



Local Government Pension Scheme Regulations 1997 (as amended)

Rates and Adjustments Certificate issued in accordance with Regulation 77

Regulation 77(3)

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 2005 should be at the rate of 10.0 per cent of Pensionable Pay.

I hereby certify that, in my opinion, the amount of the employers' contribution rate payable in each year of the period of three years beginning with 1 April 2005, as set out above, should be individually adjusted as set out in the attached Schedule.

A further individual adjustment shall be applied in respect of each non-ill health early retirement, and each ill health early retirement relating to Cumbria County Council, occurring in the period of the Rates and Adjustments Certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's actuary and the Administering Authority.

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

The contribution rates set out in the Schedule should be reviewed in the event of any changes to the Regulations after the date of this Certificate affecting benefits accruing prior to 31 March 2008.

Regulation 77(7)

No allowance for non-ill health early retirements has been made in determining the results of the valuation, 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:

C R Hull FIA

Date of signing:

22 March 2005

Actuarial Certificate

Schedule to the Rates and Adjustments Certificate dated 22 March 2005

Scheduled Bodies	2005/06		2006/07		2007/08	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
Cumbria County Council	6.4	16.4	6.4	16.4	6.4	16.4
Allerdale Borough Council	4.6	14.6	6.0	16.0	7.3	17.3
Barrow Borough Council	8.3	18.3	10.2	20.2	12.0	22.0
Carlisle City Council	5.9	15.9	5.9	15.9	5.9	15.9
Copeland Borough Council	5.6	15.6	6.5	16.5	6.5	16.5
Eden District Council	5.8	15.8	5.8	15.8	5.8	15.8
South Lakeland District Council	4.6	14.6	7.0	17.0	9.5	19.5
Wigton Town Council	3.1	13.1	4.6	14.6	6.2	16.2
Brampton Parish Council	5.2	15.2	5.2	15.2	5.2	15.2
Cumbria Local Valuation Panel	1.9	11.9	1.9	11.9	1.9	11.9
Cumbria Probation Service	10.5	20.5	10.5	20.5	10.5	20.5
Lake District National Park Authority	1.1	11.1	2.4	12.4	3.8	13.8
Cockermouth Town Council	4.6	14.6	4.6	14.6	4.6	14.6
Keswick Town Council	-2.3	7.7	-2.3	7.7	-2.3	7.7
Barrow Sixth Form College	3.8	13.8	3.8	13.8	3.8	13.8
Carlisle College	1.8	11.8	1.8	11.8	1.8	11.8
College of Art and Design	2.9	12.9	2.9	12.9	2.9	12.9
Furness College	5.6	15.6	5.6	15.6	5.6	15.6

	2005/06		2006/07		2007/08	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
Scheduled Bodies						
Kendal College	3.1	13.1	3.1	13.1	3.1	13.1
West Cumbria College	4.0	14.0	4.0	14.0	4.0	14.0
Cumbria Waste Management	15.8	25.8	15.8	25.8	15.8	25.8
Cumbria Police Authority	4.0	14.0	4.0	14.0	4.0	14.0
Kendal Town Council	6.9	16.9	7.5	17.5	8.1	18.1
Department for Constitutional Affairs	tbc	tbc	tbc	tbc	tbc	tbc
South Lakes Housing ALMO	tbc	tbc	tbc	tbc	tbc	tbc

	2005/06		2006/07		2007/08	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
Admitted Bodies						
Barrow and District Society for the Blind	6.0	16.0	8.7	18.7	11.3	21.3
South Lakeland Leisure	-2.6	7.4	-2.6	7.4	-2.6	7.4
Cumbria Deaf Association	3.8	13.8	4.2	14.2	4.5	14.5
Copeland Homes	1.4	11.4 plus £1,406,000	1.4	11.4 plus £1,406,000	1.4	11.4 plus £1,406,000
Cumbria Sea Fisheries Committee	9.8	19.8	9.8	19.8	9.8	19.8
Cumbria Cerebral Palsy Society	3.8	13.8	3.8	13.8	3.8	13.8
Cumbria Tourist Board	4.5	14.5	4.5	14.5	4.5	14.5
Lakeland Arts Trust	13.6	23.6	13.6	23.6	13.6	23.6
Wigton Joint Burial Committee	11.0	21.0	11.0	21.0	11.0	21.0
Kendal Brewery Arts Centre Trust Limited	15.0	25.0	21.1	31.1	27.2	37.2
West Cumbria Groundwork Trust	17.6	27.6	17.6	27.6	17.6	27.6
West House	1.2	11.2	1.2	11.2	1.2	11.2
Oaklea Trust	10.2	20.2	10.2	20.2	10.2	20.2

