed post 1st April 2014. Details of the main benefits of membership of these schemes are summarised in the following table:

	Service Pre 1 April 2008	Service 01.04.08 to 31.03.14	Service Post 1 April 2-14
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 is worth 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	2013/14 £'000	2014/15 £'000
Net pensions paid	58,620	60,612
Net lump sum on retirement	10,687	11,536
Net lump sum on death	1,646	1,599
	70,953	**73,747**
By employer type	**2013/14 £'000**	**2014/15 £'000**
Scheduled bodies	65,475	68,420
Admitted bodies	5,478	5,327
	70,953	**73,747**

Included in the scheduled bodies figure in the above table are administering authority benefits of £41.902m (£39.065m 2013/14).

The increased benefits paid value reflects the amount of restructuring that has taken place in recent years, as most Fund employers within the LGPS seek to address reducing funding. Many employers within the Fund 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. 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 / employer exit

	2013/14 £'000	2014/15 £'000
Refund of contributions	77	86
Individual transfers to other Schemes	4,412	2,617
Group transfer out to other Schemes	-	36,480
	4,489	**39,183**

The membership of the Cumbria Probation Trust transferred to the Ministry of Justice from 1st June 2014, along with all other Probation Trusts nationally and will be run from the Greater Manchester Pension Fund (GMPF). The corresponding transfer of Cumbria Fund assets to GMPF took place in February 2015, for £36.480m.

Note 7: Management Expenses
Officers employed by the County Council undertake the day to day management and administration of the Fund. Employee time spent working on the Fund and their associated costs e.g. office space and information technology are charged to the Fund. In addition the cost of maintaining the employee and employer contribution records, paying benefits and provision of other pensions administration services, provided by a public-public shared service with Lancashire County Council, Your Pension Service (YPS), are charged to the Fund. This is in accordance with the government regulations on the management of local government pension schemes.

Further details of management expenses are as follows:

	2013/14 £'000	2014/15 £'000
Administrative costs	1,044	987
Investment management costs	3,869	6,631
Oversight and governance costs*	720	445
	5,633	**8,063**

* New heading at 2014/15

The Code of Practice does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Council discloses its pension fund management expenses for 2014/15 in accordance with the CIPFA guidance on LGPS management costs, in the three headings above. To further aid comparison for future years using this new disclosure, a detailed breakdown for 2014/15 is provided for information in the next note.

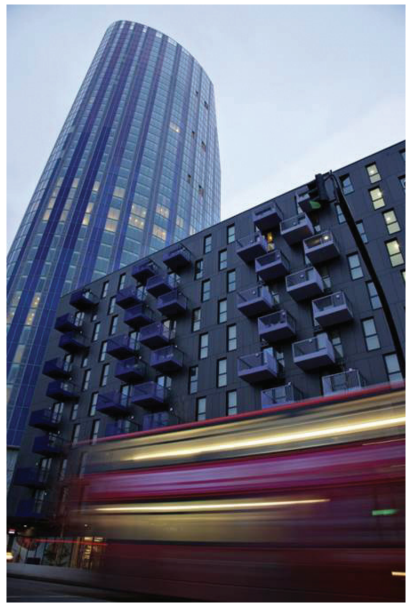
The investment management expenses above include no performance related fees as none are payable.

Transaction costs incurred during 2014/15 amounted to £0.328m, which is 0.03% of the purchases and sales proceeds (for comparison 2013/14 £0.359m, 0.01% of trades). Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and any other trading fees.

The Fund has invested in two pooled property funds during the year, committing £35m to each. As with any property investment, these pooled funds have entry costs mostly relating to stamp duty paid on property purchases. The one-off cost of entry into the two funds at around 4.5%, £3.174m, is included in Investment Management costs above. As long-term investments, these costs are expected to be recouped by investment returns within months.

Oversight and governance costs for 2013/14 include the one-off cost of transition manager fees, for the transition of global equity that took place in November 2013.

The 2013/14 figures have been restated for comparative purposes. Note 1(c) refers.



M&G Secured Property Income Fund

Note 8: Management Expenses Additional Information
The Code of Practice does not require a breakdown of pension fund management expenses. However for information only, and to further aid comparison for future years using the new disclosure from 2014/15 into the three headings suggested by CIPFA guidance, a detailed breakdown for 2014/15 is provided below, with comparison to 2013/14 as referred to in Note 1(c).

	2013/14 £'000	2014/15 £'000
Administrative costs:		
Pensions Administration	886	869
Employee Costs	114	114
Legal Advice	44	4
	1,044	987
Investment management expenses		
Fund management fees	2,827	2,962
Custody fees	121	127
Pooled fund costs and entry fees*	562	3,214
Transaction costs*	359	328
	3,869	6,631
Oversight and governance costs		
Employee costs	176	176
Pension fund committee	27	43
Investment consultancy fees	133	55
Transtion management services	160	-
Performance monitoring service	26	24
Shareholder voting service	13	13
Actuarial fees	63	7
Audit fees	26	24
Legal and tax advice	88	89
Other (including bank charges)	8	14
	720	445
*2013/14 restated per Note 1c (from within change in market value and net income).		
	5,633	**8,063**

Variations on spend between years include:-

- The Fund has invested in two pooled property funds during 2014/15, committing £35m to each. As with any property investment, these pooled funds have an entry cost mostly relating to stamp duty paid on property purchases. The one-off cost of entry into the two funds at around 4.5%, £3.174m, is shown in Investment Management costs above. These funds are viewed as long-term illiquid investments; the valuation of each fund at March 2015 is close to exceeding the price paid for the investments i.e. recouping the costs of entry within a matter of months.
- The increase in Fund Management fees reflects increasing portfolio size, on which all of the fund management fees are based.
- Investment consultancy fees were higher in 2013/14 due to the procurement processes for two new equity managers (completed in December 2013).
- Oversight and governance costs for 2013/14 included the one-off cost of transition manager fees, for the transition of global equity that took place in November 2013.
- Pensions Administration – 2013/14 had 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. Some of these costs continued into 2014/15.
- Legal costs – 2013/14 had an increased need for professional legal advice on ad-hoc employer and pensioner/employee issues.
- Other – bank charges have increased in 2014/15 due to European cash balances earning a negative rate of interest whilst the base rate in Europe is negative.

Note 9: Net Investment Income

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £30.451m (2013/14 £31.628m), net of £0.203m (2013/14: £0.314m) irrecoverable tax on dividends, and including stock lending income of £0.076m (2013/14: £0.063m), can be analysed as follows:

	2013/14 £'000	2014/15 £'000
Interest from fixed interest securities	6,441	6,744
UK dividends	10,001	9,222
Overseas dividends	5,954	6,944
Distributions from pooled investment vehicles	2,242	75
Net rental income from investment properties (see note 10(b))	6,918	7,303
Bank interest	72	163
	31,628	**30,451**

Schroders, the Fund's UK equity manager, choose investments for the portfolio based on a number of reasons, including size and stability of dividend payment; the Fund benefitted in 2013/14 from companies paying some particularly high UK dividends, £1.777m from Vodafone Group plc alone, but benefitted less so in 2014/15.

Two new global equity managers began their segregated mandates in December 2013, the Fund having held the assets in the passive mandate (which do not yield dividend income) until transition. Income from global equity dividends therefore increased for part of 2013/14 with this reallocation back to the strategic investment strategy of active management, and for the full year 2014/15.

Income from pooled vehicles includes distributions from the Fund's alternatives investments; 2013/14 saw a distribution from a private equity fund of £1.347m. During 2014/15 this entry was reversed and corrected as a capital contribution; the corrected income received for pooled vehicles for comparison is 2013/14: £0.895m, 2014/15: £1.422m. The Fund is increasing its investment into infrastructure and other alternatives with the objective of stable and inflation protected income streams.

Note 10: Investment Assets

	Notes	31 March 2014			31 March 2015		
		UK £'000	Overseas £'000	Total £'000	UK £'000	Overseas £'000	Total £'000
Investment Assets							
Equities							
Equities quoted		248,511	284,357	**532,868**	270,660	366,523	**637,183**
Equities unquoted		1,028	-	**1,028**	434	-	**434**
		249,539	284,357	**533,896**	271,094	366,523	**637,617**
Fixed interest securities							
Public Sector/Govt - quoted		-	-	**-**	-	-	**-**
Corporate bonds - quoted		123,088	7,794	**130,882**	140,914	7,347	**148,261**
Corporate bonds - unquoted		-	-	**-**	-	-	**-**
		123,088	7,794	**130,882**	140,914	7,347	**148,261**
Pooled investment vehicles							
Public investments - quoted		13,898	9,974	**23,872**	9,580	13,706	**23,286**
Pooled investments - unquoted		584,245	316,426	**900,671**	551,857	461,340	**1,013,197**
	10(a)	598,143	326,400	**924,543**	561,437	475,046	**1,036,483**
Investment properties							
Freehold		93,408	-	**93,408**	113,960	-	**113,960**
Long leasehold		29,760	-	**29,760**	31,515	-	**31,515**
Short leasehold		-		**-**	-		**-**
	10(b)	123,168	-	**123,168**	145,475	-	**145,475**
Derivative contracts	10(c)	1,780	-	**1,780**	2,131	-	**2,131**
Cash Deposits		42,808	4,710	**47,518**	18,626	17,259	**35,885**
		1,138,526	623,261	**1,761,787**	1,139,677	866,175	**2,005,852**
Investment liabilities							
Derivative contracts	10(c)	(26)	-	**(26)**	(1,068)	0	**(1,068)**
Total net investments		1,138,500	623,261	**1,761,761**	1,138,609	866,175	**2,004,784**

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

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

Note 10(c) details the derivative contracts above; these are forward foreign exchange contracts and futures held at 31st March, shown as assets where there is a gain and liabilities where there is a loss on the individual contracts at 31st March 2015.

Note 10(a): Pooled Investment Vehicles

The Fund's largest holding is the unitised insurance policies with Legal and General totalling £797.0m, 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.

