

CAMBRIDGESHIRE COUNTY COUNCIL PENSION FUND ANNUAL REPORT 2009-2010

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Introduction

Introduction

The Pension Fund provides pensions and other benefits for employees of the County Council, Peterborough City Council, District Councils, and other public sector and charitable organisations within Cambridgeshire. A complete list of these organisations is given in Appendix F. The fund does not include police and fire-fighters or teachers for whom independent pension arrangements apply. The Fund's accounts are a separate entity from the remainder of the Council's accounts, and are not incorporated in the Balance Sheet.

The Pension Scheme regulations govern the way the Pension Fund operates. It is a statutory scheme with relatively limited discretion available to each employer. The contribution rates made by the employers will however be affected both by the investment returns on the fund, and by other issues (e.g. levels of early and ill health retirements). Benefits and employees' contributions are determined by the regulations and not affected by the investment performance of the Fund.

There are two relevant groups involved in the management of the Pension Funds. The Pensions Committee is responsible for the overall investment strategy and management arrangements, and the Pensions Forum represents the views of employers and scheme members on all aspects of the pension scheme. More details of the management arrangements are given in the Governance Compliance Statement in Appendix B and the arrangements for communications within employers and members are given in Appendix C.

Annual Investment Review

Financial markets started the review period on a strong note as it became increasingly apparent that the economic downturn might not be as serious as first envisaged. After reaching a trough in early March 2009, the rally in both equity and credit markets continued for most of the year amid a continuation of the improving trend in economic data as the inventory cycle improved. This was further supported by the abundant liquidity conditions facilitated by historically low interest rates and unprecedented fiscal stimulus.

With the return of risk appetite, those assets that had been hit the hardest in 2008 bounced back the strongest. Within equities, the gains in the less-economically challenged emerging markets were particularly impressive. Developed markets, including Europe, the UK and the US also generated strong returns; however, Japan continued to underperform on persistent concerns about deflation.

In the credit markets, bond performance was mixed. Global corporate bonds outperformed government bonds as investors continued to purchase high-quality corporate bonds at relatively low prices. However, government bonds generated stronger returns towards the end of the period as risk aversion came to the fore.

Both corporate and macro news was generally supportive of a recovery, with many companies beating earnings forecasts and all the major economies exiting recession. However, a number of issues weighed on investor sentiment, leading to increased volatility in the second half of the review period. In November, the Dubai government's announcement of a debt restructuring at

Introduction

holding company Dubai World hurt investor confidence, although concerns about possible contagion quickly subsided.

This was soon followed by doubts about the sustainability of government support for the global economy at a time when authorities around the world are preparing to exit their stimulus programmes. This was particularly the case in the eurozone amid concerns about the fiscal stability of European peripheral countries, particularly Greece.

Another key concern centred on economic overheating in China. In January, investors were caught off guard by an earlier-than-expected move to rein in credit growth after the Chinese authorities raised banks' reserve requirements. This was followed by another 50 basis point hike in February, as well as measures to curb the property market, leading many investors to concur that this is the start of significant monetary tightening.

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting. The accounts can be found in Appendix F.

In preparing this statement of accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice on Local Authority Accounting;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Director: Finance, Property and Performance

Date:

Independent Auditor's Report

Independent auditor's report to the Members of Cambridgeshire County Council

Opinion on the pension fund accounts as included in the Annual Report

We have audited the pension fund accounts of Cambridgeshire County Council for the year ended 31 March 2010. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

Respective responsibilities of the Chief Finance Officer and auditor

The Responsible Finance Officer is responsible for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009. In preparing the pension fund accounts, the Responsible Finance Officer is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimations that are reasonable and prudent;
- keeping proper accounting records which are up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit the pension fund accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report, including the opinion, has been prepared for and only for Cambridgeshire County Council's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission in April 2008. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008. We report if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance

Independent Auditor's Report

statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read the other information published with the pension fund accounts and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Annual report, the Communication Strategy, the Statement of Investment Principles, the Funding Strategy Statement and the Actuarial Valuation Certificate. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounts.

Opinion

In our opinion the pension fund accounts give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009, the financial transactions of the pension fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Julian Rickett (Engagement Leader)
For and on behalf of PricewaterhouseCoopers LLP
Appointed auditors
Cambridge
Date: 30 November 2010

Fund Management & Contacts Details

Scheme Management and Advisors

The members of the Pensions Committee are as follows:-

County Council Members:	J. Reynolds (Chairman)
	N. Guyatt
	P. Downes
Peterborough City Council:	D. Seaton
Other Organisations Representative:	M. Cotterell (Fenland DC)
Employee Representative:	P. Gaskin (Unison)

Investment Adviser: P. Potters (Hymans Robertson)

Officers Responsible

N. Dawe Corporate Director: Finance Property & Performance
S. Couper: Head of Financial Services
Huntingdonshire District Council
M. Batty Senior Accountant Treasury & Investments

The Investment Managers are as follows:-

- Amundi
- Newton Investment Management Ltd
- RCM (UK) Ltd
- State Street Global Advisors Ltd
- Schroders Investment Management Ltd
- Adams Street Partners
- Harbourvest Partners
- N W Brown Capital Partners Ltd

Actuary:	Hymans Robertson
Global Custodian:	BNY Mellon
Bank:	Barclays
AVC Provider:	Prudential
Investment Performance Measurement Services:	WM Company
Auditors:	PricewaterhouseCoopers

The Fund is a member of National Association of Pension Funds (NAPF)

Contacts for additional information:-

Benefits and contributions:- Allison Kew
Email: allison.kew@cambridgeshire.gov.uk
Tel: 01223 718026

Investment arrangements:- Mike Batty
Email: mike.batty@cambridgeshire.gov.uk
Tel: 01223 699942

Scheme Administration

Pension Administration

Cambridgeshire County Council is the administering authority for the Local Government Pension Scheme and scheme member administration and pensioner administration is carried out internally by the pensions section. Overall responsibility rests with the Pensions Committee. Further information on governance can be found in Appendix B, Governance Compliance Statement.

Scheme administration costs total £2,048k which is shown in the accounts in Appendix F.