	2005/06		2006/07		2007/08	
	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %	Individual Adjustment %	Total Contribution Rate %
Admitted Bodies						
Glenmore Trust	10.7	20.7	10.7	20.7	10.7	20.7
Solway Rural Initiative	3.0	13.0	3.0	13.0	3.0	13.0
Eden Housing Association	3.3	13.3	3.3	13.3	3.3	13.3
Barrow Citizens Advice Bureau	1.3	11.3	1.3	11.3	1.3	11.3
Kendal Citizens Advice Bureau	3.3	13.3	4.1	14.1	4.9	14.9
Capita DBS	4.8	14.8	5.6	15.6	6.3	16.3
Carlisle Housing Association	4.9	14.9	5.5	15.5	6.2	16.2
Carlisle Leisure Limited	-1.0	9.0	-1.0	9.0	-1.0	9.0
Botcherby Community Centre	4.0	14.0	4.0	14.0	4.0	14.0
Currock Community Centre	5.3	15.3	5.3	15.3	5.3	15.3
Harraby Community Centre	2.1	12.1	2.1	12.1	2.1	12.1
Morton Community Centre	0.3	10.3	0.3	10.3	0.3	10.3
National Care Standards Commission (CSCI)	20.4	30.4	20.4	30.4	20.4	30.4
Cumbria Learning Disability Partnership	-0.1	9.9	-0.1	9.9	-0.1	9.9
Agilisys	1.0	11.0	1.0	11.0	1.0	11.0
Cumbria Rural Regeneration	tbc	tbc	tbc	tbc	tbc	tbc
Amev Construction Services	0.1	10.1	0.1	10.1	0.1	10.1

Other interested bodies with no pensionable employees

Former Employers	Proportion of Pension Increases to be Recharged %
Ulverston Town Council	0
Henry Lonsdale Trust	0
Newton Rigg College	0
Charlotte Mason College	100
Direct Training Services Limited	0
Project Homeless (Cumbria) Limited	100
Workington Port Health Authority	100
Troutbeck Bridge Swimming Pool Limited	0
Lake District Cheshire Homes	100
National Water Authority	100
National Health Service	0
Cumbria Primary Teaching	0
Millom Town Council	0
Neighbourhood Revitalisation (NRCS) Limited	0

NRCS Limited's admission to the Fund terminated after the valuation date. A termination position has been separately assessed, in accordance with the LGPS Regulations, and it has been assumed that any termination contributions due to the Fund are made.

Actuarial
Certificate

Surplus certificate

The certificate is given to the Commissioners of Inland Revenue for the purposes of paragraph 2 of Schedule 22 to the Income and Corporation Taxes Act 1988.

Name of Fund

Cumbria Local Government Pension Scheme

Inland Revenue Reference No.

PS49/1897

I hereby certify that:

1. In my opinion as at 31 March 2004 the value of the assets of the Fund did not exceed 105% of the value of the liabilities of the Fund;
2. The assets and liabilities to which paragraph (1) refers have been determined in accordance with principles and requirements prescribed by the Pension Fund Surpluses (Valuation) Regulations 1987.