	2013/14 £'000	2014/15 £'000
Unitised insurance policies - unquoted		
UK equities	201,283	102,104
Overseas equities	272,728	321,513
UK corporate bonds	69,366	0
UK index-linked securities	277,552	373,337
UK sterling liquidity fund	35,008	51
	855,937	**797,005**
Unit trusts		
UK quoted	13,898	9,580
Overseas - quoted	7,460	11,927
	21,358	**21,507**
Other Managed Funds		
Pooled property REIT's - quoted	2,514	1,779
Pooled property funds - unquoted	2,946	69,675
Other managed funds - unquoted	41,788	146,517
	47,248	**217,971**
Total	**924,543**	**1,036,483**

The Fund is increasing its investment into infrastructure and other alternatives with the objective of generating diversification and more stable and / or inflation protected income streams. As these new investments were deployed during 2014/15, funds were withdrawn from the passive UK equity holdings and sterling liquidity fund, and the resulting decrease in unitised insurance policies is seen 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, including passive index-linked gilts. In light of this, switching from pooled corporate bond securities had partially completed at 31st March 2014 and was fully completed in July 2014.

Note 10(b): Investment Properties

The Fund invests in direct property holdings for rental income and capital growth, and to maximise diversification thereby reducing the risk across the portfolio. At 31st March 2015 the portfolio valued at £145.475m included 29 properties ranging from £1.380m to £13.450m 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:

	2013/14 £'000	2014/15 £'000
Rental income from investment property	7,444	7,730
Durect operating expenses arising from investment property	(526)	(427)
	6,918	**7,303**

The improved rental income between years reflects a strategic shift to a higher allocation in property, inflationary rent uplifts and an increase in the occupancy of properties rented.

There are no restrictions on the Fund's ability to realise the value inherent in its investment property or on the Fund's right to the remittance of income and the proceeds of disposal. The properties are held by a wholly-owned nominee company on behalf of the Fund and the Fund is entitled to all income and capital proceeds. The Fund has no contractual obligation to purchase, construct or develop, and the Fund 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.

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

	2013/14 £'000	2014/15 £'000
Balance at the start of the year	**92,155**	**123,168**
Additions:		
Purchases	29,461	5,715
Subsequent expenditure	3,396	2,782
Disposals	(9,158)	(2,588)
Net gains (losses) from fair value adjustments	7,314	16,398
Balance at the end of the year	**123,168**	**145,475**

The Fund's property investments are commercial 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:

	2013/14 £'000	2014/15 £'000
Not later than one year	7,697	8,026
Later than one year and not later than five years	22,143	27,051
Later than five years	43,070	31,659
	72,910	**66,736**

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 standard 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 Fund's exposure to the fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets. This is carried out using derivatives called forward foreign exchange contracts.

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:

Reconciliation to Note 10	Investment Asset / Unrealised Gain £'000	Investment Liability / Unrealised Loss £'000	Net Market Value £'000
Total Derivatives			
Forward currency contracts	1,997	(1,047)	**950**
Futures	134	(21)	**113**
Derivative Contracts Gain / (Loss)	**2,131**	**(1,068)**	**1,063**

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

Currency Bought		Currency Sold		2014/15	
Currency	**Local Value 00's**	**Currency**	**Local Value 00's**	**Unrealised Gain Sterling £'000**	**Unrealised Loss Sterling £'000**
Settlement within one month					
None					
Settlement one to six months					
EUR	775	GBP	583	0	(21)
GBP	58,466	EUR	81,713	107	(855)
GBP	31,346	JPY	5,588,402	0	(99)
GBP	233,746	USD	344,105	1,890	(72)
				1,997	**(1,047)**
			Net forward currency contracts at 31 March 2015	**950**	

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market Value as at 31 March 2014 £'000	Economic exposure	Market Value as at 31 March 2015 £'000
Assets					
Overseas Fixed Interest	Less than one year	(2,963)	10	6,641	134
			10		**134**
Liabilities					
Overseas Fixed Interest	Less than one year			(4,120)	(21)
			0		**(21)**
		Net futures	**10**		**113**

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:

Asset Class	Value at 1 April 2014 £'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 2015 £'000
Fixed interest securities	130,882	25,644	(19,006)	(441)	11,182	148,261
Equities						
UK equities	249,539	59,462	(56,750)	8,972	9,871	271,094
Overseas equities	284,357	153,366	(135,577)	3,106	61,271	366,523
	533,896	212,828	(192,327)	12,078	71,142	637,617
Pooled investment vehicles	855,937	78,061	(270,011)	91,197	41,821	797,005
Unit Trusts	21,358	26,389	(27,856)	1,256	360	21,507
Managed Funds	47,248	168,355	(12,259)	731	13,896	217,971
Property (See Note 10b)	123,168	8,497	(2,588)	507	15,891	145,475
Derivatives (forward foreign exchange contracts, futures)	1,754	33,497	(19,397)	(12,972)	(1,819)	1,063
	1,714,243	**553,271**	**(543,444)**	**92,356**	**152,473**	**1,968,899**
Cash	47,518					35,885
Total Net Investments	**1,761,761**					**2,004,784**

Analysis of gains / (losses) for the year	2014/15 £'000
Realised - Profit and losses on disposal of investments	92,356
Unrealised - Changes in the market value of investments	152,473
	244,829

The following table reconciles the movements in investments and derivatives for the previous year (restated figures for comparative purposes as per Note 1(c)):

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	818,448	(741,870)	43,486	(20,858)	284,357
	386,820	951,134	(840,355)	49,347	(13,050)	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	22,722	(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	**1,383,231**	**(1,399,388)**	**138,348**	**(44,758)**	**1,714,243**
Cash	7,192					47,518
Total Net Investments	**1,644,002**					**1,761,761**

Analysis of gains / (losses) for the year	2014/15 £'000
Realised - Profit and losses on disposal of investments	138,348
Unrealised - Changes in the market value of investments	(44,758)
	93,590

Note 10(e): Investments analysed by External Manager

Manager	Asset Class	31 March 2014 £'000	31 March 2014 %	31 March 2015 £'000	31 March 2015 %
Legal & General Policy No. 1	Equities, bonds, cash	488,627	27.7%	354,313	17.7%
Legal & General Policy No. 2	Index-linked bonds	250,203	14.2%	303,460	15.1%
Legal & General Policy No. 3	Global equities	117,107	6.6%	139,232	6.9%
Legal & General Passive Currency	Currency overlay	1,764	0.1%	933	0.0%
Schroders Investment Management	UK equities	237,857	13.5%	260,070	13.0%
Nordea	Global equities	161,278	9.2%	199,481	10.0%
Loomis Sayles	Global equities	158,396	9.0%	195,652	9.8%
Standard Life	UK Corporate Bonds	131,458	7.5%	150,632	7.5%
Aberdeen Asset Management	Direct property	124,927	7.1%	148,444	7.4%
JP Morgan	Infrastructure			83,992	4.2%
Black Rock	Alternatives	40,375	2.3%	48,396	2.4%
M&G	Property Fund			34,807	1.7%
Aviva	Property Fund			33,555	1.7%
Strategic cash allocation	Cash	36,030	2.0%	21,895	1.1%
Partners Group	Infrastructure	10,236	0.6%	18,427	0.9%
M&G	Real Estate Debt	537	0.0%	8,003	0.4%
Aberdeen Asset Management	Indirect property	2,946	0.2%	1,313	0.1%
SL Capital	Secondary Fund			1,832	0.1%
Healthcare Royalty Partners	Royalties Fund			334	0.0%
Transition Residual	Overseas Equities	20	0.0%	13	0.0%
Total Net Investments		**1,761,761**	**100.0%**	**2,004,784**	**100.0%**

Recent actions to implement agreed changes to the Fund's strategic asset allocation have resulted in increasing its investment into infrastructure and other alternatives. The drivers for this change are to improve diversification and generate more stable and / or inflation protected income streams. To fund these investments during 2014/15, funds were withdrawn from the passive holdings, and the resulting decrease in unitised insurance policies is seen above.

Note 10(f): Investments representing more than 5% of the Net Assets of the Fund

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.

Holding	31 March 2015 £'000	% of Total Net Investments
Policy 1 Legal and General North America Index	119,850	6.0%
Policy 1 Legal and General UK Equity Index	102,104	5.1%
Policy 1 Legal and General Over 5 Yr Index-Linked Gilts Index	69,878	3.5%
Policy 1 Legal and General Europe (Ex UK) Equity Index	30,269	1.5%
Policy 1 Legal and General Other Pacific Basin Index	17,540	0.9%
Policy 1 Legal and General Japan Index	14,621	0.7%
Policy 1 Legal and General Sterling Liquidity Fund	51	0.0%
Policy 1 Total	354,313	17.7%
Policy 2 Legal and General Over 5 Yr Index-Linked Gilts Index	303,460	15.1%
Policy 3 Legal and General FTSE World Equity Index	139,232	6.9%
	797,005	**39.7%**

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 Fund can be classified as Financial Instruments and Investment Property as follows:

	31 March 2014 £'000	31 March 2015 £'000
Financial Instruments	1,654,303	1,875,785
Statutory debts / liabilities & provisions	6,259	6,056
Investment Property	123,168	145,475
Net Assets of the Fund	**1,744,730**	**2,027,316**

	31 March 2014				31 March 2015			
	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	533,896			533,896	637,717			637,617
Fixed interest securities	130,882	-	-	130,882	148,261	-	-	148,261
Pooled investment vehicles	924,543	-	-	924,543	1,036,483	-	-	1,036,483
Derivative contracts	1,780	-	-	1,780	2,131	-	-	2,131
Cash deposits	-	53,096	-	53,096	-	50,269	-	50,269
Current & long term assets	-	9,399	-	9,399	-	11,414	-	11,414
	1,591,101	62,495	-	1,653,596	1,824,492	61,683	-	1,886,175
Financial Liabilties								
Derivative Contracts	(26)	-	-	(26)	(1,086)	-	-	(1,068)
Current/long-term liabilities	-	-	(8,267)	(8,267)	-	-	(9,322)	(9,322)
Total Financial Instruments	1,591,075	62,495	(8,267)	1,645,303	1,823,424	61,683	(9,322)	1,875,785
Analysis of Net Gains and Losses for Year ended 31 March								
Financial Assets	86,302	-	-	86,302	229,499	-	-	229,499
Financial Liabilities	(26)	-	-	(26)	(1,068)	-	-	(1,068)
Total Net Gains/(Losses)				86,276				228,431

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 2014			31 March 2015	
Book Cost	Fair Value		Book Cost	Fair Value
£'000	£'000		£'000	£'000
		Financial Assets		
1,345,020	1,591,101	Fair Value through profit and loss	1,427,721	1,824,492
62,495	62,495	Loans and receivables	61,683	61,683
1,407,515	**1,653,596**	**Total Financial Assets**	**1,489,404**	**1,886,175**
		Financial Liabilities		
-	(26)	Fair Value through profit and loss	-	(1,068)
(8,267)	(8,267)	Financial liabilities at amortised cost	(9,322)	(9,322)
(8,267)	**(8,293)**	**Total Financial Liabilities**	**(9,322)**	**(10,390)**
1,399,248	**1,645,303**	**Total Financial Instruments**	**1,480,082**	**1,875,875**

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

Note 11(a): Valuation of Financial Instruments carried out at Fair Value
To show the liquidity of the assets the Fund 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. The aim being to show 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. As with any assessed additional investment risk investors should expect to be rewarded through expected higher investment returns.