There were 1,446 individual contribution events. Of these 94.3% were received by the 19th of the following month as required by regulation and 98.8% by the end of that month. Of the remaining 1.2% received after the end of the month interest was charged.

The Fund membership data during the last 5 years is shown below:

	05-06	06-07	07-08	08-09	09-10
Active	21,515	22,198	22,308	23,071	23,373
Pensioner	10,071	10,689	11,054	11,604	12,325

The age profile with of active members at 31st March 2010 was as follows:

Age Group	16-20	21-25	26-30	31-35	36-40	41-45	46-50	51-55	56-60	61-65	66-70	71-75
% active members	0.64	3.93	7.06	8.82	12.4	17.7	17.4	14.7	11.1	5.37	0.8	0.13

Internal Dispute Resolution Procedure (IDRP)

The first stage administering authority decision and second stage employing authority decision IDRP rests with the Head of Pensions. The second stage administering authority decision rests with the Corporate Director – People, Policy & Law.

The table below outlines the Fund's dispute cases raised during the reporting period and their resolutions.

Type	Summary of dispute.	Dispute Outcome
Employer 2 nd Stage	Employer should have awarded ill-health pension/consented to early payment.	Employer decision upheld.
Employer 2 nd Stage	Employer should have awarded ill-health pension.	Employer asked to get 2 nd Independent Doctors Opinion.
Employer 2 nd Stage	Employer should have given refund.	Employer decision upheld.
Administering Authority 1 st Stage	Deferred award based on wrong pay.	Pay was correct.
Administering Authority 1 st & 2 nd Stage	Pension should be as per the estimate – the estimate was significantly higher than the pension.	Pension is correct. Out of pocket expenses covered.

Investment Policy and Performance

Investment Policy

The investment policy of the Fund is undertaken in accordance with the Statement of Investment Principles (SIP) shown in Appendix E.

The total value of the fund was £1,486m, an increase of £386m on the previous year. The management of these fund assets is summarised as follows:-

<u>Manager</u>	<u>Investment Mandate</u>
Schroders	UK equities, Far East equities, Bonds, Property Unit Trusts
Aberdeen	Bonds
Newton	International equities
RCM	International equities
Amundi	European equities
State Street	UK equities (index tracking)

At the beginning of the year the mandate with Aberdeen was terminated and the assets transferred to Schroders and State Street.

Management fees are an agreed percentage of the funds under management. A benchmark return is calculated quarterly, based on the stock market index numbers for each sector, and target returns in excess of the benchmark are agreed for each manager. An additional percentage is paid when the investment return exceeds the target.

The private equity managers with mandates to invest in international private equity funds are Adams Street Partners (\$112m) and Harbourvest Partners (\$56m plus €28m); UBS have an investment of \$30m in an infrastructure fund and N W Brown Capital Partners Ltd have a mandate to invest £2m in the Cambridge Gateway Fund. The Adams Street and Harbourvest sums will be invested over a period of several years, and the total value of private equity investments to date is £68.5m.

The investment adviser to the fund is Hymans Robertson. Fees are paid on the basis of meetings attended and advice on specific areas of investment.

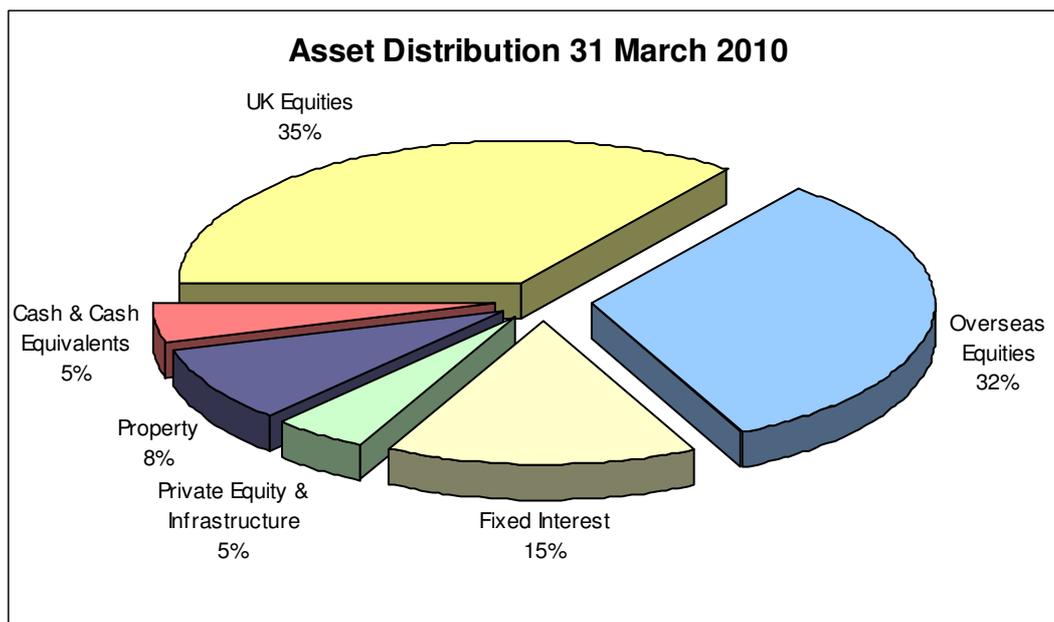
The fund actuary is Hymans Robertson. An agreed fee is paid for the triennial actuarial valuation, and advice on specific fund issues is charged at an hourly rate.

Investment Policy and Performance

Asset Allocation

The distribution of assets and target allocations are shown in the chart and tables below.