Signature:

Name:

C R Hull

Date of signing:

22 March 2005

Address:

Mercer Human Resource Consulting Limited
Mercury Court, Tithebarn Street
Liverpool, L2 2QH

Qualification:

Fellow of the Institute of Actuaries

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME STATEMENT OF INVESTMENT PRINCIPLES – JUNE 2005

Administering Authorities have to prepare, maintain and publish Statements of Investment Principles under the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999. The Cumbria Fund was restructured following a Strategic Investment Review in 2003 and revisions have been necessary following the Actuarial Valuation 2004 and a change of manager for the overseas portfolio. The latest version was approved by the Pensions Committee held on 2nd June 2005.

The fund employs two independent Investment Advisers, to give independent advice on the investments carried out on behalf of the fund. The Pensions Committee is advised by Cumbria County Council's Deputy Chief Executive/Corporate Director - Finance and Central Services. Services are also provided by the scheme actuary Mercers, and by other consultants for investment management services.

TYPES OF INVESTMENTS TO BE HELD

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

BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS

The fund employs six managers to diversify the investment manager risk. The percentage allocated to each manager is reviewed periodically by the Pensions Committee including a specific allocation to the property manager.

The Strategic Investment Review recommended that the Scheme adopt a scheme-specific benchmark for the investments, with long-term allocations to the various asset classes which reflect the circumstances of the Scheme. The benchmark in place, excluding the direct property allocation, is as follows:

Asset Class	Percentage	Control Range + or - %	Index
UK Equities	32.5	2.0	FTSE All Share
Overseas Equities	32.5	2.0	
North American	35.0	2.5	FTSE World North America
Europe ex UK	35.0	2.5	FTSE World Europe ex UK
Japan	12.5	1.0	FTSE World Japan
Pacific ex Japan	12.5	1.0	FTSE Developed Asia Pacific ex Japan
Emerging Markets	5.0	1.0	S&P IFC Investable Composite
Fixed Interest	22.0	2.0	
UK Fixed Interest	50.0		FTSE-A Govt (Over 15 year)
Corporate Bonds	50.0		iBoxx £ Non-Gilt
Index-Linked	13.0	1.5	FTSE-A Index-Linked (Over 5 year)
TOTAL	100.0		

Property has a monetary target held separately from the strategic benchmark and compared to the IPD Monthly Property Index. As at 31st March 2005, £77.8 million was managed by the property manager.

<u>Manager</u>	<u>Percentage of total fund March 2005</u>	<u>Mandate</u>
Capital International	14.7	To outperform the FTSE All Share Index by 1.1% after fees over rolling three-year periods.
Schroder	15.3	To outperform the FTSE All Share Index by 1 % after fees over rolling three-year periods.
Insight	11.7	To outperform by 0.75% after fees a weighted bond index over rolling three-year periods.
GMO	12.0	To outperform by 2 % after fees an overseas equity weighted index over rolling three-year periods.
Legal and General Passive	37.4	To keep tracking error within set limits per annum to the appropriate index, 2 years in three. (UK equities 2.0%, overseas equity 2.0%, gilts 1.0%, corporate bonds 1.0%,

		index-linked bonds 1.5%)
Credit Suisse	8.9	To outperform the Monthly IPD Property Index by 1 % before fees over rolling three-year periods.
TOTAL	100%	

Investment managers are paid fees and are expected to achieve an investment target. As fees are based on the value of funds under management, growth in the portfolio would lead to an increase in fee, providing an element of performance incentive. Where performance is unsatisfactory and targets are not met, fees can be renegotiated and where performance remains unsatisfactory, managers can be removed and the mandates awarded to other managers. Given the incentives to grow the portfolio and achieve targets together with the sanctions available where performance is unsatisfactory, a full performance related fee structure was not considered appropriate for the fund.

LIMITS ON INVESTMENTS

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

The Pension Committee of the Cumbria Local Government Pension Scheme has decided, having taken proper advice, to adopt the new limit for all investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body. The new limit on the amount that may be invested is 35%, thus allowing increased flexibility to the fund in respect of passive investments. The new limit applied from 10th August 2004 remains in operation until amended otherwise. The decision complies with the requirements of the Regulations.

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 1998.

