

SECTION 5 – CUMBRIA LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS

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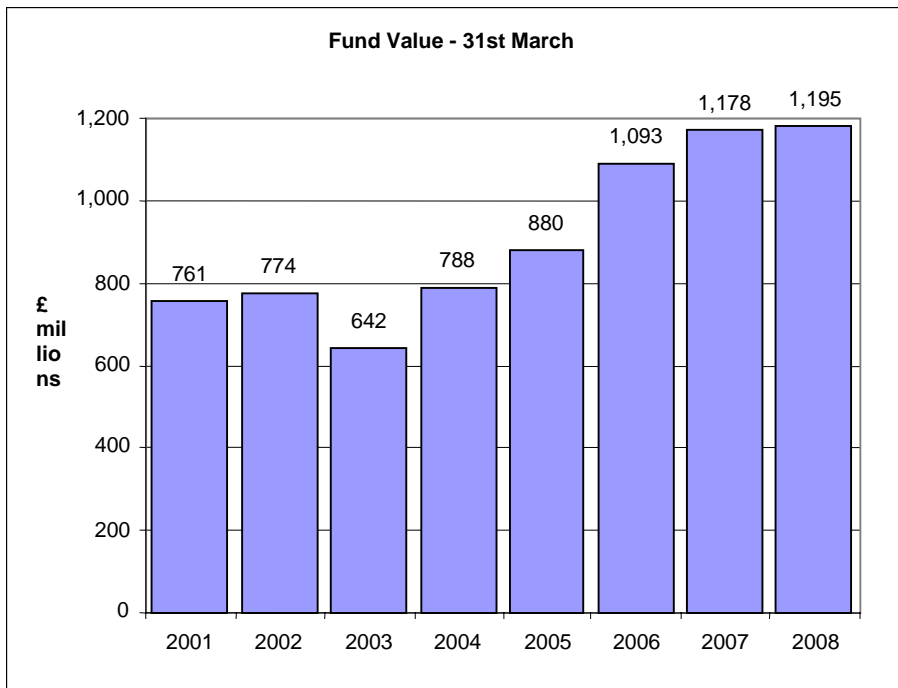
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5.0 CHAIRMAN'S INTRODUCTION

It is my pleasure to introduce the Cumbria Local Government Pension Scheme Annual Report for 2007/08, on behalf of the Cumbria Pensions Committee.

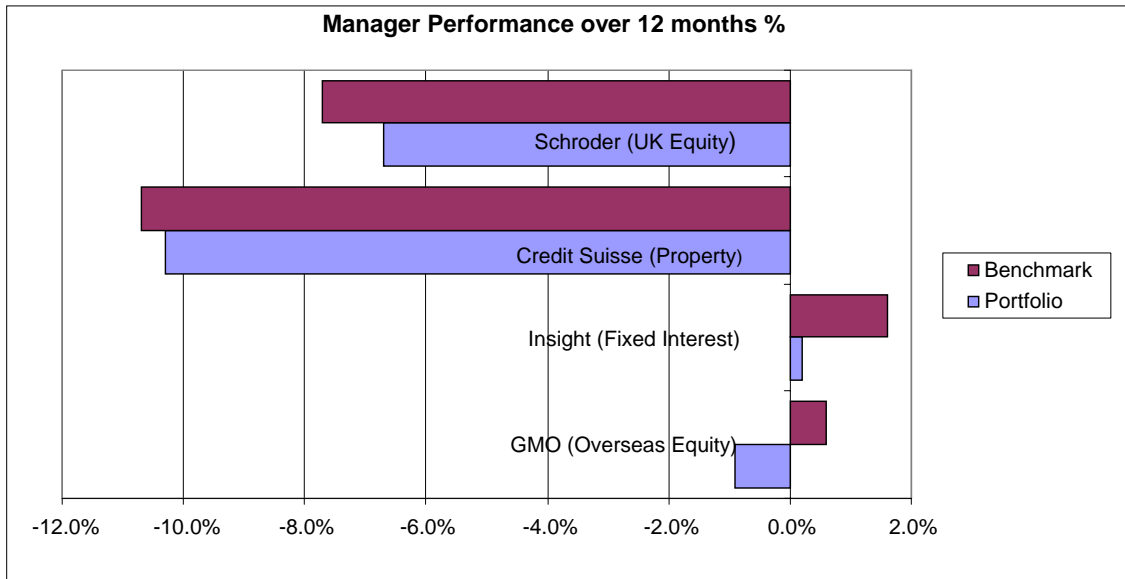
During a year of volatility in investment markets, which left many funds with negative performance, the Cumbria fund benefited from a diversified approach and saw the fund value increase to £1,195 million at 31st March 2008. The investment return achieved by the fund for the year was 0.7%, which was above the scheme-specific benchmark of – 0.2%. This was lower than the previous year's return of 6.7% but compares well with the WM Local Authority Universe, which had an average return of -2.8% over 12 months, giving Cumbria a ranking of 7th out of 100. The fund also continues to rank well within the WM Local Authority Universe over the medium and longer-term, with the 3 year investment return ranked 29th and the 10 year investment return ranked 17th out of 100 (figures to 31st March 2008). The 10 year return is significant. It indicates an out performance against the Local Authority Universe of 0.5 % per annum over 10 years - at present values £6.0 million per annum which would otherwise have been a call on council tax payers. The increase in fund value is shown in the table below.