	2009-10		2008-09		Target Allocation
	£000	%	£000	%	%
UK Equities	524,198	35	350,440	32	34.75
Overseas Equities	480,985	32	331,777	30	34.75
Fixed Interest	220,312	15	181,896	17	14.00
Private Equity & Infrastructure	68,550	5	56,770	5	5.00
Property	124,582	8	102,072	9	11.50
Cash & Cash Equivalents	67,417	5	77,501	7	0.00
Total	1,486,044	100	1,100,456	100	100



The ten largest holdings of the Pension Fund were as follows:

Investment Policy and Performance

Security Description	Market Value (£000)	Proportion of Fund (%)
MPF UK EQUITY INDEX SUB-FUND	169,011	11.4
SCHRODERS UNIT TRUSTS INSTL STERLING BROAD MKT BOND X ACC	159,792	10.8
SCHRODER UNIT TRUSTS SCHRODER INSTITUTIONAL PACIFIC FD INC	30,888	2.1
MPF UK CONVENTIONAL GILTS ALL STOCK	25,560	1.7
BNY MELLON STERLING LIQ FD INV SHS	23,194	1.6
VODAFONE GROUP ORD USD0.11428571	22,179	1.5
SCHRODER UT INDEX LKD GILT PFPV ACC II	21,049	1.4
GLAXOSMITHKLINE ORD GBP0.25	17,119	1.2
SCHRODER PROPERTY INVT MGMT PROPERTY	15,942	1.1
ROYAL DUTCH SHELL 'B' SHS	15,798	1.1
Total	500,532	33.9

The 10 largest directly held equity holdings of the Pension Fund were as follows:

Security Description	Market Value (£000)	Proportion of Fund (%)
VODAFONE GROUP ORD USD0.11428571	22,179	1.5
GLAXOSMITHKLINE ORD GBP0.25	17,119	1.2
ROYAL DUTCH SHELL 'B' SHS	15,798	1.1
BARCLAYS ORD GBP0.25	15,777	1.1
HSBC HLDGS ORD USD0.50 (UK)	15,567	1.0
BP PLC ORD USD.25	14,276	1.0
LLOYDS BANKING GROUP PLC GBP0.1	13,679	0.9
ASTRAZENECA ORD USD0.25	12,626	0.8
LOGICA ORD GBP0.10	12,069	0.8
RENTOKIL INITIAL ORD GBP0.01	9,949	0.7
Total	149,039	10.1

Investment Performance

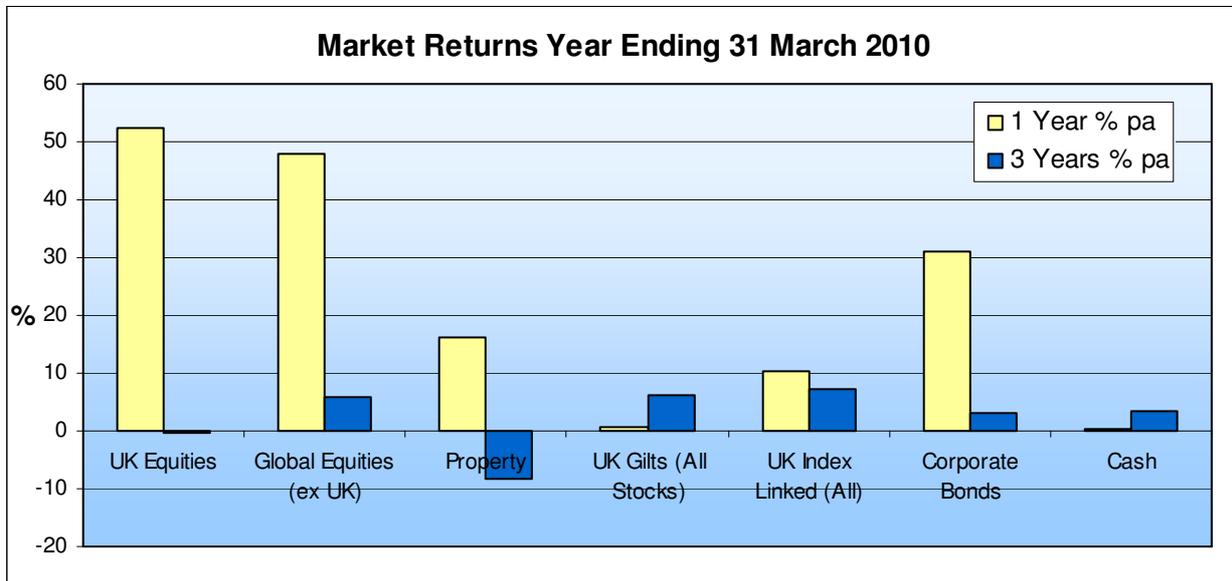
Investment Policy and Performance

A measure of how well the Fund’s investments have performed compared with other local authorities is given in statistics of investment returns published by the WM Company, who also provide a report on the long-term performance of the fund. The ranking of the fund in bands of 1% (where 1 is highest), annualised over periods from one to ten years, is as follows:-

	Annualised Return %	Percentile
2009/10 (one year)	31.9	79
2007/10 (three years)	0.7	66
2005/10 (five years)	6.6	57
2009/10 (ten years)	3.1	66

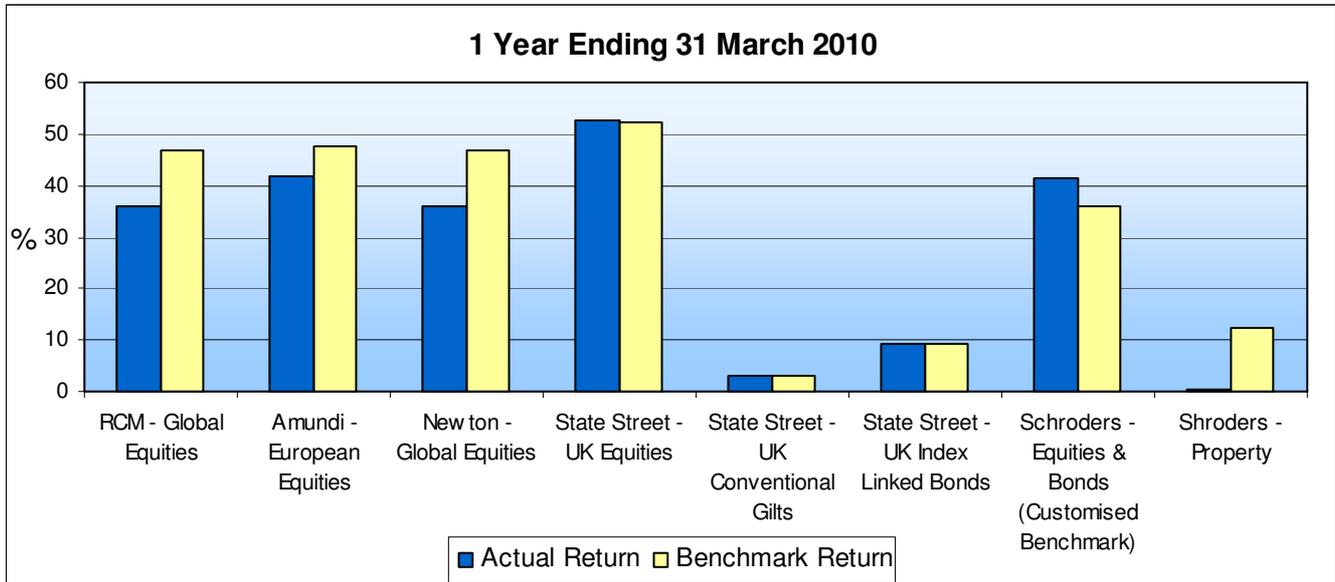
During the last year the Fund benefited from asset allocation decisions when measured against the WM Local Authority average Fund. However the manager’s selection of stocks had a larger negative effect. The annualised performance of the fund has therefore been in the third quartile over the last ten years. This is due to the under performance of at least one of the investment managers at various times over this period. This has been addressed by changes in the management arrangements over the period, the most recent being at the beginning of 2009/10. A review of the investment strategy is currently underway and this may result in a change to current managers and the distribution of investments across asset classes.