As the Fund is in deficit it needs to generate excess returns at an acceptable level of risk. To do this the Fund 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 Fund, merely how readily it can be realised as cash if required.

Level 1 – 46% of the Fund's Holding in Financial Instruments (2013/14: 47%)
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 – 43% of the Fund's Holding in Financial Instruments (2013/14: 51%)
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 – 11% of the Fund's Holding in Financial Instruments (2013/14: 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 2.9(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 Fund 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 2014				31 March 2015			
	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	532,868	-	1,028	533,896	637,183	-	434	637,617
Fixed interest securities	130,882	-	-	130,882	148,261	-	-	148,261
Pooled investment vehicles	58,880	826,523	39,140	924,543	23,286	797,005	216,192	1,036,483
Derivative contracts	-	1,780	-	1,780	-	2,131		2,131
Cash deposits	53,096	-	-	53,096	50,269	-	-	50,269
Current & long term assets	-	9,399		9,399	-	11,414	-	11,414
	775,726	837,702	40,168	1,653,596	858,999	810,550	216,626	1,886,175
Financial Liabilties								
Derivative Contracts	-	(26)	-	(26)	-	(1,086)	-	(1,068)
Current/long-term liabilities	-	(8,267)	-	(8,267)	-	(9,322)	-	(9,322)
Total Financial Instruments	775,726	829,409	40,168	1,645,303	858,999	800,160	216,626	1,875,785
Percentage of Financial Instruments	47.1%	50.5%	2.4%	100.0%	45.8%	42.7%	11.5%	100.0%

The increase in level three category and decrease in level one and two categories reflects the strategic shift towards direct investment in alternative assets such as infrastructure and opportunistic investments, and the related withdrawal from pooled passive funds. This is a strategic allocation shift to accept illiquidity for which the Fund expects to be suitably rewarded over the longer term life of such investments. An assessment has been done of the total value of illiquidity that the Fund can prudently tolerate balanced against expected short and mid-term cash flow requirements.

The investments categorised as Level 3 in the above table (an unquoted equity investment, an ex-manager's pooled funds, and eight directly invested 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 £14.612m (£13.380m unrealised gain and £1.232m realised gain) was recognised in the analysis of net gains for the year to 31 March 2015 (total £228.431m) in Note 11. Purchases of £168.304m and sales of £12.052m had also taken place for Level 3 investments.

Note 12(a): Long Term Assets
Revenue transactions are recorded on a system of receipts and payments. Capital and income accruals (debtors) have been introduced in respect of major items of income due but not received at 31st March. The following table shows those expected to be realised more than twelve months from the Net Assets Statement date.

	31 March 2014 £'000	31 March 2015 £'000
Long Term Debtors		
Long term debtors - contributions	-	-
Long term debtors - employer exit	1,643	1,643
Total Long Term Assets	**1,643**	**1,643**
Long Term Debtors relating to (per IFRS headings):		
Central Government bodies	1,643	1,643
Other entities and individuals	-	-
Total Long Term Assets	**1,643**	**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). No instalment was received during the 2014/15 financial year, but received 28th March 2014 and 14th April 2015.

Note 12(b): Current Assets
Revenue transactions are recorded on a system of receipts and payments. Capital and income accruals (debtors) have been introduced in respect of major items of income due but not received at 31st March. The following table shows those expected to be realised within twelve months of the Net Assets Statement date.

	31 March 2014 £'000	31 March 2015 £'000
Cash Balances	**5,578**	**14,384**
Current Debtors		
Securities sold awaiting settlement	3,982	4,871
Investment income accrued	4,372	4,791
Property debtors	777	1,196
Contributions due	5,009	4,474
Employer exit from scheme due <1 year	329	581
Miscellaneous	528	890
Total Current Debtors	**14,997**	**16,803**
Total Current Assets	**20,575**	**31,187**
Current Debtors relating to (per IFRS headings):		
Central government bodies	624	699
Other local authorities	4,289	4,396
Other entities and individuals	10,084	11,708
Total Current Debtors	**14,997**	**16,803**

Cash balances held by the administering authority have increased due to the need to have cash available for deployment into new investments.

Securities sold awaiting settlement varies due to the timing of investment sales; this is the value of investment portfolio sale trades in progress at 31st March 2015.

Contributions due at 31st March vary from year to year, depending on the actual dates that payments are made by employers in respect of contributions and in settlement of invoices.

Note 13(a): Long Term Liabilities
Payments during the year have been converted to an expenditure basis by the introduction of capital and expense accruals (creditors), to record significant amounts owed at 31st March. The following table shows those expected to be realised more than twelve months from the Net Assets Statement date.

	31 March 2014 £'000	31 March 2015 £'000
Long Term Creditors		
Interest provision on long-term debt	350	298
Total Long Term Liabilities	**350**	**298**
Long Term Creditors relating to (per IFRS headings):		
Other entities and individuals	350	298
Total Long Term Liabilities	**350**	**298**

Note 13(b): Current Liabilities
Payments during the year have been converted to an expenditure basis by the introduction of capital and expense accruals (creditors), to record significant amounts owed at 31st March. The following table shows those expected to be realised within twelve months of the Net Assets Statement date.

	31 March 2014 £'000	31 March 2015 £'000
Current Creditors		
Securities purchased awaiting settlement	3,753	5,154
Property creditors	2,266	2,501
Investment managers fees	841	1,028
Tax payable	590	626
Interest provision on long-term debt	42	52
Miscellaneous	1,407	639
Total Current Liabilities	**8,899**	**10,000**
Current Creditors relating to (per IFRS headings):		
Central government bodies	590	626
Other local authorities	1,284	530
Other entities and individuals	7,025	8,844
Total Current Liabilities	**8,899**	**10,000**

Securities purchased awaiting settlement varies due to the timing of investment purchases; this is the value of investment portfolio buy trades in progress at 31st March 2015.

Note 14: Nature and extent of risks arising from Financial Instruments
The Pension Fund maintains positions in a variety of financial instruments including bank deposits, equity instruments, fixed interest securities and derivatives. This exposes it to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk. 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 Fund'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 Fund. These regulations require the Fund to formulate a policy for the investment of its Fund money. Cumbria LGPS practices are outlined in the Fund Policy Document and can be found on-line at **http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp**

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

The Statement of Investment Principles (SIP) and the Cash Investment Policy can both be found in the Fund Policy Document published on-line at: **www.cumbria.gov.uk/finance/finance/cumbrialgps.asp**

During 2011/12 the Fund 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 (e.g. 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 2013/14 and 2014/15, and are expected to be finalised during 2015/16. 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 Fund investment performance against its bespoke total benchmark return and individual managers' performance is reported to the Pensions Committee from the Investment Sub Group quarterly. Performance of the external Investment Managers is compared to both benchmark and target returns, and against a wider set of metrics. During 2014/15 the Investment Sub Group took on more responsibility for tactical investment manager performance monitoring from the Pension Committee, thus freeing up Committee time to focus on more strategic issues such as risk and wider governance.

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

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

The main liquidity risk for the Fund is not having monies 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 Fund to ensure its obligations can be covered.

As part of both the Triennial Valuation and the investment reviews, Fund membership and projected maturity profiles are reviewed. Currently the Fund is cash positive (i.e. it collects more in annual income than it requires to fulfil all obligations). However, on contributions alone before management costs, the Fund experienced a cash deficit of £14.631m in 2014/15 (£3.920m in 2013/14). This amount was anticipated due to the volume of workforce restructuring across the Fund's major employers. There was no requirement to liquidate assets ahead of previous plans as the value was easily accommodated within the Fund's cash reserves.

On advice from the Fund's Actuary it is projected that the Fund 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 how the Fund holds a large value of very liquid securities which could be promptly realised if required. As at 31st March 2015 the value of assets which could be converted to cash within three months, without significant loss to the Fund, is £1,647.745m, i.e. 81% of net assets (31st March 2014 £1,595.736m 90%). The value of the illiquid assets was £379.571m which represented 19% of net assets (31st March 2014 £178.994m, 10%).

External Investment Managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions. The Fund'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 Fund (see Note 13(b)) are all due within 12 months from the Net Assets Statement date. The long term liabilities of the Fund (see Note 13(a)) consist of the interest provision on the long term debtor – employer exit. This is being unwound as follows:

	31 March 2014 £'000	31 March 2015 £'000
Due 1 to 2 years	52	61
Due 2 to 5 years	211	237
Due 5 to 10 years	87	
Total Long term liabilities	**350**	**298**

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 Fund is exposed to the risk of financial loss from a change in the value of its investments. This may result in the Fund's assets failing to deliver the returns required to match the underlying liabilities of the Fund over the longer term.