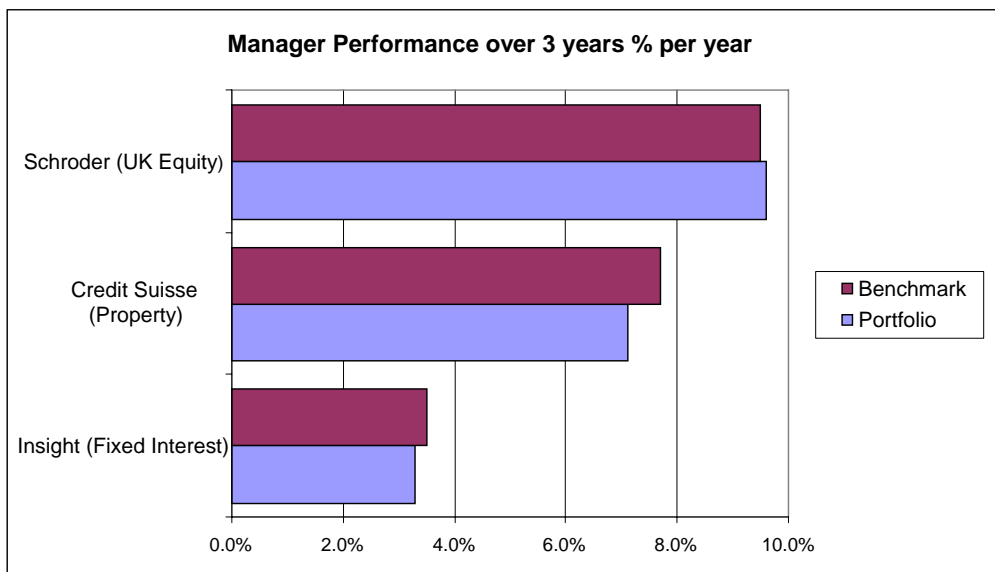
The increase in the Fund's assets has to be set alongside the growth in liabilities. For pension funds in general liabilities have been rising partly because interest rates have fallen. Interest rates are used to discount the future stream of liabilities to present values. The triennial valuation results at 31 March 2007 showed a shortfall of £268 million representing a funding level of 81%, an improvement on 2004 when the funding level was 76%. Plans were set in place to restore the funding level to 100% over 25 years, although the County Council intends to eliminate the deficit in a shorter timescale of 20 years.

The performance of the investment managers for the year was mixed. The investment managers employed by the fund to manage UK equities and the property manager

outperformed their benchmarks for the year, whereas the overseas equity manager and the bond manager underperformed, as shown in the following table.



Results for individual managers are reviewed over a number of years, so that one year's figures do not carry undue weight. The annualised performance of the active managers over the three-year period to 31st March 2008, against their individual benchmark, is shown in the table below. The overseas manager, GMO, has been in place for just short of three years, and so is not included in the table. Performance of GMO since inception has been ahead of the benchmark by 0.34%, but behind the target of benchmark plus 1.0%.



The investment strategy review process, which started in 2005, and resulted in a resolution to restructure the fund in 2006, was implemented in 2007. Legal and General carried out a successful transition of the assets in the second quarter of 2007/08 and the new investment management structure is now fully in place with three new

managers - Newton (Global Equities) BlackRock (Alternatives) and BNY Mellon (Currency). Although it is too early to draw conclusions on the performance of the new managers, they proved to be a positive addition to the fund for the second half of 2007/08.

A notable change during the first quarter of 2007 was the retirement of David Williams, a long-standing Investment Advisor to the Fund. David made a valuable contribution to the work of the Committee for over 20 years, and his commitment and dedication will be missed. I am pleased to welcome Alistair Sutherland from Deloitte as a replacement for David. Alistair brings with him a wealth of experience and is well known to the Committee from his previous employment as an Investment Consultant at Mercer. He has advised the Committee on many occasions, including the recent restructuring of the Pension Fund.

The Pensions Committee will also see changes in the coming year, when Mr Bob Mather, the County Council's Deputy Chief Executive/Director of Finance and Central Services, retires after over 20 years service with the County Council. I would like to take this opportunity to thank Bob for his invaluable contribution to the Committee and his experience, knowledge and professionalism will be difficult to replace. I am sure I speak for all the members of the Pensions Committee and members of the scheme in wishing Bob a long and happy retirement. In 1992 when Bob became Treasurer, the fund was one of the worst performing, ranked in the bottom 10%. It is a testament to Bob's direction and stewardship that the fund is now in the upper quartile and 17th out of 100 for the last ten years.

A final word of thanks goes to the staff in Corporate Finance and in Capita Pensions for their work during the year in supporting the management of the Fund and also to Committee Members for their contributions during 2007/08.

Cllr. Simon A.J. Leyton
Chairman

5.1 THE LOCAL GOVERNMENT PENSION SCHEME

The Cumbria Local Government Pension scheme is part of the Local Government Pension Scheme. The scheme is a funded pension scheme, which means that funds are set aside to meet future retirement needs of scheme members. The scheme is a statutory pension scheme governed by the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 1997. Under these regulations Cumbria County Council is required to provide an administration service for the scheme within the geographical area of Cumbria.

The County Council administers the pension scheme on behalf of 77 employers who are members of the scheme such as local authorities, further and higher education colleges and voluntary organisations. The fund includes a number of 'Admitted Bodies', i.e. organisations that have entered into an admission agreement with the County Council to participate in the Pension Fund. The Cumbria Pension Fund currently includes 41 admitted bodies such as charities and other non-profit making organisations.

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

5.1.1 BENEFITS OF SCHEME MEMBERSHIP

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

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

- A tax-free lump sum on retirement;
- A pension at retirement age that is fully inflation proofed once in payment;
- The ability to increase the pension by paying extra contributions;
- Ill health retirement at any age.
- Death benefits - lump sum life cover of three years' pay and widow's/widower's/civil partner's/children's pensions

** The above is a summary only, intended to give an outline of the scheme. Specific queries should be referred to the Pensions Section, Capita Business Services, Kingmoor Business Park, Carlisle CA6 4SJ, telephone number 01228 673696, or consult the website www.cumbriapensions.org.uk.*

A New Scheme

With effect from 1 April 2008 a new scheme is being introduced as a replacement for the 1997 Scheme, under the provisions of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (SI2007/1166). In many respects the scheme remains unchanged for example it is still a final salary scheme, however there have been some major changes such as a change in accrual rate from 1/80th (1/64th taking lump sum into consideration) to 1/60th. The normal retirement age remains at 65, with transitional protections for some 'Rule of 85' qualifiers already in the Scheme before 1/10/2006. Earliest retirement age is changing from 50 to 55 from 2010, but will apply to new starters from 31/3/2008. The Death in Service tax free lump sum has been increased from 2 to 3 times salary. The introduction of a three tier ill health retirement package will provide a higher enhancement of benefits where the member is incapable of any other gainful employment before age 65, and a lower enhancement of benefits where the member is unlikely to be able to obtain gainful employment in a reasonable time but is likely to do so before age 65. Flexible retirement with employer consent, under specific circumstances, will be permitted from age 55, allowing Scheme members to draw some or all of their benefits while continuing to work. Existing members who will be aged 60 between 1 April 2016 and 31 March 2020 and meet the 85-year rule by 31 March 2020 have some protection from a full early retirement reduction on benefits built up from 1 April 2008 to 31 March 2020. Government consultation has taken place on awarding full protection until March 2020, and considerations are ongoing.