The returns of major asset classes are as follows:-

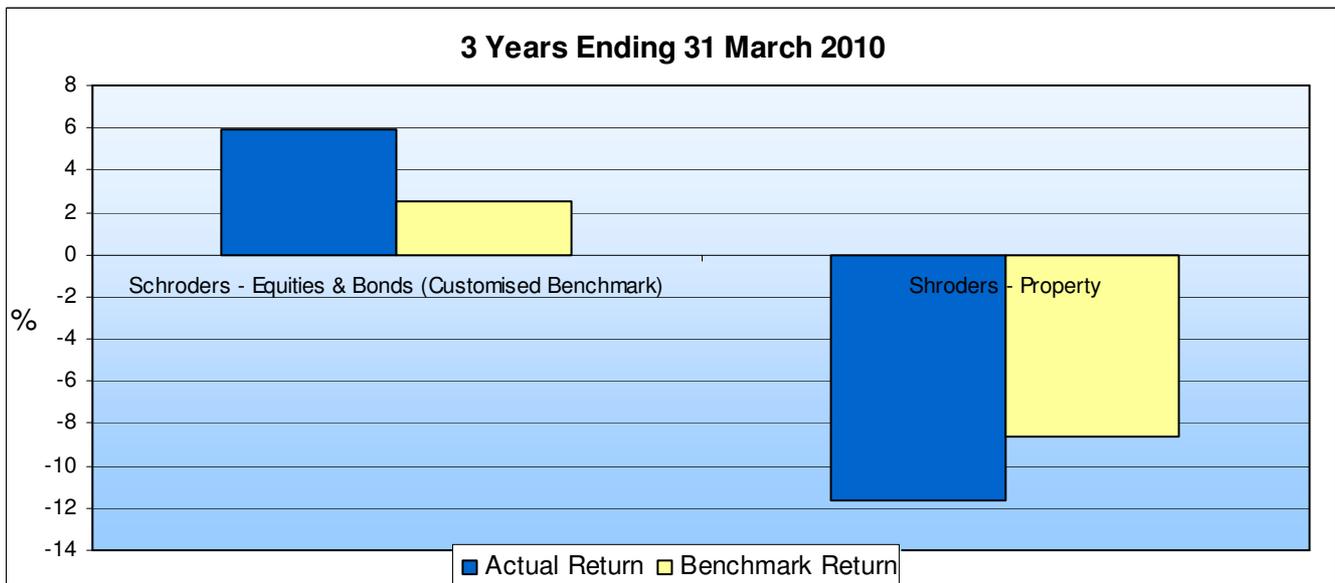


Investment Policy and Performance

The graph below shows the gross performance (% per annum) of each fund manager and the benchmark against which it is measured during the last year:



The graph below shows the gross performance (% per annum) of each fund manager and the benchmark against which it is measured during the last 3 years (Schroders remain the only manager that has been in place longer than 3 years):



Actuarial Valuation Report

Summary of the Valuation

The ability of the Fund to provide statutory benefits is assessed every three years by the Council's consulting actuary, and employers' contributions determined in the light of his report. The most recent report was at 31st March 2007, and this concluded that it was necessary to increase the average employers' contribution rate from 17.4% to 18.2% from 1 April 2008, phased in over the remaining three years of a six-year period which began at the 2004 valuation. Differential rates were determined for individual participating authorities in accordance with their differing liabilities. The approach used by the actuary is summarised in the approved Funding Strategy Statement in Appendix D and the valuation certificate in Appendix A.

The main reason for the increased contribution rate was the need to provide for an increase in the longevity of fund members.

As a result of the high investment returns achieved over the three years to March 2007, the fund moved from a position of being funded at a level to which assets were only sufficient to meet 79% of liabilities at 31 March 2004 to 86% at 31 March 2007. The employer contributions are intended to recover this deficit over a 20 year period.

Monitoring

Funding levels are monitored on a quarterly basis by the actuary, Hymans Robertson. The navigator report illustrates the development of the funding position from 31st March 2007 to the latest quarter. The method and assumptions used are consistent with those used in the last valuation and updated for market conditions. The report also shows a summary of the reasons for the change in funding level.

The funding position at 31st March 2010 is estimated to be approximately 68%. This is an improvement from one year ago but still considerably less than the last formal valuation.

This is a result of a combination of factors. Asset values performed poorly since the 2007 valuation as the financial crisis and recent recession took hold and this caused the funding level to deteriorate. In addition increases in the future expectations of inflation and a fall in the real bond yields has increased the value of liabilities.

Actuarial Valuation Certificate

Appendix A

Actuarial Statement

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, the last actuarial valuation of Cambridgeshire County Council Pension Fund's assets and liabilities was carried out as at 31 March 2007.