Risk is managed by diversification by:

- The appointment of more than one manager, and managers with different investment styles. The specialist managers should be able to achieve superior returns while the passive manager should limit benchmark risk.
- The use of different asset classes.
- 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 at least twice a year. The benchmark, as revised in light of the Strategic Investment Review, is a key indicator of the level of risk that is acceptable.

THE OBJECTIVES OF THE FUND

- The very long-term objective is to achieve an investment return at least equal to the FTSE UK Gilts All Stock Index plus 1.6 %, over a twenty-five year period from April 2004. This target may be reviewed after periodic actuarial valuations and consultation with scheme employers.
- The funding level of the scheme to move towards 100 % over twenty-five years from April 2004. This target may be reviewed after periodic actuarial valuations and consultation with scheme employers.
- The expected investment return for the fund as a whole is to be 0.6 % per annum ahead of the fund's customised benchmark return over rolling five-year periods.
- As the fund has adopted a scheme specific benchmark, it is not appropriate to compare the fund directly with the WM Local Authority Universe return. Nevertheless, regard will still be paid to this Universe over the longer term.

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 Deputy Chief Executive/Corporate Director - Finance and Central Services before they make any sales or purchases.

CORPORATE GOVERNANCE AND ETHICAL INVESTMENT

1. CORPORATE GOVERNANCE

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

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

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

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

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

2. SOCIAL, ENVIRONMENTAL AND ETHICAL INVESTMENT

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

The investment guidelines issued to managers of the Cumbria scheme's investments stress the overriding importance of financial considerations in selecting investments. Social environmental and ethical considerations are important where, in the view of the manager, such considerations may add to the risk of comparative under-performance perhaps because of change to the regulatory regime of an industry in which a particular company operates. Equally, where a manager has a view, that a positive social, environmental and ethical stance by a company will add to its relative performance, that would be an appropriate factor for the manager to take into account in stock selection.

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

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

APPENDIX COMPLIANCE OF CUMBRIA FUND WITH MYNERS REPORT (AS PER THE LOCAL GOVERNMENT PENSION SCHEME (MANAGEMENT AND INVESTMENT OF FUNDS) (AMENDMENT) REGULATIONS 2002)

<u>Myners' Report</u>	<u>Cumbria Current Position</u>
Effective Decision Making	
(a) Decisions should only be taken by persons or organisations with skills, information and resources necessary to take them effectively.	The fund has a clear scheme of delegation and arrangements for provision of management and advice. Funds are managed by six national/international organisations in the City of London. Two independent Investment Advisers normally attend Pension Committee meetings.
(b) Appropriate in-house support staff should be available.	A small team of professional investment and support staff is provided.
(c) Trustees should be paid.	Members' Allowance Scheme operates.
(d) There will be an Investment Sub-Committee.	Pensions Committee established in 2001. The predecessor to the Pensions Committee the Investment Advisory Group had been in existence since 1974.
(e) Trustees should have the appropriate skills.	The Myners' Report proposes that members of the Investment Sub-Committee have their skills and experience developed. This is done through presentations, seminars and visits on a regular basis.
(f) Forward looking business plan.	A process of undertaking a strategic review every three years is established following the actuarial valuation which aims to set simple and clear objectives (last major review took place in 2003.)
Clear Objectives	
(a) Clear investment objectives should be set that take into account investment risks and fund's liabilities.	Detailed in Fund's Statement of Investment Principles.
Focus On Asset Allocation	
(a) Strategic asset allocation should receive a high level of attention.	A review will be undertaken every three years, together with quarterly reporting and annual performance review covering short and long term investment returns and risks by the Pensions Committee.
(b) Full range of investment opportunities considered including private equity.	All significant investment opportunities are considered and taken where appropriate. Stock Lending was approved during 2004. Private equity may be considered in the future.
(c) Asset allocation should reflect a fund's own characteristics, not the average allocation of other funds.	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.
Expert Advice	
(a) An appropriate range of expert advice should be secured.	This has always been the fund's policy and in summary is as follows: Officers of the Council provide advice on a day-to-day basis. Two independent investment advisers are available at Pensions Committee meetings. The Chairman and members can contact officers and independent advisers on an ad hoc basis as and when required. Expert consultants are also used by the fund as required.
Explicit Manager Mandates	
(a) Explicit written mandates should operate for all managers that cover objectives, benchmarks and risk, manager's approach linked to Fund's aggregate objectives and risk tolerance.	All mandates are governed by the Fund's strategic objectives, and are reviewed regularly by officers and the Pension Committee. Performance contribution is reviewed quarterly and there is a detailed annual review of performance.