5.1.2 COST OF SCHEME MEMBERSHIP

In the new scheme, instead of most people paying a standard contribution rate of 6% of their pensionable pay, there are different contribution rates for different pay bands. The new rates will be tiered according to whole time equivalent pay grouped in seven band ranges. The lowest contribution rate of 5.5% will apply to salaries below £12,000 and the highest rate of 7.5% will apply to salaries above £75,000. The contribution rates for existing members who are currently paying 5% will be increased on a phased basis, bringing their rate into line with all other scheme members from 1st April 2011.

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

Revised Employers' contribution rates were implemented on 1 April 2008 following the triennial Actuarial Valuation which was carried out as at 31st March 2007. The required overall employer contribution rate, is on average, 17.7% of pensionable pay. Individual employer rates vary from 8.3% to 33.0%.

5.2 MANAGEMENT ARRANGEMENTS

5.2.1 ADMINISTERING AUTHORITY

Cumbria County Council

5.2.2 PENSIONS COMMITTEE MEMBERS 2007/08

County Council Elected Members

Mr SAJ Leyton (Chair)
Mr AL Barry
Mr R Calvin
Mr SB Collins
Mr JH Garnett
Mr C Kitchen
Mr AP Richardson
Mr ER Wilson

District Council Elected Member

Mr S Simpson

Trades Union Non Voting Member

Ms J Pennie

Independent Advisers

Mr AJ Sutherland, Consulting Director, Deloitte
Mr TJA Gardener, Global Leader, Mercers Investment Consulting

5.2.3 OTHER MANAGEMENT ARRANGEMENTS

Fund Managers

Schroder Investment Management
GMO UK Limited
Insight Investments
Credit Suisse Property Investment Management
Legal and General Investment Management
Newton Investment Management Limited
BlackRock Investment Management
BNY Mellon Asset Management

Custodian

State Street Bank and Trust Company

Actuary

Mr. C. R. Hull FIA of Mercer Human Resource Consulting

Bankers

National Westminster Bank PLC

Auditor

The Audit Commission

Legal Adviser

Cumbria County Council Legal Services

Director of Finance

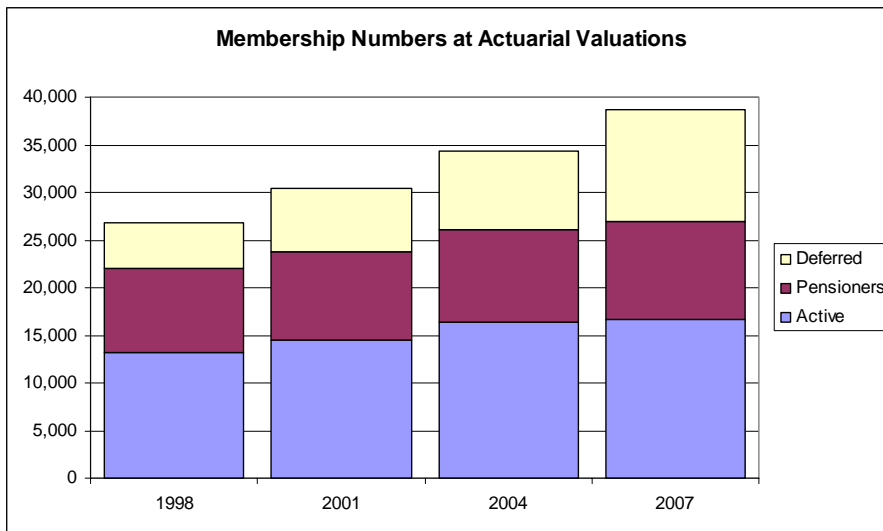
Mr. R. F. Mather - Deputy Chief Executive/Director of Finance and Central Services, Cumbria County Council

5.3 REPORT FROM THE CUMBRIA PENSIONS COMMITTEE

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

The Pensions Committee normally meet five times a year and decide the investment strategy. It is advised by Independent Advisers, Mr Tim Gardener and Mr Alistair Sutherland and by Council officers. Advice is also provided on specific issues by Investment Consultants.

At the 31st March 2007 valuation the Cumbria Local Government Pension Scheme had over 16,500 active members, close to 10,500 pensioners and dependants receiving benefits, and over 11,500 preserved pensions. There were 77 employer bodies in the Cumbria scheme at that time. A full list of the scheduled and admitted bodies currently in the Scheme is shown later in this report. The membership numbers at the time of the valuations have increased as follows:



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

The Fund increased in value in the year to 31st March 2008 from £1,178 million (£1.18 billion) to £1,195 million (£1.19 billion), an increase of £17 million. The bulk of this increase came from investment income (£28 million net of tax) less changes in the value of investments (£22 million) and investment management expenses (£4 million). The net result of the daily running of the scheme (ie dealing with members) increased the value of the fund by £15 million.

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

5.3.1 INVESTMENT PERFORMANCE

Details of fund managers' performance for the year to 31st March 2008 are as follows:

Manager	Asset Class	Portfolio Return %	Benchmark Return %	Excess Return %
GMO UK Limited	International Equity Manager	-0.9	0.6	-1.5
Schroder Asset Management	UK Equity Manager	-6.7	-7.7	1.0
Credit Suisse Property	Property Manager	-10.3	-10.7	0.4
Insight Investments	Fixed Interest Manager	0.2	1.6	-1.4

Legal and General also manage around 34% of the funds assets on a passive basis, the mandate being to match various indices. Their investment funds have performed well showing small positive deviations from the indices over the year to 31st March 2008, in particular a 1.4% out performance from the Global Emerging Markets fund.

The restructuring of the fund was completed by the Transition Manager, Legal and General, in the second quarter of 2007. The three new managers, Newton, BlackRock and BNY Mellon, have been operational for less than twelve months and so they are not included in the above table.