To mitigate against market value risk, the Fund 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 Fund's Statement of Investment Principles. The Fund has adopted a specific benchmark and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. This allocation is designed to diversify the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of investments across both the main asset classes (quoted equities, bonds, private equity and property) and geographic / political 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 Fund. On a daily basis, Investment Managers will manage risk in line with policies and procedures put in place in the Investment Manager Mandates and ensure that the agreed limit on maximum exposure to any issuer or class is not breached.

To increase diversification across the Fund and among other things further reduce the Fund's overall market risk, the recent Investment Strategy Review has introduced some new asset classes (e.g. infrastructure, real estate debt, secondaries, royalties) which the Fund is now investing in.

Market Risk – Sensitivity Analysis
The Fund's funding position is sensitive to changes in equities (which affect the net assets available to pay benefits) and bond yields (which affect the value placed on the Fund'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 Fund at the period end in the following table to show the potential increase and decrease of value.

	2014/15 £'000	% Change	Value on Increase	Value on Decrease
UK Equities	379,097	10.4%	418,523	339,671
Overseas equities	689,815	9.2%	753,278	626,352
Bonds	148,261	6.9%	158,491	138,031
Index Linked Gilts	373,337	9.8%	409,924	336,750
Alternatives	216,192	6.2%	229,596	202,788
Cash	65,928	0.1%	65,994	65,862
	1,872,630		**2,035,806**	**1,709,454**

Foreign Exchange Risk
The Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31st March 2015, the Fund had overseas investments (excluding forward foreign exchange contract) of £848.916m and £17.259m 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 £43.309m, or 2.2% of the Fund's total value. The Fund holds many difference currencies. To assess the risk the Fund is exposed to as a result of holding these currencies Officers have estimated, taking into account information provided by the Fund'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 common 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 Fund, in line with common practice across the LGPS, has 50% of the investments denominated in overseas currencies hedged into sterling in accordance with the passive currency overlay program. The purpose is to reduce the Fund's exposure to the fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets. This is carried out using derivatives called forward foreign exchange contracts.

As at 31st March 2015, the Fund 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 Fund'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 Fund'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 Fund has had no experience of default or uncollectable deposits over recent years.

Through review of the Fund's external Investment Managers annual internal control reports the Fund 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 Fund.

All derivative transactions incorporate a degree of credit risk. The longer the term of a transaction, the greater the potential for change in market value, and the greater the credit risk. In relation to forward currency contracts and the stock lending programme there are two elements to this: counterparty risk and settlement risk.

The Fund's cash and cash-like holdings as at 31st March 2015 were £14.384m (2013/14: £5.578m) within current assets (see Note 12(b)), £35.885m (2013/14: £47.518m) shown as cash within investments (see Note 10), and a further £15.608m shown as u nit trusts in Note 10a (2013/14: £13.615m) where BlackRock and Schroders invest in their in-house Money Market Funds as part of their portfolios. In addition to this, £0.051m of the Fund'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:

Summary	Rating	Balances as at 31 March 2014 £'000	Balances as at 31 March 2015 £'000
Money Market Funds			
SSGA GBP Liquidity Fund	AAA	40,526	13,629
SSGA EUR Liquidity Fund	AAA	43	10,715
SSGA USD Liquidity Fund	AAA	-	2,556
Legal & General Sterling Liquidity Fund	AAA	35,008	51
BlackRock Institutional Cash USD	AAA	7,460	11,927
Schroder Offshore Cash Guernsey	AAA	6,155	3,681
Ignis Sterling Liquidity Fund	AAA	-	8,000
Goldman Sachs Sterling Reserves Fund	AAA	-	5,000
Bank deposit accounts			
National Westminster Bank	A	5,578	1,384
Bank current accounts			
State Street Bank & Trust	A+	4,721	4,102
Barclays Bank	A	1,759	2,969
Short Term Deposit			
Bank of New York call account	AA-	469	1,914
Total		**101,719**	**65,928**

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.

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 Fund 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. £1.063m gain at 31st March 2015.

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

The Fund's direct exposure to interest rate movements as at 31st March 2015 and 31st March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	2013/14 £'000	2014/15 £'000
Fixed interest securities (including pooled investments)	477,800	521,598
Cash and cash equivalents	12,527	10,369
Money market funds and pooled cash vehicles	89,192	55,559
	579,519	**587,526**

Unquoted Investments

The Fund holds significant amounts of unquoted securities. This is mainly due to the fact that the unitised insurance policy held by the passive manager, Legal and General, is invested in unquoted, unitised, index-tracking funds, used as an efficient low risk method of investing in the asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as bonds and equity. The Fund 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 Fund 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 for a fund of Cumbria's size.

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

The unquoted investments held at 31st March 2015 are as follows:

Asset Class	2013/14 £'000	2014/15 £'000	Manager	Holding Details
Equities				
Equity unquoted - UK	1,028	434	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 is completed.
Pooled investment vehicles				
Utilised insurance policies	855,937	797,005	Legal and General	Index tracking funds.
Other managed funds	-	83,992	JP Morgan	Infrastructure fund.
	-	34,807	M&G	Long-lease property fund.
	31,014	33,929	Black Rock	Alternative funds - hedge funds, private equity. Black Rock in-house funds.
	-	33,555	Aviva	Long-lease property fund.
	10,237	18,427	Partners Grp	Infrastructure fund.
	537	8,003	M&G	Real Estate Debt funds.
	-	1,832	SL Capital	Secondary fund.
	2,946	1,313	Aberdeen	Overseas property funds (ex-Black Rock).
	-	334	HRP	Healthcare Royalties Partners Fund.
	901,699	**1,013,631**		

Note 15: Additional Voluntary Contributions
The Fund 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 Funds'' accounts and therefore do not form part of these accounts.

The three providers offered are Prudential, Standard Life and Scottish Widows. The Fund 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 three schemes for Cumbria LGPS, along with the value of Equitable Life, are shown below:

	2013/14 £'000	2014/15 £'000
Standard Life	1,014	1,075
Scottish Widows	1,074	1,176
Equitable Life	923	920
Prudential	0	1
Total AVCs	**3,011**	**3,172**

AVC contributions of £0.202m were paid directly from employees pay to the providers during the year (2013/14: £0.114m).

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 Fund has many transactions with Cumbria County Council as the administering authority of the Fund, including the pension contributions as an employer, payments on the Fund's behalf for manager fees and administration, and recharges for services provided. There are no material transactions in respect of related parties requiring separate reporting. The Fund 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 Fund, 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 2014/15 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 2014/15.

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 Fund 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 Fund. 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 2014/15 (see Note 13 to those statements).

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

<u>Notes on opposite table</u>

- 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 2014/15 (and 2013/14) 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 13% (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 2014/15 on Cumbria LGPS specific work.
- During 2014/15, 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 however the remuneration of the Officer in respect of work undertaken on behalf of the Fund was less than £50,000 during the year.

2014/15 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)	11,306	0	0	0	11,306	1,470	12,776
Senior Manager – Technical Finance (deputy s.151 - LGPS)	46,214	0	0	0	46,214	6,008	52,222
	57,520	0	0	0	57,520	7,478	64,998

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
	63,777	0	0	0	63,777	8,234	72,011

Note 17: Contingent Liabilities and Contractual Commitments

On 30th March 2015, the Fund completed a subscription agreement with Unigestion Secondary Opportunities Fund III for a commitment of €30m. The Fund's first investment into the Unigestion fund took place in April 2015.

Note 18: Contingent Assets

Tax Reclaims

Cumbria Pension Fund 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 Fund, has continued to pursue these claims during 2014/15. The estimated value of claims still outstanding is £3.871m.

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 Fund not to make any assumptions, the Netherland settlement received in 2009, the Norwegian settlement received in 2010 and 2015, the Austrian settlement received in 2012 and the partial repayments received from the Spanish Tax Authorities in 2013 and 2014 lend some optimism as to the success of recovering additional income for the Fund in the near future.

Further claims have also been registered in the High Court for potential tax recovery from HMRC in respect of manufactured overseas dividends (MOD's) on equity stock lent out through the stock lending programme. A final MOD claim for £0.144m was submitted in March 2015, taking the total claim value in excess of £0.915m, 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 £0.423m, 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 Fund uses Institutional Protection Services Ltd to monitor these class actions. The Fund will seek to recover any significant monies due where professional advice has been received detailing that 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 2014/15 are considered to be recoverable with no impairment.

There were no impairments of investments during 2014/15.

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

The Fund generally allows a payment period of 30 days. Included within current debtors (see Note 12(b)) are £0.092m of debtors aged between two and six months (£0.095m 2013/14). Debtors aged greater than six months totalled £0.049m as at 31st March 2015 (£0.011m 2013/14).

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 from 25% to 33% from January 2015.

Securities on loan at the 31st March 2015 of £54.167m (2013/14: £53.713m) are included in the net assets statement to reflect the Fund's continuing economic interest in the securities, and consist of £51.146m UK equities and £3.021m overseas equities (2013/14: £47.415m UK equities and £6.298m overseas equities). The related collateral totalled £57.476m (2013/14: £56.406m), consisting £35.554m overseas bonds and £21.922m UK equities (2013/14: £34.403m overseas bonds and £22.003m UK equities).

For the year to 31st March 2015, the Fund earned income of £0.076m (2013/14 £0.063m) through stock lending of the various assets (as detailed in Note 9).

Note 21: Post Balance Sheet Events
There are no post balance sheet events to report at the time of writing.