<p>(b) Mandates should not be terminated without due cause.</p> <p>(c) The mandates should not exclude any set of financial instruments without clear justification.</p> <p>(d) Management fees should be inclusive of internal research, information and transaction services.</p>	<p>The Fund operates on a general principle of a three-year rolling review approach subject to regular presentations to the Pensions Committee. Over the last six years, two managers have been replaced.</p> <p>This principle is followed having regard to the Pension Investment Regulations and strategic objectives of the fund.</p> <p>The fund has agreements in place that clearly define fee scales.</p>
Activism.	
<p>(a) Funds should adopt the principle of the US Department of Labour Interpretative Bulletin on activism *.</p> <p>(b) Managers should have an explicit strategy for company interaction.</p>	<p>The Fund's corporate governance policy and approach is approved by the Pension's Committee as appropriate to the Cumbria Fund. It complies with the US Department of Labour Interpretative Bulletin on activism *.</p> <p>The policies have been obtained from and discussed with the equity investment managers, and the quarterly reports detail the interaction and dialogue with company management.</p>
Appropriate Benchmarks.	
<p>(a) Trustees should explicitly consider benchmarks selected and their suitability, any unusual movements of an index, the nature of the index relative to the investment requirements and achievability of performance targets relative to the index.</p>	<p>These matters are carefully considered when managers are appointed or briefs changed. They are linked to the Fund's strategic objectives and benchmark. They are regularly reviewed with managers and overall on an annual basis.</p>
Performance measurement.	
<p>(a) Trustees should arrange for the performance of its strategy, benchmark, policy, managers and advisors to be measured.</p>	<p>The fund carries this out through a regular annual review report based upon the performance measurement service supplied by WM Company. Mercer's have developed a tool to measure the success of advice given. The Investment Advisers attend each meeting of the Pensions Committee and the members are surveyed for their views on quality of advice given.</p>
Transparency	
<p>(a) The Statement of Investment Principles (SIP) should set out: -</p> <ul style="list-style-type: none"> • Who is taking which decisions • Why structure was selected • The Fund's investment objective • The Fund's planned asset allocation strategy including projected investment returns on each asset plan • How strategy has been arrived at • Mandates given to advisors and managers • Nature of fee structures and why selected 	<p>The Fund's current SIP covers the major points raised. Further information is provided on request.</p> <p>Yes.</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p>
Regular Reporting	
<p>(a) Trustees should publish their SIP and results of monitoring of advisers and managers. This should be sent to members of the fund annually.</p> <p>(b) Statement should explain why a fund has decided to depart from any of these principles.</p>	<p>The SIP is included in the Fund's Annual Report. All members of the fund also receive a summarised copy. Investment performance is included in the Annual Report. Adviser performance measurement will be included.</p> <p>The Fund will provide such a statement, if necessary.</p>

*** The US Department of Labour Interpretative Bulletin requires:**

- Proxies to be voted on issues that may affect the value of the fund's investments.

- Activities intended to monitor or influence the management of companies to be undertaken where there is a reasonable expectation of enhancing the value of an investment.
- Such activities to include correspondence, meetings and exercise of shareholder rights and should take into account the cost of such action.
- Relevant factors which affect the fund's investments to be considered and the interests of stakeholders not to be subordinated to unrelated objectives.