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

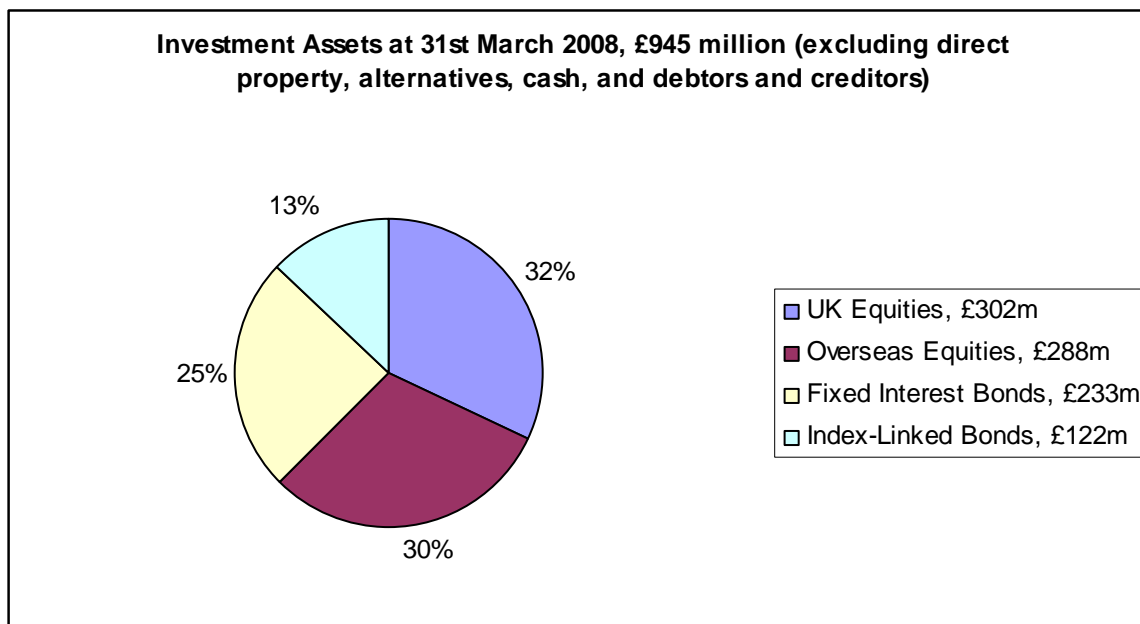
The Cumbria Fund's performance in the local authority league table of pension funds is as follows:

	Year to 31st March 2008 %	3 Years to 31st March 2008 % per annum	10 Years to 31st March 2008 % per annum
Fund return	0.7	9.4	5.6
Cumbria's own benchmark	-0.2	9.3	5.1
WM Local Authority Universe Total Time Weighted Ret	-2.8	9.1	5.1
Ranking 1 to 100 in Local Authority Universe	7th	29th	17th

After allowing for the Cumbria Fund's slightly more defensive asset structure (which limits both the downside in falling markets and the upside in rising markets hence the relatively good ranking of 7th for 2007/8), the recent review has reinforced the drive to obtain extra value from new investment areas.

5.3.2 INVESTING FUND MONEY

The Cumbria Fund has a diversified portfolio. This spreads the risk associated with any particular form of investment whilst facilitating the growth potential of the Fund. The scheme-specific weighting to the different asset classes was decided through an Investment Strategy Review undertaken during 2006. The updated scheme-specific benchmark was approved by the Pensions Committee on 20th November 2007. The following table shows the distribution of the investment assets across the asset classes at the year end, excluding property of £86.7 million, alternatives of £135.3 million and cash of £22.7 million. The unitised insurance policy held by Legal and General has been segregated into the relevant asset class, per Note 5.7.1, as the manager uses unitised funds to maintain the Fund's total asset distribution close to the scheme-specific benchmark detailed in the Statement of Investment Principles.



The investment risks are spread further as a result of employing different fund managers and by using passive managed funds. The detailed selection and timing of investment purchases and sales is delegated to the Fund Managers.

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

5.3.3 STATEMENT OF INVESTMENT PRINCIPLES

There is a statutory requirement for administering authorities to prepare and maintain a Statement of Investment Principles. The full Statement in place at the 31st March 2008 is shown at Appendix 2. This was amended during 2007/08 for the new asset classes and manager structure.

The Scheme has a scheme-specific benchmark with long-term allocations to the various asset classes, excluding the direct property allocation, currently as follows:

ASSET CLASS	PERCENTAGE	INDEX	RANGES
UK Equities	31.25	FTSE All Share	29.25 – 33.25
Overseas Equities	31.25	FTSE World North America FTSE World Europe Ex UK FTSE World Japan FTSE Developed Asia Pacific Ex Japan S&P IFC Investable Composite	29.25 – 33.25
Fixed Interest	25.0	FTSE-A Govt (over 15 years) IBOXX £ Non-Gilt	23.0 – 27.0
Index-Linked	12.5	FTSE-A Index-Linked (over 5 years)	11.0 – 14.0

TOTAL	100.0		
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Property has a monetary target held separately from the strategic benchmark and compared to the Monthly Investment Property Databank Index. The alternatives portfolio managed by BlackRock is benchmarked against the London Inter-Bank Offered Rate plus 3%.

5.3.4 FUNDING STRATEGY STATEMENT

There is a statutory requirement for administering authorities to prepare and publish a Funding Strategy Statement as part of the three-yearly actuarial valuation process. The statement has been prepared in consultation with scheme employers and with advice from the actuary in light of the results from the 2007 Actuarial Valuation. At a meeting held on 26th February 2008 the statement was approved by the Cumbria Pensions Committee. The full Statement is shown at Appendix 3.

5.3.5 GOVERNANCE POLICY STATEMENT

There is a statutory requirement for administering authorities to prepare and publish a Governance Policy Statement. On 30 June 2007 the regulations were further amended to require administering authorities to report the extent of compliance against a set of best practice principles to be published by Communities and Local Government. The first statement has to be published by 31st March 2008 however only a draft Governance Statutory Guide was available at this date. On 26th February 2008 an amended Governance Policy Statement and the Governance Compliance Statement were approved by the Cumbria Pensions Committee. The full Statement is shown at Appendix 4.

5.4 FINANCIAL STATEMENTS AND NOTES TO THE ACCOUNTS

The Statement of Accounts for the Cumbria Local Government Pension Scheme is presented in its entirety and separately from the general fund in keeping with its significance and the fact that, although the County Council is the administering authority, the fund covers both County Council employees and those of other scheduled and admitted bodies.