Note 22: Critical Judgements in Applying Accounting Policies and the use of estimates and uncertainties
In applying the policies, the Fund has had to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the wider Local Government Pensions Scheme and specifically the Cumbria Fund will continue in operational existence for the foreseeable future as a going concern;
- No investments are impaired (further detail on the investment strategy and approach to managing risk in 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 Fund will increase by approx. £20.0m, with a decrease having the opposite effect. Level 3 investments – often income will be inflation linked e.g. RPI uplifts, based on throughput e.g. 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 (i.e. £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 Fund's past service liabilities calculated in a manner consistent with International Accounting Standard 19 (IAS 19). The statement also complies with the requirements of IAS 26. The full Actuarial Valuation Report as at 31st March 2013 is available on the County Council's website, at **www.cumbria.gov.uk/finance**

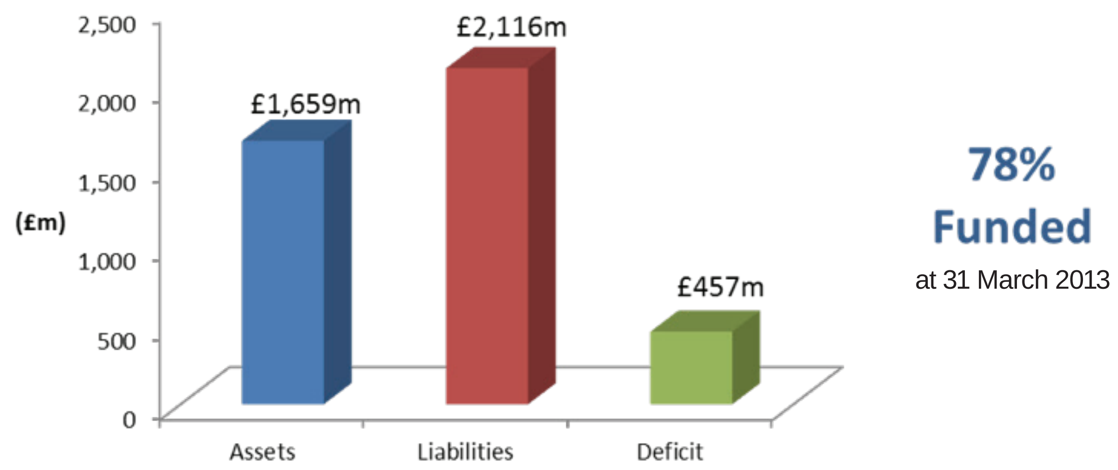
Cumbria Local Goverment Pension Scheme

Accounts for the year ended 31st March 2015 - 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.



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 in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allowed for the new LGPS benefit structure which became 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% per annum	5.6% per annum
Rate of pay increases	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* 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 2015 (the 31 March 2014 assumptions are included for comparison):

	31 March 2014	31 March 2015
Rate of return on investments (discount rate)	4.5% per annum	3.3% per annum
Rate of pay increases	3.9% per annum*	3.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.0% per annum

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

The demographic assumptions are the same as those used for funding purposes. 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 fell significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (3.3% p.a. versus 4.5% p.a.). The expected long-term rate of CPI inflation also fell during the year, resulting in a lower assumption for pension increases at the year end than at the beginning of the year (2.0% p.a. versus 2.4% p.a.).

The value of the Scheme's promised retirement benefits for the purposes of IAS26 as at 31 March 2014 was estimated as £2,206 million.

The effect of the changes in actuarial assumptions between 31 March 2014 and 31 March 2015 as described above is to increase the liabilities by c£357 million. Adding interest over the year increases the liabilities by a further c£98 million, and allowing for net benefits accrued/paid over the period decreases the liabilities by £43 million (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2015 is therefore £2,618 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2015

Note 24: Accounting Standards issued not yet adopted
The Fund is required to disclose information relating to the impact of Accounting Standards that have been issued but have not yet been adopted. There has been no such change in accounting standards issued which impact on 2014/15.

Note 25: Participating Employers of the Scheme
As at 31st March 2015 the scheduled and admitted bodies within the Cumbria Local Government Pension Scheme were:

Employers of the Scheme as at 31 March 2015 (total 118)			
Scheme Employers	**District Councils (6)**	**Scheduled Bodies No Actives (11)**	
Cumbria County Council	Allerdale Borough Council Barrow Borough Council Carlisle City Council Copeland Borough Council Eden District Council South Lakeland District Council	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
Scheduled Bodies (56)		**Admitted Bodies (34)**	
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 Chetwynd School Academy (New) Cleator Moor Town Council Cockermouth Town Council Crosby on Eden Academy Cumbria Chief Constable (New) Cumbria Police & Crime Commissioner Cumbria Waste Management Dallam Academy Dearham Primary Academy Eaglesfield Paddle Academy Energy Coat UTC (New)	Kirkbie Kendal Academy Kirkby Stephen Academy Lake District National Park Authority Lakes College (West Cumbria) Lazonby School Academy (New) Maryport Town Council Orian Penny Bridge Academy Queen Elizabeth Academy Queen Elizabeth Grammar Academy Richard Rose Academies Seaton Academy Settlebeck High Academy Stanwix School Academy (New) Stramongate Academy Tebay School Academy (New) The Queen Katherine School Academy Trinity Academy	Barrow & District Soc for the Blind Carlisle Leisure Allerdale Carlisle Leisure Ltd Commission for Social Care Inspection Creative Management Support Cumbria Cerebral Palsy Cumbria Deaf Vision Cumbria Tourism Eden Housing Association Egremont & District Pool Trust FCC Environment Glenmore Trust 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 Mellors Catering Services - Rockcliffe (New) Mellors Catering Services - Southfield (New) Morton Community Centre North Country Leisure (Copeland) North Country Leisure (SL) (New) Oaklea Trust People First - No. 2 People First Riverside Housing Soundwave South Lakes Housing South Lakes Services Tullie House Trust West House Wigton Joint Burial Committee
		Admitted Bodies No Actives (10)	
Furness Academy Furness College Ghyllside Academy Gilsland Academy Great Corby Academy Kendal College Further Education Kendal Town Council Keswick Academy Keswick Town Council	Ulverston Town Council Valuation Tribunal Service Walney Academy (New) West Lakes Academy Whitehaven Academy Wigton Town Council William Howard Academy Workington Town Council Yanwath School Academy (New)	Attendo Monitoring Cumbria Training Partnership Direct Training Services Henry Lonsdale Trust Kendal Citizens Advice Lake District Cheshire Homes	Lakeland Arts Trust NCRS 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) is as it stood at the end of the reporting period (31st March 2015). In conjunction with the completion of the triennial valuation in 2013 the FSS was last updated and approved by the Pensions Committee in March 2014 therefore this version of the FSS was in force throughout the reporting period.

9.1 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 (Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended) and the guidance papers issued in October 2012 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

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 (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;

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 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.

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 1st 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.

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

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

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

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.

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

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.

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.

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

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.

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 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.

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.

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.

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

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 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)**
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 6.10.

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

In assessing the value of the Scheme's liabilities above, allowance has been made for asset out-performance as described in Section 6.5, taking into account the investment strategy adopted by the Scheme, 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 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.

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.

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% and the declared funding level would be correspondingly reduced to approximately 58%.

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.

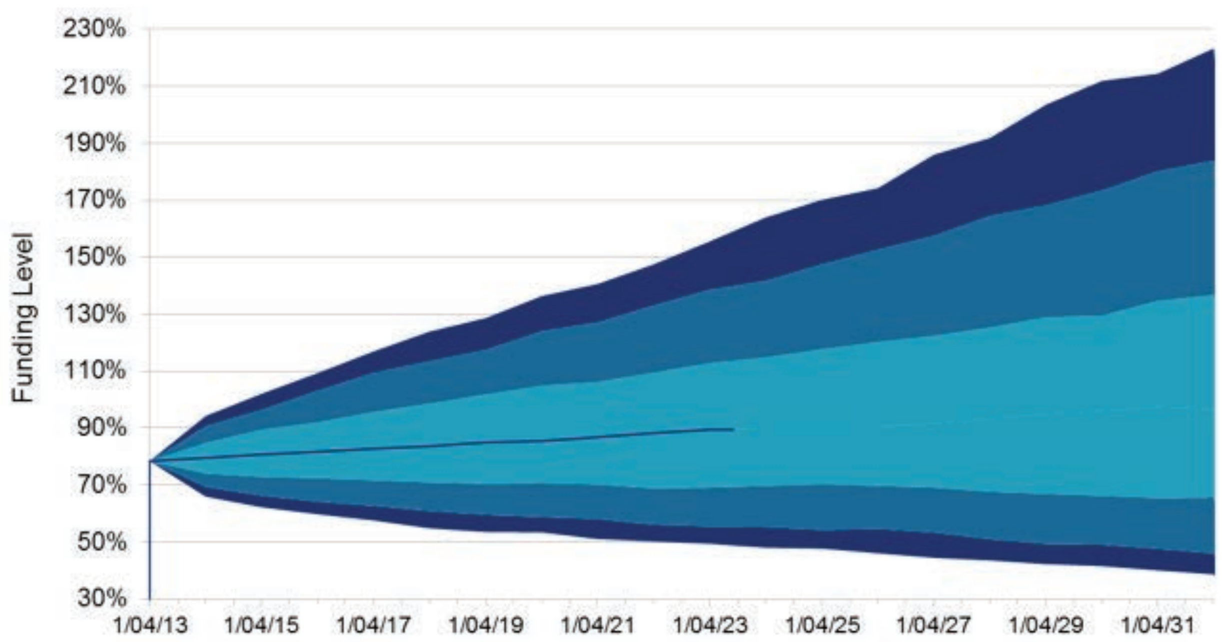
The Statement of Investment Principles is published in the Cumbria LGPS Annual Report and Accounts, and is available on-line at:
http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp

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
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.

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.

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 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).



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.

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
The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with the Scheme'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 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
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)**
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.

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)**
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
- 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**
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 3 years.

10.4 **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).

10.5 **Mortality**
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.

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**
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**
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**
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 CPI price inflation) of 3.0% per annum. This gives rise to an overall discount rate of 5.6% 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 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.

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:

- **<u>Changes in Financial Conditions after the Valuation Date</u>**
  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.
- **<u>Further Future Yield Reversion</u>**
  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 2015

In line with CIPFA guidance the below Statement of Investment Principles (SIP) is the current version of the SIP. The SIP is fully compliant with statutory guidance for producing the SIP (specifically the CIPFA publication 'Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the application of Myners Principles')

Details of the Investment policy and performance of the Fund are set out in section **4** of this report. Details of the risks relating to the Fund's Financial Instruments are set out in note 11 of the Pension Fund Accounts (included at section **8** of this report).