Security of Prospective Rights

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion, I have assumed that the following amounts will be paid to the Fund:

- Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997 until 31 March 2008, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007;
- Contributions by employers in accordance with the Rates and Adjustments Certificate dated 31 March 2005 for the year ending 31 March 2008. Thereafter for the three years commencing 1 April 2008 as specified in our Rates and Adjustments certificate dated 20 March 2008.

Summary of Methods and Assumptions Used

Full details of the method and assumptions are described in our valuation report dated 20 March 2008 and the Rates and Adjustments certificate contained therein.

Copies of these documents are available on request from the Finance Department of Cambridgeshire County Council.

My opinion on the security of the prospective rights is based on

- the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; or
- the attained age valuation method for employers who are closed to new entrants.

These methods assess the cost of benefits accruing to existing members during

- the year following the valuation; or
- the remaining working lifetime, respectively

allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the assessed value of assets.

Valuation of Assets

A "market related" valuation method has been used. This is consistent with the methodology adopted at the 2004 valuation.

Actuarial Valuation Certificate

Appendix A

Valuation assumptions

The key financial assumptions adopted at the 2007 valuation are set out in the table below:

Assumption	Derivation	Rate at 31 March 2007	
		Nominal	Real
Price Inflation (RPI)	Market expectation of long term future inflation as measured by the difference between yields on fixed and index-linked Government bonds as at the valuation date	3.2%	-
Pay Increases *	Assumed to be 1.5% p.a. in excess of price inflation	4.7%	1.5%
'Gilt-based' discount rate	The yield on fixed-interest (nominal) and index-linked (real) Government bonds	4.5%	1.3%
Funding basis discount rate	Assumed to be 1.6% p.a. above the yield on fixed interest Government bonds	6.1%	2.9%

The 2007 valuation revealed that the Fund's assets, which at 31 March 2007 were valued at £1,390 million, were sufficient to meet approximately 86% of the liabilities accrued up to that date.

The next actuarial valuation

The next valuation of the Fund will be carried out as at 31 March 2010 and the results known later that year. This valuation will allow for the experience of the Fund from 31 March 2007 and up-to-date financial assumptions at that time.

I am aware that some employers may pay contributions in excess of the minimum contributions shown in the Rates and Adjustments certificate. These extra payments will be taken into account in the 2010 valuation and will act to reduce the contributions that would otherwise have been payable.

Prepared by:-

Peter Summers

16 May 2008

For and on behalf of Hymans Robertson LLP

Governance Compliance Statement

Appendix B

INTRODUCTION

This Governance Compliance Statement is required to be published by the Local Government Pension Scheme Regulations, and complies with advice issued by Central Government.

RESPONSIBILITY FOR PENSION FUND INVESTMENTS

The County Council's Pensions Committee is responsible for determining the investment strategy and overseeing the management of the pension fund and its administration.

- (a) Investment Strategy & Performance
- Appointment of Investment Adviser to the Committee
 - Determining the investment strategy in accordance with the Pension Regulations, taking advice where necessary
 - Appointment of investment managers
 - Appointment of Global Custodian
 - Receiving regular monitoring reports from investment managers engaged by the Council to carry out the day to day management of the fund
 - Monitoring the performance of the fund on a regular basis. In particular the Committee shall satisfy itself that investments are being made in accordance with the agreed investment strategy and that an acceptable return on investment is being achieved.
- (b) Valuation
- Appointment of Actuary to the Fund
 - Reviewing valuation reports
- (c) Administration
- Determine discretions reserved to the Administering Authority under the Pensions Regulations
 - Determine policy relating to Admissions Agreements for Scheduled and Resolution Bodies
 - Oversee effective and efficient administration and communication by Cambridgeshire's Pensions Service

SCHEME OF DELEGATION

A scheme of delegation to officers approved by the Council sets out the executive decisions that council officers have the power to take. This scheme delegates to the Corporate Director: Finance, Property and Performance the detailed implementation of the investment strategy as determined by the Investment Committee, and the issuing of any instructions to fund managers consistent with the strategy or required as a matter of urgency to safeguard the Council's position.

Governance Compliance Statement

Appendix B

PENSIONS COMMITTEE

Membership of the Committee is determined by the Council, and consists of three County Councillors, one Peterborough City Councillor, one District Councillor representing all other employers participating in the fund and an employee representative nominated by the trade unions. All members have equal voting rights. Meetings are held quarterly, and the investment managers are requested to attend meetings half-yearly.

Communication Policy

Appendix C

Communications Policy Statement for Cambridgeshire Local Government Pension Fund

Clear and effective communication is an essential part of service that is needed from the Administering Authority. This statement sets out the current communications policy and approach adopted by the Cambridgeshire Local Government Pension Fund.

The Fund aims to use the most appropriate communication channels for the audiences receiving the information. This often involves utilising a combination of communication channels to ensure that information is effectively disseminated.

Providing Information to Individuals in the Scheme

The Fund has a policy of only providing personal and confidential information to fund members by post. Letters are sent to either a home address OR to the person through their employer. Suitable security protocols are in place to ensure that only the scheme member can change their home address on their pension record.

Where a scheme member chooses to send in certificates or other important documents using registered post those documents are returned in this manner.

More general information is provided through a range of mechanisms:

- All new prospective Scheme members are provided with a Local Government Pension Scheme booklet and appropriate membership forms upon appointment
- All pensioners receive a monthly payslip
- Guidance notes are provided in circumstances where scheme members are required to make a decision or complete forms
- Individual questions are answered and guidance given in person, via the telephone, via Email and via letter, as deemed most effective
- Annual benefits statements are produced for both active and deferred scheme members
- A range of generic information is provided through a variety of communication channels.

Supporting Employers

The Fund has a policy of supporting employers in delivering their roles and responsibilities in respect of the pensions function. These mechanisms include:

- An employers manual for larger employing organisations
- Specific case by case support for small employing organisations
- Named contacts who can provide support as required
- Regular employers' newsletters
- Pensions Forum

Representatives of Fund Members and Prospective Fund Members

Currently the Fund does not do anything specific for these two groups. However they are often involved in communication exercises designed for scheme members or employers. For example, much of the generic communication is available for prospective members and representatives.