5.4.1 PENSION FUND ACCOUNT

2006/07 £000's	FUND ACCOUNT FOR THE YEAR TO 31ST MARCH 2008	Notes	2007/08 £000's	2007/08 £000's
	Dealings with Members, Employers and Others			
	Contributions Receivable			
	From Employers			
38,749	Normal		40,960	
1,709	Special		1,406	
2,328	Additional		2,554	
		5.6.1		44,920
	From Employees or Members			
14,503	Normal		15,158	
210	Additional		220	
		5.6.1		15,378
	Transfers In			
628	Group transfers from other Schemes and Scheme mergers		0	
8,408	Individual transfers in from other Schemes		8,763	
				8,763
	Other Income			
230	Interest on Internal Cash			241
66,765	Total Income			69,302
	Less:			
	Benefits Payable			
36,591	Pensions	5.6.1	39,103	
8,195	Lump Sums	5.6.1	11,309	
				50,412
	Payments to and on account of leavers			
106	Refund of contributions		66	
1,579	Group transfers out to other Schemes		0	
4,386	Individual transfers out to other Schemes		2,826	
				2,892
	Other payments			
44	Bad Debt Written Off			90
944	Administrative Expenses	5.4.6		921
51,845	Total Expenditure			54,315
14,920	Net additions from dealing with Members			14,987
	Returns on Investments			
26,266	Investment Income	5.4.8	28,674	
(304)	Less: Irrecoverable tax on dividends	5.4.8	(370)	
				28,304
46,538	Change in Market Value of Investments	5.4.7	(22,081)	
(2,717)	Less: Investment Management Expenses		(3,886)	
				(25,967)
69,783	Net Return on Investments			2,337
84,703	Net Increase / (Decrease) in the Fund during the Year			17,324
1,092,881	Add: Opening Net Assets of the Scheme			1,177,584
1,177,584	Closing Net Assets of the Scheme			1,194,908

5.4.2 NET ASSET STATEMENT

2006/07 £000's	NET ASSETS AS AT 31ST MARCH 2008	Notes	2007/08 £000's	2007/08 £000's
	Investment Assets			
	Fixed Interest Securities			
47,021	Public Sector	5.7.1	46,004	
60,696	Other	5.7.1	74,480	120,484
475,196	Equities (including convertible shares)	5.7.1		417,069
52,062	Index linked securities	5.7.1		
	Pooled Investment Vehicles			
389,168	Unitised Insurance Policies	5.7.1	401,756	
23,030	Unit Trusts	5.7.1	16,997	
	Managed Funds	5.7.1	123,533	542,286
	Property			
79,205	Freehold		70,600	
16,875	Long Leasehold		13,250	
3,450	Short Leasehold	5.7.1	2,900	86,750
23,445	Cash & Money Market Instruments	5.7.1		22,736
1,170,148	Investment Assets managed by Fund Managers	5.4.7 / 5.7.2		1,189,325
	Other Investment Balances			
6,843	External Manager Debtors	5.4.4	9,730	
(3,590)	External Manager Creditors	5.4.4	(9,522)	208
1,173,401	Total Investment Assets			1,189,533
	Current Assets / Liabilities			
3,502	Administering Authority Debtors	5.4.4	3,454	
(794)	Administering Authority Creditors	5.4.4	(1,142)	
1,475	Cash with Administering Authority		3,063	5,375
4,183	Net Current Assets			5,375
1,177,584	TOTAL			1,194,908

5.4.3 ACCOUNTING POLICIES

The general principles adopted in the preparation of the full Annual Report and Accounts are those recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). They meet the requirements of the Local Government Pension Fund Regulations 1997 and the main recommendations of "The Financial Reports of Pension Schemes - A Statement of Recommended Practice" (the Pensions SORP) produced by the Pensions Research Accountants Group. The disclosure requirements for the summarised pension fund accounts are, however, limited to those recommended by the Local Authority SORP published by CIPFA.

5.4.4 BASIS OF INCLUSION OF DEBTORS AND CREDITORS

Revenue transactions are recorded on a system of receipts and payments. Payments during the year have been converted to an expenditure basis by the introduction of creditors, to record significant amounts owing at 31st March.

Debtors have been introduced in respect of major items of income due but not received at 31st March. The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the financial year-end.

Debtors can be analysed as follows:

	2006/07 £000's	2007/08 £000's
External Managers		
Securities sold awaiting settlement	1,057	4,271
Investment Income Accrued	4,913	4,484
Credit Suisse Property Debtors	873	975
	6,843	9,730
Administering Authority		
Pension increase and additional lump sums	23	0
Contributions due	1,902	2,104
Long Term Debtors	207	500
Tax Reclaim	415	0
Miscellaneous	955	850
	3,502	3,454
Total Debtors	10,345	13,184

From April 1999 no allowance for non ill health early retirement is made in determining the actuarial valuation result ie the rate of employers' contribution. The costs of such retirements are charged to employers by additional lump sum charges. Long-term debtors are in respect of these charges. Employers are allowed to pay these additional contributions over a period of five years, although interest is added. Cumbria County Council also has a voluntary arrangement whereby part of the actuarial strain of ill health retirements is paid immediately.

Creditors can be analysed as follows:

	2006/07 £000's	2007/08 £000's
External Managers		
Purchases awaiting settlement	1,497	7,970
Property Creditors	2,093	1,552
	3,590	9,522
Administering Authority		
Investment Managers Fees	709	1,027
Tax Payable	1	0
Miscellaneous	84	115
	794	1,142
Total Creditors	4,384	10,664

5.4.5 BASIS OF VALUATION OF INVESTMENTS

Investments are shown in the accounts at market value. The independent custodian, State Street Bank and Trust, values the assets other than direct property investments. This provides an extra level of security. Investments are valued on the basis of the market convention where they are primarily traded which is either last trade or middle market price. Pooled investment vehicles are stated at the mid point of the latest prices quoted by their managers at close of business on 31st March 2008.

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

Further details of the pricing policy are as follows:

Equities

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

Bonds

Prices are received daily from vendors in electronic transmissions and posted to a centralized database. In order to be loaded to the price database, asset identifier information is verified versus State Street's security master file. As price file loading occurs, daily tolerance verification is completed at the security level. Each security is automatically compared to the previous day's price. Changes exceeding a percentage of 10% are posted to a tolerance exception report and verified via secondary sources. If price exceptions cannot be validated by a secondary source, a challenge will be submitted to the appropriate vendor. Prices proven to be invalid are manually updated by GPS. Additional tolerance exception reporting can also be completed at the holdings level.