1.1 <u>Introduction</u>

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 <u>Background</u>

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 Fund's Governance Policy, and include approving the investment policy for the Pension Fund.

Cumbria Pensions Investment Sub Group

During 2013/14 the Investment Sub Group was established. Through 2014/15 this group has operated effectively working to support the Committee. Operating protocols between the two groups are now in place incorporating detailed monitoring and reporting structures. The Investment Sub Group consider, and continually review the investment management structure for the Pension Fund and are responsible for advising the Section 151 Officer on the appointment and termination of non-SIP 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. During 2013 to 2014 two complimentary Infrastructure managers were appointed (JP Morgan and Partners Group). Several smaller commitments have also been made to pooled funds within the alternatives space. Changes to the asset structure of the Fund's fixed income are currently being considered. We expect all other changes to take place over the next 12 month period. The latest SIP was approved by the Pensions Committee held on 9th and 10th March 2015.

1.3 <u>Statement of Investment Principles</u>

1.3.1 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 Fund employers and may undergo a partial or full review at other times should circumstances warrant it.
- The funding level of the Fund 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.

1.3.2 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.

1.3.3 Balance between different types of investments
The Fund currently holds assets across a range of products and managers to diversify risk. At March 2015 the Fund employed thirteen managers to diversify the investment manager risk. The allocations to both manager and asset classes are reviewed on an ongoing basis by the Fund's Investment Sub Group. The Pensions Committee additionally undertake further oversight and monitoring by quarterly review of the Fund monitoring report. The Fund 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 2014/15 and 2015/16, and the final which the Fund hopes to achieve following 2015/16.

The actual asset split of the Fund overall as at 31st December 2014 is shown below along with the benchmark allocation.

Asset/Manager	Allocation at Dec 2014 %	Transitional SIP aim March 2015 %	Transitional SIP 2015/16	Final SIP %	
Equity					
- UK	22.3%	20.0%	14.0%	10%	
- Global Other	23.2%	23.0%	23.0%	20%	
- Global Low Volatility	8.7%	9.0%	10.0%	10%	
Alternatives					
- Infrastructure	4.8%	5.0%	6.0%	9%	
- Opportunistic	3.2%	4.0%	7.0%	9%	
Property	8.9%	9.0%	9.0%	9%	
Growth total	**71.1%**	**70.0%**	**69.0%**	**67.0%**	**Growth**
UK Gilts	0%	0%	0%	0%	
Corp Bonds	7.3%	7.5%	0%	7%	
IL Bonds	18.0%	18.0%	7.5%	17%	
Other Defensive	1.5%	1.5%	18.0%	7%	
Strategic Cash	2.1%	3.0%	3.5%	2%	
Defensive total	**28.9%**	**30.0%**	**2.0%**	**33.0%**	**Defensive**
	100.0%	100.0%	31.0%	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 31/12/14	Mandate
Schroder (UK Equities)	12.8%	To outperform the FTSE All Share Index by 1% after fees over rolling three year periods.
Nordea (Global Equity – Low Volatility)	9.4%	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)	9.1%	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) excluding property and alternatives	42.4%	To keep tracking error within set limits per annum to the appropriate index, two years in three. (UK equities 2.0%, overseas equity 2.0%, gilts 1.0%, corporate bonds 1.0%, index-linked bonds 1.5%) Excludes property and alternatives.
Aberdeen (UK Property)	7.2%	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	11.6%	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.

1.3.4 The strategic benchmark
The Fund operates a fund-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 Fund. A new fund-specific benchmark will be put in place once the implementation of the Strategic Investment Review changes has been completed.

1.3.5 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.

1.3.6 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)

1.3.7 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.

1.3.8 Corporate Governance
The overriding objective of the Fund is to obtain its stated performance targets, but it is also 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.

Whilst the Committee works towards agreement of a Cumbria-specific voting template the responsibility for the exercise of voting rights in relation to the UK active portfolio is delegated to PIRC. They vote in accordance with their 'standard voting template' which is based upon relevant law, best practice, accounting standards and regulatory considerations. When considering voting recommendations PIRC also consider Board explanations, potential impact of oppose votes on corporate structure, materiality, opportunities for further votes in the future on the issue and market implications from any precedent created. We have the opportunity to override votes if required.

For the global active portfolio responsibility is currently delegated to the investment managers. Investment managers 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 and PIRC 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 must 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 Members 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 Members are satisfied that the Fund Managers Corporate Governance policy reflects the key principles of Socially Responsible Investment.

1.4 <u>Social, Environmental and Ethical Investment</u>
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 Fund'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

1.4.1 Compliance of Cumbria Fund with the Updated Myners Principles

Principle	Compliance	
Principle 1 : Effective Decision Making	**Not Compliant**	**Fully Compliant**
Administering authorities should ensure that • decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and		✔
• those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.		✔
The fund has a clear scheme of delegation and arrangements for provision of management and advice. Investment funds are managed by 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 tiered performance monitoring framework, the three tiers being officers and advisers, the Investment Sub Group, and the Pensions Committee.

Investment Managers are constantly under review, with Officers and Advisers informing the ISG monitoring report and escalating any issues immediately. They will also meet with managers (holding greater than £50m) formally at least annually.

The Investment Sub-Group is responsible for continual review of the investment management structure for the Pension Fund and for overseeing the appointment and termination of investment managers. It is responsible for the establishment and review of performance benchmarks and targets for investment. The Group will receive a quarterly report on every manager covering performance results and a broad range of metrics, and may escalate matters to the full Committee.

The Pension Committee is responsible for strategic decision making and oversight, and will make 'hire/fire' decisions or see managers due to escalation from the Sub Group.

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 ensure that • 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.		✔

Voting at Company meetings is delegated to PIRC for the active UK equity portfolio, and to investment managers for the global equity portfolio. Reporting is on a quarterly basis, being incorporated into the quarterly monitoring of the Fund by the Pension Committee.

The Corporate Governance policy of the Fund is an area currently under review.

All investment managers are required to adhere to the Stewardship Code.

Principle 6 : Transparency and Reporting	Not Compliant	Fully Compliant
Administering authorities should ensure that • 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 allocated resources to the development of a Cumbria LGPS specific area within Cumbria County Council's website. The area has now been set up and populated with relevant information, core documents and links relating to Cumbria LGPS. It can be accessed at: **www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp**

Throughout the year, in conjunction with YPS, the Fund has undertaken 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 2014/15.

Regulation 61 of the Local Government Pension Scheme Regulations 2013 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 5.5 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 Fund's Policy document;
- The Actuary's triennial valuation at March 2007, March 2010 and March 2013;
- Annual Reports for 2012/13 and 2013/14 (the 2014/15 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 & Fund 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 (**http://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 Fund recognises that not everyone has access to the internet and this information can also be obtained by calling YPS on 0300 123 6717 or by writing to Your Pension Service, PO Box 100, County Hall, Preston, Lancashire, PR1 0LD.

Additions to online services and communications, during 2014/15 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.
- October 2014 Practitioner's Conference: the conference provided practitioners with a recap on the on the 2014 Scheme, a presentation on freedom and choice and a Live Q and A where the Team from Your Pension Service and Cumbria County Council were available to answer questions and receive feedback from employers about their specialist areas.
- YPS again undertook annual one to one visits for Fund employers with over 100 members – the aim of these visits is to discuss any changes in processes and regulations, offer small training sessions and gather feedback.
- 2014 Scheme Talk publication sent to members and employers: this included a reminder of how LGPS differs from the previous scheme, member contribution rates, details of how to obtain annual benefit statements and how to access member self-service online, details of the forthcoming pensions surgeries, an overview of annual allowances, information about how to identify and avoid being caught out by pension scams, and information about additional pension contributions and additional voluntary contributions (AVCs).
- November 2014 – January 2015 member surgeries: a series of sessions were held across Cumbria to provide members with the opportunity to speak to officers about their annual benefit statement or other LGPS related queries. Additionally Prudential, one of the AVC providers for Cumbria LGPS were also available at most of the sessions to answer queries about AVCs.

12/ Other Statements and Information

12.1 Training Policy – March 2015 (training plan updated March 2015)

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1.0 Cumbria LGPS Training Policy

1.1 Introduction

A major factor in the governance arrangements of the Fund is ensuring committee members and officers have the relevant skills and knowledge. The Public Service Pensions Act 2013 provides for the regulation of the LGPS by the Pensions Regulator and, accordingly, an increased emphasis on trustee training.

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 Fund.

The draft public service pensions code contains practical guidance for scheme managers and members of pension boards and sets out standards of conduct and practice expected of those who carry out functions for public service pension schemes in relation to legal requirements. The legislative requirements about knowledge and understanding outlined in the code only apply to pension board members. It is their individual responsibility to ensure that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the pension board. However, scheme managers will be expected to take account of the guidance as it will support them in understanding the legal framework and enable them to help pension board members meet their legal obligations.

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 and the public service code of practice issued by the Pensions Regulator (currently in draft).

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).

The Pension Board will be responsible for establishing their own training plan and identifying their individual training needs. Board members of a funded scheme e.g. the LGPS are required to have a working knowledge of documented policies about investment governance, therefore board members will be invited to attend the Member and officer training and development sessions outlined in the 2015-16 training plan.

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 those charged with the oversight and management of the Fund with the necessary skills, knowledge and training, and
- meet the required needs in relation to the Fund's 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 Fund's 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 issues.

A refresher and update of the six core areas of knowledge identified in the CIPFA Knowledge and Skills Framework with an emphasis on the areas awarded the lowest scores in the training needs assessment undertaken by Committee Members and Substitutes between December 2014 and January 2015.

Key themes for training in 2015/16 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.