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

FUNDING STRATEGY STATEMENT (FSS)

This Statement has been prepared by Cumbria County Council (the Administering Authority) to set out the funding strategy for the Cumbria Local Government Pension Scheme (the Scheme), in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997 (as amended) and the guidance paper issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the 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 Scheme published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (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 Regulations 1997 (as amended), “the Regulations”). The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Regulation 77) 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 regulatory requirement to maintain as nearly constant employer contribution rates as possible; and**
- **to take a prudent longer-term view of funding those liabilities.**

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

3. Aims and purpose of the Pension Fund

The aims of the fund are to:

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

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses,

(as defined in the Local Government Pension Scheme Regulations 1997 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).)

4. Responsibilities of the key parties

The Administering Authority should:

- manage the scheme on a day-to-day basis,
- control admissions to the scheme,
- consult with employers and scheme members where appropriate,
- manage the valuation process in consultation with the actuary,
- prepare and maintain an FSS and an SIP, both after due consultation with interested parties, and
- monitor all aspects of the Scheme's performance and funding.

The Individual Employer should:

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

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS,

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

Current Governance Arrangements

The Cumbria Pensions Committee normally meets five times per year. It comprises nine elected members, one of which is a district councillor nominated by the six district councils who are employers in the scheme. Members are offered various external training courses every year. New members are also offered individual coaching on joining the committee. The actuary attends the Pensions Committee on occasion to provide further training and explanation. Decisions are taken by the Pensions Committee and approved by the County Council.

5. Solvency issues and target funding levels

To meet the requirements of the Regulations the Administering Authority's long-term funding objective is to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis including allowance for projected final pay.

The current actuarial valuation of the Scheme is effective as at 31 March 2004. The preliminary results of the valuation indicate that overall the assets of the Scheme represented 76% of projected accrued liabilities at the valuation date.

The key financial assumptions making up the funding strategy and as adopted for the 31 March 2004 actuarial valuation are:

	In respect of past service liabilities	In respect of future service liabilities
Fixed interest gilts yield:	4.6%	n/a
Index linked gilts real yield:	1.8%	n/a
Asset Out-performance Assumption Pre Retirement	2.0%	n/a
Asset Out-performance Assumption Post Retirement	1.0%	n/a
Real Earnings Inflation	1.75%	1.75%
Discount rate (pre retirement)	6.6%	6.5%
Discount rate (post retirement)	5.6%	6.5%
Price Inflation	2.8%	2.5%
Earnings Inflation	4.55%	4.25%
Pension Increases	2.8%	2.5%

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.

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

In relation to future service (i.e. calculation of the future service contribution rate) the assumptions are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 4.0% per annum, with a long term average assumption for price inflation of 2.5% per annum. This approach means that 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 the market conditions applying as at the 2004 valuation date 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 past service liabilities.

Full details of the assumptions adopted for the 2004 valuation will be set out in the actuary's formal report, which is made available to all employers in the Scheme.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer. 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 arising from the 2004 actuarial valuation:

- The total employer contribution rate will be made up of an element in respect of the ongoing accrual of benefits for current members, plus an addition in respect of deficit recovery (or if applicable an offset in respect of surplus).
- A maximum deficit recovery period of 25 years will apply. 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 2005, following completion of the 2004 actuarial valuation, the increase from the rates of contribution payable in the year 2004/05 may be implemented in steps, over a maximum period of 3 years.
- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit 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.

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

- the responses made to the consultation with employers on the FSS principles,
- the supplementary guidance on the funding strategy issued by the CIPFA Pensions Panel in November 2004,
- 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 Government's aims as regards increases in local authority pension costs, as set out in the letter from the Office of the Deputy Prime Minister dated 10 September 2004, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

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

The results of the 2004 valuation show the accrued liabilities to be 76% covered by the current assets, with the funding deficit of 24% being covered by future deficit contributions due from the participating employers.

In assessing the value of the Scheme's liabilities in the valuation, allowance has been made for asset out-performance as described in Section 5, taking into account the investment strategy adopted by the Scheme, as set out in the SIP.

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

Investment of the 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 out-performance of the investments. On this basis of assessment, the assessed value of the Scheme's liabilities at the 2004 valuation would have been significantly higher, by approximately 28% and the declared funding level would be correspondingly reduced to approximately 59%.