Sources of Prices are Bear Stearns, Bloomberg, Bridge, Dataline, FRI, FT Interactive Data, Lehman Brothers, Reuters.

This information is a summary from a detailed pricing document which is available upon request.

Direct Property Investments

Direct property is valued annually at the 31st March by an independent valuer CB Richard Ellis, Chartered Surveyors, 77 Grosvenor Street, London. The valuation is prepared on the basis of "open market value" and represents the best price at which the sale of an interest in the property might reasonably be expected to have been completed unconditionally for cash consideration on the date of the valuation.

5.4.6 ALLOCATION OF ADMINISTRATION EXPENSES

A proportion of relevant officers' salaries has been charged to the Pension Scheme. In addition the cost of maintaining the employee contribution records, paying benefits and provision of other services has also been charged to the Scheme. This accords with the government regulations on the management of local government pension schemes and with the practice adopted by other managers of Local Government Pension Schemes nationally. From 1st February 2001 the County Council bought in the pension administration service from Capita.

Further details are as follows:

	Basis of Allocation	2006/07 £000's	2007/08 £000's
Corporate Finance	Time recording system	142	159
Internal Audit	Time recording system	15	13
Bank Charges	Cash Flow of the Authority	8	7
Creditor Payments	Number of invoices	4	4
Debtors System	Number of accounts	4	5
Capita Pensions	Payment under contract	723	695
		896	883
Other Fees & Purchases		48	38
Total Administration Expenses		944	921

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

5.4.7 CHANGE IN VALUE OF INVESTMENTS

During the financial year the following purchases and sales of investments were made. Unit trusts are included in the relevant equity heading.

	Value at 1st April 2007 £000's	Purchases at Cost £000's	Sales Proceeds £000's	Change in Market Value £000's	Value at 31st March 2008 £000's
Fixed Interest Securities	107,717	187,065	(175,732)	1,434	120,484
Equities					
UK Equities	340,533	109,419	(350,630)	59,630	158,952
Overseas Equities	134,662	460,447	(260,198)	(76,794)	258,117
Total Equities	475,195	569,866	(610,828)	(17,164)	417,069
Index-Linked Securities	52,062	161,177	(114,487)	(98,752)	0
Pooled Investment Vehicles	412,199	503,127	(482,903)	109,863	542,286
Property	99,530	4,285	(1,602)	(15,463)	86,750
Futures					
Total excluding cash	1,146,703	1,425,520	(1,385,552)	(20,082)	1,166,589
Cash Deposits	23,445				22,736
Total Investments	1,170,148				1,189,325
Change in Market Value of foreign Currency				(1,999)	
				(22,081)	

5.4.8 INVESTMENT INCOME

Investment income includes accruals for dividends and interest receivable, and the recoverable tax on dividends. The investment income of £28.3 million, net of irrecoverable tax on dividends, can be analysed as follows:

	2006/07 £000's	2006/07 %	2007/08 £000's	2007/08 %
Fixed Interest Securities	5,470	21.1%	5,992	21.2%
Equities				
UK Equities	10,394	40.0%	7,186	25.4%
Overseas Equities	3,748	14.4%	7,061	24.9%
Total Equities	14,142	54.5%	14,247	50.3%
Index-Linked Securities	1,098	4.2%	1,537	5.4%
Pooled Investment Vehicles		0.0%	1,374	4.9%
Property	4,991	19.2%	5,059	17.9%
Cash Deposits	261	1.0%	95	0.3%
	25,962	100.0%	28,304	100.0%

5.4.9 STOCK LENDING

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

Securities on loan at the 31st March 2008 of £45 million are included in the net asset statement to reflect the scheme's continuing economic interest in the securities, and consist of £18.8 million UK equities, £15.9 million overseas equities, £0.4 million overseas Fixed Income and £9.9 million UK Treasury Gilts. The related collateral totalled £47.2 million.

For the year to 31st March 2008, the scheme earned additional income of £78,400 through stock lending of the various assets, included in 5.4.8 above.

5.4.10 RELATED PARTIES

In day-to-day operations the scheme has many transactions with Cumbria County Council as the administering authority of the scheme, including the internally invested cash balance and payments for administration. There are no material transactions in respect of related parties requiring separate reporting. There are of course normal transactions with all the employers who have members in the scheme, who may be regarded as related parties, but these transactions are reported as part of the normal financial statements. The fund does not invest for example in schemes of economic regeneration sponsored by any of the employing bodies including Cumbria County Council.

Eight of Cumbria County Council's Councillors form the membership of the Cumbria Pensions Committee together with one co-opted District Councillor representing the six District Councils in Cumbria and an employee representative as a non-voting member. An examination of the returns for 2007/08 reveals that there were no material

transactions between the Council and the members/officers and their families affecting involvement with the Pension Fund. Each member of the Pension Committee formally considers conflicts of interest at each meeting.

Such transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

5.4.11 POST BALANCE SHEET EVENTS

There is still uncertainty concerning the final details of the abolition of the "Rule of 85". Currently if a qualifying member is 60 and would have satisfied the rule of 85, between 1 April 2016 and 2020, and chooses to retire at that age an actuarial reduction will apply on a tapered basis.

In response to representation by trades unions, the Government has given undertakings that provided an affordable and legal alternative to the current protection can be brought forward, new regulations will be issued.

The fund has decided to use the active currency manager Mellon, from April 2008, to hedge 50% of its overseas currency exposure. This is intended to reduce volatility of overseas investment return.

5.4.12 CONTINGENT LIABILITIES/ASSETS

The active members of the Cumbria Magistrates Courts Committee transferred to the Department for Constitutional Affairs from 1 April 2005. There has been no corresponding transfer of assets to date, but this is expected to happen during the financial year 2008/9. Pensioners retiring before March 2005 will, however, remain members of the Cumbria Local Government Pension Scheme.

An equal pay claim has been awarded against the County Council. An earmarked reserve of £31.1 million, as at 31st March 2008, has been set up in the County Council's accounts against this claim. Should the County Council's appeal fail, a substantial payment will be payable into the Cumbria Local Government Pension Scheme as employers' and employees' contribution. There will also be an increase in pensions liabilities. The amount of these payments and liabilities are uncertain.