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:-

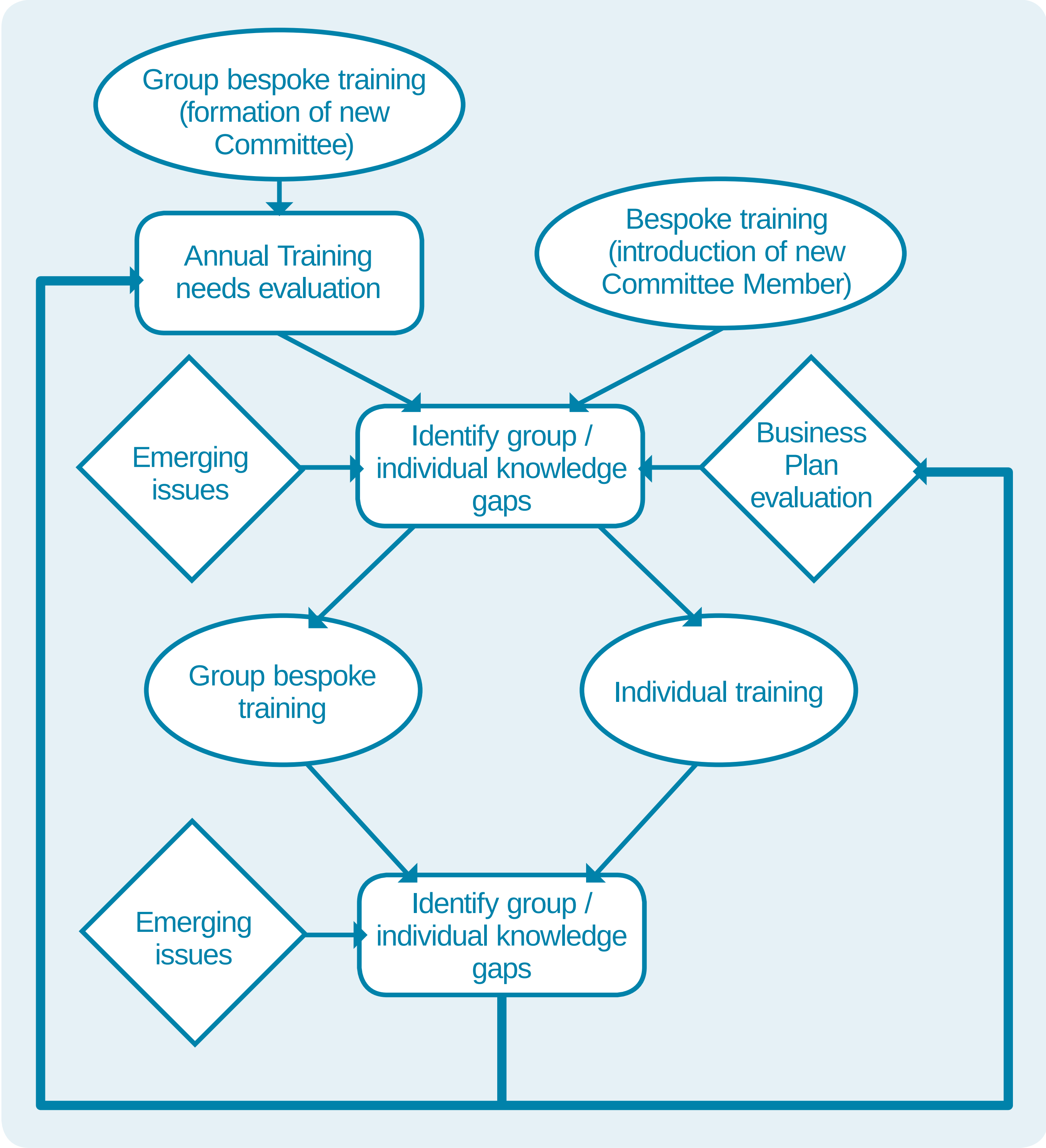
- Undertake as a Committee an annual training needs evaluation exercise. This evaluation will be used to identify both individual and group training gaps.
- Substitute Members will be invited to attend this annual evaluation and training session so that they have a base grounding in the LGPS and the 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 Fund's 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 –Pensions and Financial Services (Deputy Section 151 of the LGPS) and the Section 151 Officer, in liaison with the Chair 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. IMC, CIPP, CIPFA, 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 2015)

The draft timetable below provides a proposed training programme. It has been prepared by taking account of up and coming national legislative / policy changes such as Pension Boards, ongoing work specific to LGPS and knowledge gaps identified from the training needs assessment questionnaires which Members returned in January 2015. In addition other items on topical or emerging issues may be debated as appropriate, and the draft will change depending upon emerging issues.

Date	Planned Training
6th June 2015 – Quarterly Pension Committee in Carlisle	Liability focussed investing Accounting update
21st September 2015 – Quarterly Pension Committee in Carlisle	New products Training on Corporate Governance bespoke voting template (possible attendance by Councillor Kieran Quinn, Chair of LAPFF). Conflicts of Interest
6th October 2015 – Annual Pension Forum in Penrith	Future outlook for 2016 valuation & employers duties post Regulator
10th December 2015 – Quarterly Pension Committee in Carlisle	Training Policy & Plan 2015/16 Review. 2016 Actuarial Valuation & cash flow
Dec 2015 to Jan 2016	Compile Training Needs Evaluation Questionnaires, evaluate training needs and update the Annual Training Plan focusing on areas where any identified knowledge gaps are emerging.
7th & 8th March 2016 – Quarterly Pension Committee	To be finalised following review of emerging issues and results following 2015/16 training needs evaluation.

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. As at March 2015 the Fund was awaiting policies from 26 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.

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

1.1 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	**R**2(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	**R**4(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	**R**5(5) & **R**Sch 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	**R**Sch 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	**R**Sch 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"	**R**Sch 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)	**R**16(1)	To turn down request where the monthly payment is below £20, 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	**R**16(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.
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)	**TP**15(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	**R**17(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.

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
Pension account may be kept in such form as is considered appropriate	**R**22(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)	**TP**10(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	**R**30(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	**R**30(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 **R**30(6) (flexible retirement), **R**30(7) (redundancy / business efficiency), or the waiver (in whole or in part) under **R**30(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	**R**68(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.
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).	**TP**Sch 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	**TP**Sch 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 **TP**Sch 2, para 2(3)	**TP**Sch 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	**R**32(7)	Not to extend the time limit unless there are exceptional circumstances
Decide whether to commute small pension	**R**34(1)	Do this at the members request
Approve medical advisors used by employers (for ill health benefits)	**R**36(3)	Delegated to Employer

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
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.	**TP**12(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.	**R**38(3)	To take the advice of the Scheme IRMP, before any decision is made
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	**R**38(6)	To take the advice of the Scheme IRMP, before any decision is made
Decide to whom death grant is paid	**TP**17(5) to (8) & R40(2), **R**43(2) & **R**46(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	**R**49(1)(c)	Always pay the highest benefit to a member of the scheme
Whether to set up a separate admission agreement fund	**R**54(1)	Not to set up a separate admission agreement fund
Determine assets to be transferred from main fund to admission agreement fund	**R**54(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 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	**R**55*	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
Decide on Funding Strategy for inclusion in funding strategy statement	**R**58*	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	**R**59(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.	**R**61*	An communications policy has been set out in the Governance Policy Statement
Whether to extend valuation report and certificate deadline	**R**62(2)	Exercised by the Secretary of State
Decide assumptions to be used in making a “cost sharing” valuation under **R**63	**R**63(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	**R**64(4)	Only do this if advised to do so by the scheme actuary
Decide whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Benefits Regulations as part of the “cost sharing” under **R**63	**R**65	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.	**R**69(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	**R**69(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	**R**70 &**TP**22(2)	Issue such a notice following advice by the scheme actuary
Whether to charge interest on payments by employers which are overdue	**R**71(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	**R**74(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	**R**74(6)	Procedure laid down

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
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	**R**76(4)	Procedure laid down
Whether admin. authority should appeal against employer decision (or lack of a decision)	**R**79(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	**R**79(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable admin. authority to discharge its functions	**R**80(1)(b) & TP22(1)	Employers to supply information in accordance with the approved administration policy
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	**R**82(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.	**R**83	Would normally require power of attorney, but each case will be individually determined.
Date to which benefits shown on annual benefit statement are calculated	**R**89(5)	Benefits to be based as at 31 March.
Whether to issue a forfeiture certificate	**R**91(1)	Exercised by the Secretary of State
Agree to bulk transfer payment	**R**98(1)(b)	Take the advice of the scheme actuary
Agree set aside of bulk transfer assets / cash and acquisition of rights in new scheme	**R**98(4)(a)	Fund actuary / new scheme actuary
Determine amount of, and adjustments to, bulk transfer payment	**R**99(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)	**R**99(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	**R**100(68)	Not to extend the normal time limit unless there are exceptional circumstances
Allow transfer of pension rights into the Fund	**R**100(7)	Allow following advice from the scheme actuary
Agree bulk inter fund adjustment terms (where 10 or more members affected by a single event)	**R**103(3)	As determined by the Actuaries for both Funds
Where member to whom **B**10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member	**TP**3(6), **TP**4(6)(c), **TP**8(4), **TP**10(2)(a), **TP**17(2)(b) & **B**10(2)	Always pay the highest benefit to a member of the scheme

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
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.)	**TP**3(6), **TP**4(6)(c), **TP**8(4), **TP**10(2)(a), **TP**17(2)(b) & **T**Sch 1 & **L**23(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	**R**Sch 1 & **TP**17(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	**R**Sch 1 & **TP**17(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	**R**Sch 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	**TP**3(13) & **A**70(1)* & **A**71(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	**TP**15(1)(c) & **T**Sch1 & **L**83(5)	Not to extend time period

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

1.2 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	**A**28(2)	Not to charge for work performed associated with the calculation of the membership credit for Additional Voluntary Contributions transfer into the Fund
Extend time period for capitalisation of added years contract	**T**Sch1 & **L**83(5)	Not to extend time period
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	**A**45(3)	To adopt this
Can pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration	**A**52(2)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances.