Communication Policy

Appendix C

Understanding the Details

Scheme Members Newsletter

We issue a newsletter to active members of the Fund approximately every six months or when major issues need communicating. It covers current pension topics.

A newsletter is issued to pensioners with their April payslip giving details of Pensions Increase and other issues of interest to pensioners.

Benefit Statements

An Annual Benefit Statement is sent to all active scheme members who were contributing to the Fund at the end of the previous financial year. Dispatch is through employers. Benefit Statements are sent direct to the home address of deferred members where their current home address is known. Dispatch is in late spring following the completion of Pensions Increase procedures.

Pensioners Pay Advices

The Fund continues to issue monthly pay advices to Scheme pensioners. We believe these reinforce the need for pensioners and their relatives to ensure that in the event of their demise or change of address the Fund is notified promptly. P60s are dispatched with either the April or May payslip. If pay advices are returned this starts off a lost contact procedure, which may, ultimately, result in pension payments being suspended until contact is made again.

Employers' Manual

Employers' Manual is issued to all employers with more than 10 scheme members. This gives detailed guidance on carrying out the necessary employers functions. This further assists the employers' in discharging their pensions administration responsibilities. This is supplemented by named contacts who are available by telephone or personal visit to assist whenever necessary.

Employers Newsletter

A newsletter is issued by Email, at least quarterly. This goes to a range of HR, payroll and finance staff in employing organisations. It also goes to a range of other people linked to pensions in some way. This covers any issues that are currently under debate, reminders, information, changes to the Regulations or procedures that impact upon the employer's function and information to be dispatched to employees. In addition, nominated officers for each employer are issued with detailed procedural guidance through this mechanism.

Pensions Forum

Periodically meetings are arranged for all employers. Specifically this has been used as a mechanism for communicating major strategic issues, significant legislation changes and triennial valuation matters.

Internet

The Fund currently has a very basic Internet site with commonly used forms and links to the website run by the Local Government Pensions Committee.

Communication Policy

Appendix C

First Point of Contact

A dedicated telephone line and Email address has been set up as the first point of contact for scheme members and employers. Where possible general enquiries are answered through this means. Where this is not possible the query is assigned to a specific casework officer for further investigation and answer.

Additional Voluntary Contributions (AVC) Roadshows

The Fund takes advantage of the service offered by its AVC provider Prudential to run roadshows according to employer needs. These roadshows offer information on the LGPS generally and ways in which pensions can be topped up generally and specific information on AVC.

Funding Strategy Statement

Appendix D

1 PURPOSE OF THE FUNDING STRATEGY STATEMENT

- 1.1 Local authorities responsible for the administration of pension schemes are legally required to produce a Funding Strategy Statement in conjunction with the triennial actuarial valuation of the pension fund. The purpose of this statement is to establish a strategy for the funding of long-term pension liabilities, with employer contribution rates maintained as far as possible at a constant level.

2 AIMS AND PURPOSE OF THE PENSION FUND

- 2.1 The principal aim of the fund is to ensure that sufficient resources are available to meet all liabilities as they fall due. To achieve this aim the fund must seek to maximise the returns from its investments within reasonable risk parameters. This in turn will ensure that the cost to employers is kept to a minimum.
- 2.2 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 and other expenses, in accordance with the Local Government Pension Scheme Regulations.
- 2.3 The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised at the end of this appendix.

3 SOLVENCY ISSUES AND TARGET FUNDING LEVELS

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “future service rate”; plus
- b) an adjustment for the funding position (or “solvency”) of accrued benefits relative to the Fund’s solvency target, “past service adjustment”. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The actuary is required by the regulations to report the Common Contribution Rate for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay, which for the 2007 valuation is 18.2%. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years.

The actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors that are

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considered are discussed in Section 3. In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods. For some employers it may be agreed to pool contributions, see Section 3.7.4.

Any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision).

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

"Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the actuary's ongoing funding basis. This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.

The fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. The treatment of departing employers is described in paragraph 3.8.

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund. They vary by type of member reflecting the different profile of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply. It is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2007 valuation, it is assumed that the Fund's investments will deliver an average additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. The same financial assumptions are adopted for all ongoing employers.

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3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the Projected Unit Method of valuation with a one-year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

Future service rates include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's asset share.

The combined effect of these adjustments for individual employers applied by the actuary relate to:

- past contributions relative to the cost of accruals of benefits
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual)
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities
- any different deficit/surplus spreading periods or phasing of contribution changes
- the difference between actual and assumed rises in pensionable pay
- the difference between actual and assumed increases to pensions in payment and deferred pensions
- the difference between actual and assumed retirements on grounds of ill-health from active status

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- the difference between actual and assumed amounts of pension ceasing on death
- the additional costs of any non ill-health retirements relative to any extra payments made over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically in this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation including, but not limited to:

- the actual timing of employer contributions within any financial year
- the effect of more or fewer withdrawals than assumed
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

3.6 Asset Share Calculations for Individual Employers

The Administering Authority does not account for each employer's assets separately. The actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Deficit Recovery Periods

The Administering Authority reviews at each valuation the deficit recovery period to be adopted by the actuary for all employers when calculating their contributions. For the 2007 valuation this was 20 years with the exception of Best Value Admission Bodies where the period is to the end of the employer's contract.

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3.7.2 Phasing in of Contribution Rises

Best Value Admission Bodies are not eligible for phasing in of contribution rises. Other employers may be permitted to phase in contribution rises over a period of six years.

3.7.3 The Effect of Opting for Longer Spreading or Phasing-In

Employers which are permitted and elect to use a longer deficit spreading period than was used at the 2001 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term. However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.7.4 Pooled Contributions

The Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events, such as ill-health retirements and deaths in service. As at the 2007 valuation schools are pooled with their funding Council and separate pools were operated for Town and Parish Councils.

3.8 Admission Bodies ceasing

Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point.

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

- a) For Best Value Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

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- b) For non Best Value Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.
- c) For Admission Bodies with guarantors it is possible that any deficit could be transferred to the guarantor, in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor without needing to crystallise any deficit.

Under (a) and (b), any shortfall can be levied on the departing Admission Body as a capital payment.

3.9 Early Retirement Costs

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire. The additional costs of premature retirement are calculated by reference to these ages.