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 current benchmark investment strategy (excluding investment in property), as set out in the SIP, is:

UK equities	32.5%
Overseas equities	32.5%
UK fixed-interest bonds	11%
Index-linked bonds	13%
Corporate Bonds	11%

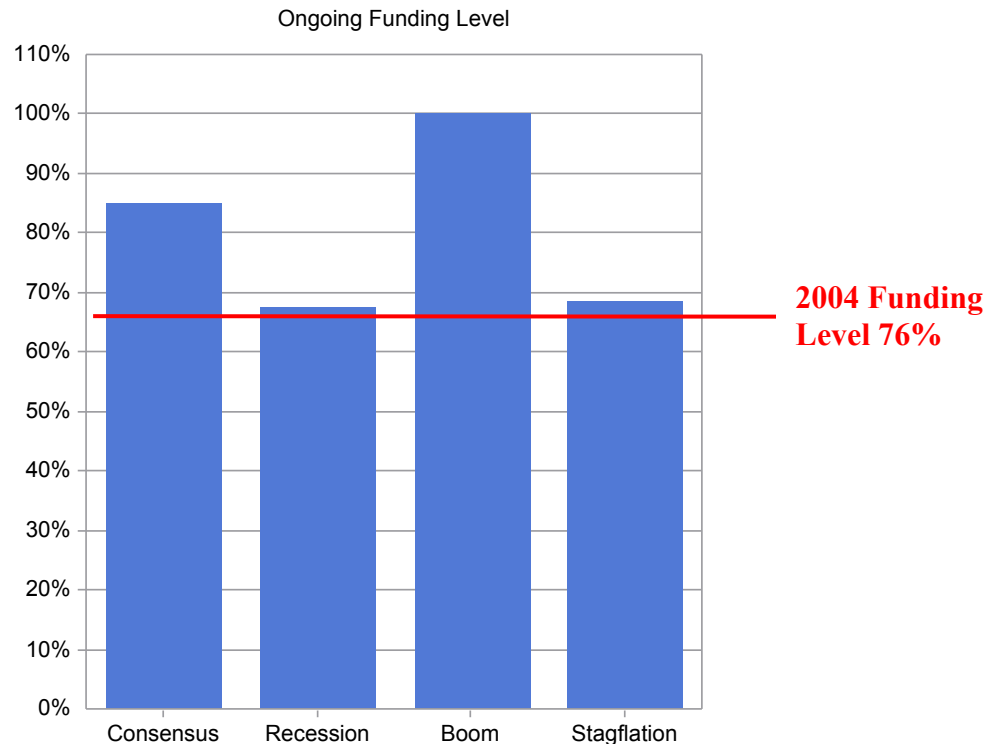
Property has a monetary target held separately from the strategic benchmark. As at 30 June 2004, about 8% of the Fund was invested in property.

The funding strategy adopted for the 2004 valuation is based on an assumed asset out-performance of 2.0% in respect of liabilities pre-retirement, and 1.0% in respect of post-retirement liabilities. Based on the liability profile of the Scheme at the valuation, this equates to an overall asset out-performance allowance to keep pace with the liabilities of 1.6% p.a. The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the current 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 1.6% per annum currently required on the basis of the 2004 valuation assumptions.

The following chart shows the Scheme's projected funding level after three years from the 2004 valuation under various future economic scenarios, based on employer contribution rates adopting a recovery period of 25 years with no phasing of increases. It should, however, be borne in mind that these figures are projections, not estimates, and day to day changes in market conditions can have a marked effect on valuation results over relatively short periods of time.