5.4.13 ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

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

	Standard Life £000's	Scottish Widows £000's	Equitable Life £000's	TOTAL £000's
Opening Net Assets	985	1,019	1,612	3,616
Income				
Contributions Received	61	67	26	154
Transfers In	77	31	0	109
Expenditure				
Retirement Benefits	(166)	(17)	(119)	(302)
Transfers Out	(1)	(61)	(1)	(63)
Change in Market Value	20	4	29	53
Closing Net Assets	976	1,044	1,547	3,567

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

5.5 ACTUARIAL POSITION OF THE FUND

Under statutory provisions, an actuarial valuation of the Fund must be carried out at three yearly intervals. The Fund actuary, Mercer, carried out an actuarial valuation as at 31st March 2007. The actuarial method used was the projected unit method. This method is consistent with the funding objective and is in common use for funding pension funds in the United Kingdom. The target funding level is set by the Government at 100%.

The valuation assessed the accrued liability of the Fund for future benefits to subscribers to the scheme, the adequacy of the Fund and future contribution levels to meet these promised benefits when due. The valuation at March 2007 showed assets covered 81% of liabilities (76% at March 2004). The value of the Fund assets as at 31st March 2007 had increased to £1,178 million from £788 million at 31st March 2004. The funding level of 81% was 14th highest of the 32 shire counties, although 3 results were unavailable. The average funding level was 82.8 %.

The valuation also showed that a common rate of contribution of 12.9% of pensionable pay per annum was required from employers compared to 10.0% per annum at the March 2004 valuation. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The common rate is adjusted to have regard to the individual circumstances of each employer in determining their rate of appropriate contribution. As a result of the valuation contribution rates have been certified for the three years commencing 1st April 2008 for employers participating in the Fund. The Actuary's rates and adjustment certificate is shown at Appendix 1.

The funding plan is set out in the scheme's Funding Strategy Statement (FSS), as prepared by the Administering Authority (Cumbria County Council). Individual employer

funding plans, and the resulting certified contribution rates, have been determined in accordance with the FSS. Depending on individual circumstances, different approaches to the funding of benefits have been adopted, as part of the FSS consultation process. However, for the majority of employers the two main features of the funding plan are that contribution rates should be assessed based on recovery of the deficit over a maximum period of 25 years, and that any increase in contributions to this required level can be phased in over a period of up to 3 years.

If the deficiency is recovered over this 25-year period then the average employer contribution rate emerging from the valuation is 17.7% of pensionable pay per annum. Disregarding the effect of phasing in increases and in the absence of any further reviews, this average contribution rate would be paid for 25 years from 1 April 2008, reverting to 12.9% of pensionable pay at the end of the period.

For the previous valuation it was assumed that the rule of 85 has been removed from service from April 2005 and that the earliest retirement date at which unreduced benefits become an entitlement would be 65 except for those members who have protected status under the transitional provisions. The reinstatement of the Rule of 85 retirement provisions in August 2005 (S12005/1903), and the further removal of those provisions from 1 October 2006 (for new entrants) and from 1 April 2008 for current members, subject to certain protections has been taken into account.

At the 1998 valuation the method of funding early retirements before age 60, on grounds other than ill health, was also modified. No allowance has been made for such retirements after 1st April 1999 by the actuary as they are to be funded by additional capital payments by the employer as and when they occur.

The most significant financial assumptions at the March 2007 valuation were:

	For past service liabilities	For future service liabilities
Investment Return – pre retirement	6.4% per annum	6.5% per annum
Investment Return – post retirement	5.4% per annum	6.5% per annum
Rate of Pensionable Pay Inflation	4.85% per annum	4.5% per annum
Rate of pension increases	3.1% per annum	2.75% per annum

The County Council adopted a cautious approach and phased in its increase in contribution rate over two rather than three years. It expects to recover the deficit over 20 years. The County Council's contribution rate has been set at 18.6% (16.4% in 2007/8 rising by 1.1% in 2008/9 and 2009/10). The 18.6% can be compared to the average contribution rate for the English Shire Counties of 19.5%.

The Administering Authority monitors the progress of the funding strategy between full actuarial valuations. An interim review will be carried out as at March 2008. The next full Actuarial Valuation will take place as at 31st March 2010.

5.6 PARTICIPATING EMPLOYERS OF THE SCHEME

As at 31st March 2008 the scheduled and admitted bodies covered by the Cumbria Local Government Pension Scheme were:

<u>County, Borough, City and District Councils - Scheduled Bodies</u>	<u>Admitted Bodies - Active Members</u>
<p>Cumbria County Council Allerdale Borough Council Barrow Borough Council Carlisle City Council Copeland Borough Council Eden District Council South Lakeland District Council (County Council schools are not shown separately)</p>	<p>Agilisys Amey Infrastructure Services Attendo Monitoring Limited Barrow & District Soc for Blind Barrow Citizens Advice Botcherby Community Centre Capita Business Services Carlisle Housing Association Carlisle Leisure Allerdale Carlisle Leisure Ltd</p>
<p><u>Other Scheduled Bodies - Active Members</u></p> <p>Barrow Sixth Form College Brampton Parish Council Carlisle College Cleator Moor Town Council Cockermouth Town Council Cumbria Institute of the Arts Cumbria Police Authority Cumbria Probation Service Cumbria Waste Management Furness College Kendal College Further Educ Kendal Town Council Keswick Town Council Lake District National Park Authority Lakes College West Cumbria South Lakeland Housing ALMO Valuation Tribunal Service (Cumbria Val Panel) Wigton Town Council</p>	<p>Commission for Social Care Inspection Cumbria Cerebral Palsy Cumbria Deaf Association Cumbria Sea Fisheries Cumbria Tourism Cumbria Training Partnership Cumbria Vision Renaissance Ltd Currock Community Centre Eden Housing Association Egremont & District Pool Trust FOCSA Services Glenmore Trust Harraby Community Centre Copeland Homes Kendal Brewery Arts Centre Trust Ltd Kendal Citizens Advice Lakeland Arts Trust Longtown Memorial Hall Community Centre Morton Community Centre</p>
<p><u>Other Scheduled Bodies - No current contributions</u></p> <p>Charlotte Mason College Cumbria Primary Teacher Training Dept Constit Affairs (Cumbria Magistrates) Health Authority Henry Lonsdale Trust Millom Town Council Port of Workington Practical Alternatives Project Homeless Ulverston Town Council University of Central Lancashire Water Authority</p>	<p>North Country Leisure (Copeland) Oaklea Trust South Lakeland Leisure West House Wigton Joint Burial Committee</p> <p><u>Admitted Bodies - No current contributions</u></p> <p>Cumbria Arts in Education Direct Training Services Lake District Cheshire Homes NRCS Ltd (Neighbourhood Revitalisation) Solway Rural Initiative Troutbeck Bridge Swim Pool Ltd</p>