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
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)	**A**56(2)	Delegated to employer
Whether to extend six month period to lodge a stage one IDRP appeal	**A**58(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	**A**60(8)	Procedure laid down
Whether admin. authority should appeal against employer decision (or lack of a decision)	**A**63(2)	Will decide this depending on the particular circumstances
Whether to extend six month period for admin. authority to lodge an appeal against an employer decision	**A**63(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable admin. authority to discharge its functions	**A**64(1)(b)	Information to be supplied in accordance with the approved administration policy
Decide policy on abatement of pensions following re-employment	**TP**3(13) & **A**70(1)* & **A**71(4)(c) & **T**12	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	**A**72(1)	Exercised by the Secretary of State
Where member to whom **B**10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member	**B**10(2)	Always pay the highest benefit to a member of the scheme
Whether to pay the whole or part of a child's pension to another person for the benefit of that child	**B**27(5)	Yes, depending on individual circumstances
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.	**A**52A	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	**B**30(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 **B**30	**B**30(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	**B**30A(3)*	To take the advice of the Scheme IRMP, before any decision is made
Whether to waive, on compassionate grounds, the actuarial reduction applied to benefits paid early under B30A	**B**30A(5)*	Not to waive actuarial reduction on compassionate grounds
Decide whether deferred beneficiary meets permanent ill health and reduced likelihood of gainful employment criteria	**B**31(4)	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 permanently incapable of undertaking any gainful employment	**B**31(7)	To take the advice of the Scheme IRMP, before any decision is made
Decide to whom death grant is paid	**B**23(2) & **B**32(2) & **B**35(2) & **T**Sch1 & **L**155(4)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances.
Decide evidence required to determine financial dependence of co-habitee on scheme member or financial interdependence of co-habitee and scheme member	**B**25	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	**R**Sch1 & **TP** 17(9)	Adopt this discretion
Decide whether to commute small pension	**B**39 & **T**14(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	**B**42(1)(c)	Always pay the highest benefit to a member of the scheme
Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1.4.08.)	**T**Sch 1 & **L**23(9)	Always pay the highest benefit to or on behalf of a member of the scheme

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

1.3 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

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
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
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)	1.2 Benefits to be based as at 31 March.
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.

1.4 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 / pre 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 & Termination Policy - March 2015

This document details the Fund'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 or 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 Regulation 4.

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:

Due to the risks to other employers within the Fund only in exceptional circumstances will bodies be admitted to the Fund. As a minimum requirement all of the below criteria will have to be satisfied, however the Fund retains the right to reject community admission bodies.

(a) applications will be considered 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.

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 Section 151 Officer.

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:
  - terms of agreement with the new Scheme, including:
    - a guarantee/indemnity from another Scheme employer;
    - agreement that another Scheme employer will assume the orphan liabilities relating to the new Scheme employer; either in whole or in part;
  - further information on the employees transferring to them, financial standing/ plans and relationship with previous Scheme employer;
  - a revised rates and adjustment certificate for the new Scheme employer to take into account the financial risk of failure.

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

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 Section 151 Officer may use their discretion to use the valuation basis and/or allow the deficit to be paid by instalments.

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

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

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

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

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 exit, 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 31st March 2008; or (ii) on or after age 55 and before age 65 where they became a member on or after 1st April 2008; and immediate benefits are payable under the Regulations the Admission Body shall pay to Cumbria for credit to the Scheme the sum notified to them in writing by Cumbria as representing the actuarial strain on the Scheme resulting from the immediate payment of benefits. Such sum to be paid within 30 calendar days of receipt of the written notification.

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

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 2015

12.4.1 Introduction & Regulations
The Cash Investment Policy for Cumbria Local Government Pension Scheme was first approved by the Cumbria Pensions Committee on 26th February 2010, with revisions approved on 1st March 2011, 27th November 2012, 18th/19th March 2013, 13th/14th March 2014, and 9th/10th March 2015. The Policy has been constructed and will be maintained by the Administering Authority with regard to the applicable regulations and guidance.

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 1st Jan 2010, and from 1st April 2010 will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with the Administering Authority after 1st April 2010 will comply with the requirements of SI 2009 No 3093.

12.4.3 Cash Investment Priorities
The Cumbria Pension Fund'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 Fund'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 Fund 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 Fund 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 2.5% 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 31st December 2014 2.5% was £49.5 million.

It is recognised that on occasion, due to specific circumstances, an extension could be necessary 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 the section 151 Officer. Additionally, every reasonable action should be taken to ensure the period of the extension 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 limit extensions at the next Committee date after such an extension 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 as appropriate;
- 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 the scheme annual report compiled by the LGPS Scheme Advisory Board individual Funds within the LGPS are required to provide the following information:

12.5.1 Number of employers in the Fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities):

31st March 2015	Active	Ceased (closed)	Total
Scheduled body	63	11	74
Admitted body	34	10	44
Total	**97**	**21**	**118**

Comparatives:

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

12.5.2 Fund assets as at the reporting date:

31st March 2015	UK £m	Non-UK £m	Global** £m	Total £m
Equities	382.8		688.0	**1070.8**
Bonds	514.3	7.3	-	**521.6**
Property (direct holdings)	145.5		-	**145.5**
Alternatives*	77.4	153.5	-	**231.0**
Cash and cash equivalents	18.7	17.3	-	**35.9**
Other ***	-	-	-	**-**
Total	**1138.6**	**178.1**	**688.0**	**2004.8**

Comparatives:

31st 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 and cash equivalents	77.8	4.7	-	**82.5**
Other ***	-	-	-	**-**
Total	**1,138.4**	**506.2**	**117.1**	**1,761.7**

12.5.3 Investment income accrued during the reporting date:

31st March 2015	UK £m	Non-UK £m	Global** £m	Total £m
Equities	9.2	6.9	-	**16.2**
Bonds	6.5	0.2	-	**6.7**
Property (direct holdings)	7.3	-	-	**7.3**
Alternatives*	0.2	(0.1)1	-	**0.1**
Cash and cash equivalents	0.2	-	-	**0.2**
Other ***	-	-	-	**0.0**
Total	**23.3**	**7.1**	**0.0**	**30.5**

1 Income from alternatives: 2013/14 saw a distribution from a private equity fund of £1.347m. During 2014/15 this entry was reversed and corrected as a capital contribution hence the negative figure; the corrected income received for pooled vehicles for comparison is 2013/14: £0.895m, 2014/15: £1.422m

Comparatives:

31st 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 and cash equivalents	0.0			**0.0**
Other ***				
Total	**23.4**	**7.7**	**0.0**	**31.1**

Notes on above tables:
* "Alternatives" are taken to mean holdings in private equity, hedge funds, pooled property funds, infrastructure funds, royalty funds and derivatives.
** "Global" holdings are those that include an element of both overseas and UK listed assets.
*** "Other" denotes assets not falling into any other category, such as investments in vehicles where the underlying investments may comprise of assets of more than one type.

Investments in pooled funds are allocated to categories based on the nature and the domicile of the underlying assets.

12.6 Auditor's Opinion

Grant Thornton

Independent auditor's statement to the members of Cumbria County Council on the pension fund financial statements included in the pension fund annual report

We have examined the Cumbria Local Government Pension Scheme (the pension fund) financial statements of Cumbria County Council for the year ended 31 March 2015 under the Audit Commission Act 1998, which comprise the fund account, the net assets statement and the related notes.

This statement is made solely to the members of Cumbria County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our work has been undertaken so that we might state to the members of the authority those matters we are required to state to them in an auditor's statement and for no other purpose. 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 work, for this report, or for the opinions we have formed.

Respective responsibilities of Assistant Director - Finance and auditor

As explained more fully in the Statement of Responsibilities For the Statement of Accounts, set out on pages 25 and 26 of the audited pension fund financial statements the Assistant Director - Finance is responsible for the preparation of the Statement of Accounts of Cumbria County Council, which include the pension fund financial statements, in accordance with applicable law, proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view.

Our responsibility is to state to you our opinion on the consistency of the pension fund financial statements included in the pension fund annual report with the pension fund financial statements included 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 2014/15.

In addition we read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of Chairman's introduction, The Local Government Pension Scheme, Management and Financial Performance, Investment Policy and Performance, Fund Administration Report and Administration Strategy, Actuarial Report On Funds, Governance Compliance Statement, Funding Strategy, Statement of Investment Principles, Communications and Other Statements and Information.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's 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 pension fund financial statements included within the annual Statement of Accounts of Cumbria County Council for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

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23 September 2015

13/ Glossary

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

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

Actuarial Valuation
An actuary formally reviews the assets and liabilities of the pension fund and produces a report on the fund'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 infrastructure; property; art, wine etc., and financial assets such as commodities, private equity, hedge funds, venture capital; royalties / patents 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 for the LGPS, 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 fund's assets to its liabilities. Normally relates to defined benefit pension funds and used as a measure of the fund's ability to meet its future liabilities.

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

General Contact Details: for any queries relating to the Annual Report and Accounts please contact:

Cumbria County Council
Pensions and Financial Services
Chief Executive's Department,
The Parkhouse Building,
Baron Way,
Kingmoor Business Park,
Carlisle,
Cumbria,
CA6 4SJ

e: **pensions@cumbria.gov.uk**
t: **01228 226565** or **01228 226279**

Access to Pension Committee Papers: for access to publicly available papers please see the website, or contact:

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

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

PENSIONS CONTACT DETAILS: for personal pensions and benefits queries please contact:

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

e: **AskPensions@lancashire.gov.uk**
t: **0300 123 6717**

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

If you require this document in another format (eg CD, audio cassette, Braille or large type) or in another language, please telephone 01228 226565.

আপনি যদি এই তথ্য আপনার নিজের ভাষায় পেতে চান তাহলে অনুগ্রহ করে **01228 226565** নম্বরে টেলিফোন করুন।

如果您希望通过母语了解此信息，
请致电 **01228 226565**

Jeigu norėtumėte gauti šią informaciją savo kalba, skambinkite telefonu 01228 226565

W celu uzyskania informacji w Państwa języku proszę zatelefonować pod numer 01228 226565

Se quiser aceder a esta informação na sua língua, telefone para o 01228 226565

Bu bilgiyi kendi dilinizde görmek istiyorsanız lütfen 01228 226565 numaralı telefonu arayınız

CCC J/N 22304