The fund has a duty to review the significant risks and the measures taken as a result. The significant risks with responses are as follows:

Financial

- Investment markets fail to perform in line with expectations;

The investment strategy contains a mix of asset classes designed to protect the fund from poor performance by individual asset classes. The equity bond split was chosen after careful consideration of the likely risks and rewards.
- Market yields move at variance with assumptions;

The overall return of the portfolio is monitored quarterly which will provide advance warning of variations.
- Investment Fund Managers fail to achieve performance targets over the longer term;

Managers' investment performance is monitored monthly and prompt action taken if performance is substantially below target. The overall out-performance target does not assume all managers will consistently out-perform.
- Asset re-allocations in volatile markets may lock in past losses;

The funds performance relative to the local authority universe is good (10th out of 100 over 5 years and 30th over 10 years to 31st March 2004). The fund would only normally change its asset allocation after carrying out a strategic investment review, and would also phase in any changes.
- Pay and price inflation significantly more or less than anticipated;

These are monitored at least annually to give advanced warning.
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies;

Annual monitoring should provide advance warning of likely problems. The latest Funding Strategy Statement will be given to all new applications for membership of the scheme.

Demographic

- Longevity horizon continues to expand;

Advance warning will continue to be provided by the scheme actuary about average life expectancy of scheme members.
- Deteriorating pattern of early retirements;

The Cumbria scheme has on the contrary, because of policy changes and management action, shown improving patterns of retirement. These will continue to be monitored at least annually.

Regulatory

- Changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employee;

Changes to the scheme are usually introduced after extensive consultation.

- Changes to national pension requirements and/or Inland Revenue rules;

Changes to the scheme are usually introduced after extensive consultation.

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements);

Scheme membership is monitored annually by the administering authority. Non ill-health early retirements lead to an additional capital charge in respect of actuarial strain, which protects the fund.

- Administering Authority not advised of an employer closing to new entrants;

This could only happen to the smaller admitted bodies. The majority of the scheme's membership is in scheduled bodies where membership cannot be prevented.

- An employer ceasing to exist with insufficient funding or adequacy of a bond;

Best value admissions are guaranteed by an appropriate bond or the transferring employer. New admitted bodies are usually asked for a guarantor or to provide a bond.

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, 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.

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME GOVERNANCE POLICY STATEMENT – FEBRUARY 2006

The Local Government Pension Scheme (Amendment) (No. 2) Regulations 2005 require administering authorities to prepare and publish a governance policy statement by 6 April 2006.

This current version of the Governance Policy Statement was presented to the Pensions Committee for approval at the Pensions Committee held on 14 February 2006.

FREQUENCY OF MEETINGS

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

The Cumbria Pensions Forum meets at least annually to inform and consult with the wider representation of employing organisations, and employee and pensioner representatives.

TERMS OF REFERENCE OF THE PENSIONS COMMITTEE

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

The committee has 10 members (8 County Councillors, 1 District Councillor and one non-voting employee representative). Advice is given by the Council’s own 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.

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

- (a) To exercise the Council’s responsibility as administering authority for the management of Cumbria Local Government Pension Scheme (the “Pension Fund”).
- (b) To appoint the Investment Manager(s) for the Pension Fund.
- (c) To approve advice to the Investment Managers on future policy for the investment of the Pension Fund.
- (d) To submit the Annual Report and Accounts to the Council on the state of the Fund and on investment activities during the preceding year.
- (e) To communicate with the other employers of the Scheme.
- (f) To submit update reports to the Council on the state of the Fund and investment activities following meetings of the Committee.
- (g) To invite appropriate professional representation as required, affecting the general management of the scheme.

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

TERMS OF REFERENCE OF THE PENSIONS FORUM

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

The Constitution of the Cumbria Pensions Forum is:

Employers:

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

Employees:

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

The terms of reference of the Cumbria Pensions Forum are:

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

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

DEPUTY CHIEF EXECUTIVE/CORPORATE DIRECTOR – FINANCE & CENTRAL SERVICES

The Deputy Chief Executive/Corporate Director - Finance and Central Services has:

- To make safe and efficient arrangements for the receipt and collection of monies paid or due to the Council, and the issue of monies payable by the Council.
- To secure the satisfactory provision of services through the contract with Capita Business Services.

CAPITA BUSINESS SERVICES

The Administering Authority has externalised the administrative pensions function to Capita Business Services. The details are contained in a contract drawn up between the administering authority and Capita Business Services.

COMMUNICATIONS POLICY STATEMENT

Capita Business Services are contractually bound to:

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

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