4 LINKS TO INVESTMENT STRATEGY

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles and Pension Fund Report and Accounts.

The investment strategy is kept under constant review to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. Having considered the balance of risk and reward between different asset classes the Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants. The same investment strategy is currently followed for all employers, and is consistent with the future strategy assumed in the actuarial valuation.

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4.2 Inter-valuation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the returns assumed in the actuarial valuation by means of quarterly performance measurement reports. It reports back to employers at the annual Pensions Forum.

5 KEY RISKS AND CONTROLS

5.1 Types of Risk

The Administering Authority is aware that unforeseen changes of a financial, demographic or regulatory nature may have an adverse effect on the solvency of the fund. Procedures are in place to mitigate the effect of those risks as outlined in the following paragraphs.

5.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	<i>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</i> <i>Analyse progress at three-yearly valuations for all employers.</i>
Active investment manager under-performance relative to benchmark.	<i>Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.</i>
Pay and price inflation significantly more than anticipated.	<i>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</i>
Effect of possible increase in employer's contribution rate on service delivery and admission / schedule bodies.	<i>Seek feedback from employers on scope to absorb short-term contribution rises.</i> <i>Mitigate impact through deficit spreading and phasing in of contribution rises.</i>

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5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Assumptions made regarding the longevity of pensioners are incorrect.	<p><i>Set mortality assumptions with some allowance for future increases in life expectancy.</i></p> <p><i>Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.</i></p>
Deteriorating patterns of early retirements.	<p><i>Employers are charged the extra capital cost of non ill health retirements following each individual decision.</i></p>

5.4 Regulatory Risks

Risk	Summary of Control Mechanisms
<p>Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees.</p> <p>Changes to national pension requirements and/or Inland Revenue rules.</p>	<p><i>The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.</i></p> <p><i>It considers all consultation papers issued by the DCLG and comments where appropriate.</i></p>

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RESPONSIBILITIES OF KEY PARTIES

Administering Authority

- collect employer and employee contributions
- invest surplus monies in accordance with the regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the fund's actuary
- prepare and maintain a Funding Strategy Statement and Statement of Investment Principles after consultation with interested parties
- monitor all aspects of the fund's performance and funding, and amend the FSS and SIP as required.

Employing Organisations

- deduct contributions from employees' pay as required
- pay all employer and employee contributions to the Administering Authority by the due date
- exercise discretions on pension benefits within the regulations
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement costs
- notify the administering authorities promptly of all changes and proposed changes, to membership which may affect future funding.

Fund Actuary

- prepare valuations including the setting of employers contribution rates after agreeing assumptions with Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

Statement of Investment Principles

Appendix E

Introduction

The Pension Fund is required to meet retirement benefits determined in accordance with the Local Government Pensions Scheme Regulations. The County Council is responsible for investing the assets of the Fund in accordance with the Regulations. The Council has also adopted the Government's Voluntary Code for Pension Fund Investment based on the recommendations of the Myners' review (see Appendix).

Primary Objective

The primary investment objective is to ensure that the Fund is able to meet its liabilities for pensions and other benefits with the minimum, stable level of employer contributions.

Management Arrangements

The overall investment policy of the Fund is determined by a Pensions Committee consisting of three County Councillors, a Peterborough City Councillor, a District Councillor representing all other participating bodies in the Fund, and an employee representative. The Committee is advised by the fund actuary, the fund investment adviser and the Corporate Director: Finance, Property and Performance. The day-to-day investment of the Fund is undertaken by external managers appointed by the Committee. An agreement is in place with each manager which specifies asset allocation ranges and a performance target based on market indices. There are no restrictions placed on the managers regarding the realisation of investments. Custody of the investments is held by a global custodian who is authorised to undertake stock lending on behalf of the Council.

Types of Investment Held

The management agreements permit the following forms of investment in UK and overseas markets: equities, fixed interest stocks, index linked stocks, cash, derivatives and underwriting. Investments are also made in UK and European property unit trusts, and private equity.

Risk

Risk associated with investment is controlled by the diversification of investments over asset classes in accordance with the management agreements, and the use of a number of investment managers. The monitoring of performance relative to a target index requires each manager to maintain a diversified portfolio of investments within each asset class.

Statement of Investment Principles

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Corporate Governance Policy

There is an agreement with each manager to exercise the fund's voting rights in the best interests of shareholders. Managers are required generally to vote either for or against company resolutions, and only abstain in exceptional circumstances. Details of votes cast, and reasons for abstentions are reported to the Pensions Committee.

The agreement also allows the Corporate Director: Finance, Property and Performance to instruct the managers to vote in a particular way, or not to vote, in circumstances where this is considered appropriate. Any such instructions are reported to the Pensions Committee.

Socially Responsible Investment

The Pensions Committee has a general policy of not placing restrictions on the managers' selection of investments. However the Committee would expect the managers to take into account any financial risks arising from potentially unsustainable social or environmental policies followed by investee companies in reaching their investment decisions. The managers are also encouraged to engage in discussions with companies on ethical and environmental issues, and question them on their social responsibilities. The outcome of these discussions is reviewed by the Pensions Committee at its quarterly meetings.

Statement of Investment Principles

Appendix E

STATEMENT OF COMPLIANCE WITH MYNERS' PRINCIPLES

Principles and Requirements	Extent of Compliance
<p>1 Effective decision making Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively.</p>	<p>Decisions are taken by a Pensions Committee, based on advice received from the investment managers, County Council finance staff and external advisers. Training courses are offered to all committee members.</p> <p>Investment performance of fund managers and overall fund is monitored quarterly. Asset allocation and the Statement of Investment Principles are reviewed by the Pensions Committee annually.</p> <p>Separate agreements have been made for the provision of actuarial and investment advice.</p>
<p>2 Clear objectives Trustees should set out an overall objective for the fund.</p>	<p>Set out in the Statement of Investment Principles.</p>
<p>3 Risk and liabilities In setting and reviewing their investment strategy, administering authorities should take account of the structure and form of liabilities.</p>	<p>Benchmarks are set based on the fund's own characteristics and objectives and kept under continuous review.</p>