5.6.1 ANALYSIS OF CONTRIBUTIONS AND BENEFITS

	2006/07 £000's	2007/08 £000's
Contributions to the Fund		
Cumbria County Council	31,907	34,039
Other Scheduled Bodies	20,350	19,613
Admitted Bodies	5,242	6,646
	57,499	60,298
Net Pensions Paid		
Cumbria County Council	20,069	21,079
Other Scheduled Bodies	15,572	16,627
Admitted Bodies	950	1,397
	36,591	39,103
Net Lump Sums Paid		
Cumbria County Council	3,969	4,957
Other Scheduled Bodies	3,000	4,743
Admitted Bodies	1,226	1,609
	8,195	11,309

5.6.2 ANALYSIS OF RETIREMENTS DURING THE YEAR

Type of Retirement	NUMBER	PERCENTAGE	NUMBER	PERCENTAGE
	2006/07	%	2007/08	%
Normal	408	76%	575	82%
Ill Health	60	11%	75	11%
Redundancy & Early Retirement	71	13%	44	6%
	539	100%	694	100%

5.7 INVESTMENT ASSETS OF THE FUND

5.7.1 ASSETS SPLIT BETWEEN UK, OVERSEAS, QUOTED AND UNQUOTED

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.

	Asset Value at 31st March 2007 2006/07	Percentage at 31st March 2007 %	Asset Value at 31st March 2008 2007/08	Percentage at 31st March 2008 %
Fixed Interest Securities				
Public Sector / Government				
UK Quoted	37,801	3.2%	44,766	3.8%
Overseas Quoted	9,220	0.8%	1,238	0.1%
	47,021	4.0%	46,004	3.9%
Corporate Bonds				
UK Quoted	59,345	5.1%	60,781	5.1%
Overseas Quoted	1,351	0.1%	13,699	1.2%
	60,696	5.2%	74,480	6.3%
Total	107,717	9.2%	120,484	10.1%
Equities				
UK Equities				
Quoted	339,795	29.0%	159,651	13.4%
Unquoted	739	0.1%	690	0.1%
	340,534	29.1%	160,341	13.5%
Overseas Equities				
Quoted	134,662	11.5%	256,728	21.6%
Unquoted	0	0.0%	0	0.0%
	134,662	11.5%	256,728	21.6%
Total	475,196	40.6%	417,069	35.1%
Index-Linked Securities				
UK Quoted	52,062	4.4%	0	0.0%
Pooled Investment Vehicles				
Unitised Insurance Policies - Unquoted				
UK Equity	0	0.0%	140,240	11.8%
Overseas Equity	203,758	17.4%	17,509	1.5%
Public Sector Bonds - UK	65,303	5.6%	73,107	6.1%
Corporate Bonds - UK	43,326	3.7%	48,452	4.1%
Index-Linked Securities - UK	76,781	6.6%	122,448	10.3%
	389,168	33.3%	401,756	33.8%
Unit Trusts - Quoted				
UK Equity	11,951	1.0%	3,661	0.3%
Overseas Equity	11,079	0.9%	13,336	1.1%
	23,030	2.0%	16,997	1.4%
Managed Funds				
Property	0	0.0%	12,750	1.1%
Other	0	0.0%	110,783	9.3%
	0	2.0%	123,533	10.4%
Total	412,198	35.2%	542,286	45.6%
Property	99,530	8.5%	86,750	7.3%
Cash & Money Market Instruments	23,445	2.0%	22,736	1.9%
	1,170,148	100.0%	1,189,325	100.0%

5.7.2 VALUATION OF ASSETS MANAGED BY FUND MANAGERS

	Asset Value at 31st March 2007 286.57 £000s	Percentage at 31st March 2007 %	Asset Value at 31st March 2008 250.88 £000s	Percentage at 31st March 2008 %
Manager				
Legal & General	441,237	37.7%	401,756	33.8%
Schroders Investment Management	187,571	16.0%	147,182	12.4%
Capital International (to 22nd May 2007)	175,797	15.0%	0	0.0%
GMO UK	148,046	12.7%	146,943	12.4%
Insight Investments	110,981	9.5%	111,602	9.4%
Credit Suisse Property Management	106,516	9.1%	95,402	8.0%
Newton Investment Management	0	0.0%	149,889	12.6%
BlackRock	0	0.0%	125,634	10.6%
BNY Mellon	0	0.0%	10,917	0.9%
Total	1,170,148	100.0%	1,189,325	100.0%

5.7.3 TOP 10 HOLDINGS

Holding	Manager	£ millions	% of Total
Unitised Insurance Policy	Legal & General	384.3	32.3%
Instl Liq Fd (stg) Agency	BlackRock	33.1	2.8%
BlackRock Low Beta Opps	BlackRock	20.5	1.7%
Treasury 4.25% 7th March 2036	Insight	13.2	1.1%
Quellos Ars Pension 111 Ltd	BlackRock	12.4	1.0%
Global Emerging Markets Index	GMO	12.2	1.0%
Morgan Stanley FRN 21st March 2010	BlackRock	9.2	0.8%
KFW Intl Fin Inc 5.5% 7th Dec 2015	Insight	9.0	0.8%
Treasury 4,75% 7th Dec 2030	Insight	8.7	0.7%
Treasury 4.5% 7th Dec 2042	Insight	8.4	0.7%

5.7.4 INDIVIDUAL INVESTMENTS VALUED AT GREATER THAN 5% OF THE TOTAL SCHEME

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

5.8 GLOSSARY

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

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

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

Bonds – Certificate of debt issued by a government or company, promising regular

payments on a specified date or range of dates, usually with final capital payment at redemption.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Unit Trust – A specific type of pooled investment fund.

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