Statement of Investment Principles

Appendix E

Principles and Requirements	Extent of Compliance
<p>4 Performance assessment Encompasses not only fund performance, but a formal assessment of their own procedures and decisions as trustees.</p> <p>This performance assessment would also apply to advice received and decisions delegated (e.g. to advisers and managers)</p>	<p>Mandates are agreed with the managers which cover performance targets and a timescale of measurement and evaluation.</p> <p>The decision has been taken to adopt active investment management in each asset class, with an element of passive investment in UK equities and bonds.</p>
<p>5 Responsible ownership The administering authority should comply with the Institutional Shareholders Committee statement of principles on the responsibilities of institutional shareholders and agents.</p>	<p>An agreed policy on corporate governance is in place for all managers.</p>
<p>6 Transparency and reporting Administering authorities should act in a transparent manner and provide regular communication to scheme members.</p>	<p>The Statement of Investment Principles, published together with the Pension Fund Accounts, meets the requirement for transparency.</p> <p>The Statement of Investment Principles is published in the annual report, together with any changes in the advisers and managers. Summarised financial information is provided in pensions newsletters to employees.</p>

Pension Fund Accounts

Appendix F

INTRODUCTION

The Cambridgeshire County Council Pension Fund is governed by the Local Government Pension Scheme Regulations 1997 (as amended). The fund provides pensions and other benefits for those employees of both the County and the District Councils, and for other scheduled and admitted bodies to the fund (listed on pages 44 to 45), who are eligible and choose to join it. The fund does not provide pensions for teachers or uniformed police and fire officers for whom separate pension arrangements exist.

The County Council as administering authority is responsible for the management of the fund in accordance with the LGPS Regulations and other relevant legislation.

Detailed Regulations govern the rates of contributions by both employees and employing bodies. Benefits are normally in the form of a lump sum payment plus a pension, which is increased annually for inflation.

The investment policy of the fund is designed to maximise growth so as to meet future liabilities, and is governed by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended). The adequacy of the assets of the fund to meet future liabilities is assessed every three years by the Council's consulting actuary, and employers' contributions are reviewed in the light of his report.

Decisions on the overall investment policy of the fund are made by the Pensions Committee which consists of three County Councillors, a Peterborough City Councillor, a District Councillor representing all other participating bodies, and an employee representative in accordance with the

Council's Constitution. The Committee is advised by firms of investment managers, who undertake the investment of the fund within the approved policy, and an investment adviser.

Further details of the Pension Fund are published in a separate annual report which is available on request from the Corporate Finance Section, Shire Hall.

BASIS OF PREPARATION

The accounts have been prepared in accordance with the accounting recommendations of the Financial Reports of Pension Schemes, a Statement of Recommended Practice (revised May 2008). Disclosures in the accounts have been limited to those required by the Code of Practice on local authority accounting in the UK, a Statement of Recommended Practice 2009.

The accounts summarise the transactions of the scheme and the net assets of the fund.

The accounts do not reflect obligations to pay pensions and benefits that fall due after the financial year.

ACCOUNTING POLICIES

The following principal accounting policies, which have been applied consistently, have been adopted in the preparation of the financial statements:

INVESTMENTS

Equities traded through the Stock Exchange Electronic Trading Service SETS are valued on the basis of the latest bid market price. Other quoted investments are valued on the basis of the bid-market value quoted on the relevant stock market.

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Unquoted securities are valued by the fund managers at the year-end in accordance with generally accepted guidelines. The value of fixed interest investments in the Scheme's investment portfolio includes interest earned but not paid over at the Scheme year-end.

Acquisition costs are included in the purchase cost of investments.

Futures are valued at the closing market price published by the relevant futures exchange (e.g. London International Financial Futures Exchange).

Forward foreign exchange contracts are over the counter contracts and are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

INVESTMENT INCOME

Income from equities is accounted for on the date stocks are quoted ex-dividend. Income from overseas investments is recorded gross of any withholding tax where this cannot be recovered. Irrecoverable withholding tax is shown separately in the Fund Account.

Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

Income from other investments is accounted for on an accruals basis.

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

FOREIGN CURRENCIES

Where forward exchange contracts are in place in respect of assets and liabilities in foreign currencies, the contract rate is used. Other assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Income from overseas investments is translated into sterling at an average rate for the period. Foreign exchange gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

CONTRIBUTIONS

Normal contributions, both from employees and from employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from the employers are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.

BENEFITS PAYABLE

Under the Local Government Pension Scheme Regulations, retirees are entitled to a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member chooses to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis from the date the option is exercised.

Other benefits are accounted for on the date the member leaves the scheme or on death.

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TRANSFERS TO AND FROM OTHER SCHEMES

Transfer values represent the capital sums either received in respect of members from other pension schemes of previous employers or paid to the pension schemes of new employers for members who have left the scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before the year-end, and where the amount of the transfer can be determined with reasonable certainty. Transfer values are normally accounted for on a payment/receipts basis since not only do they frequently apply to several past years, but, in the case of transfer values due, information is not available at the year end on which to make an accrual.

OTHER EXPENSES

Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.

A proportion of relevant officers' salaries have been charged to the Fund on the basis of time spent on investment related matters and pension administration.

Pension Fund Accounts

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PENSION FUND ACCOUNT

Notes	2009-10		2008-09	
	£000	£000	£000	£000
CONTRIBUTIONS AND BENEFITS				
1	Contributions receivable:			
	Employers:			
	- Normal	51,285	46,607	
	- Deficit funding	13,745	12,226	
	- Other	2,490	1,982	
	Employees:			
	- Normal	24,878	24,306	
	Transfers in from other schemes:			
	- Individual transfers	13,094	7,300	
		105,492		92,421
1	Benefits payable:			
	Pensions	-48,688	-44,122	
	Commutation of pensions and lump sum retirement benefits	-15,529	-11,419	
	Lump sum death benefits	-1,515	-896	
	Payments to and on account of leavers:			
13	- Individual transfers out to other schemes	-5,654	-6,271	
	- Refunds of contributions	-22	-21	
4	Administrative expenses	-2,048	-1,930	
		-73,456		-64,659
	NET ADDITIONS / WITHDRAWALS(-) FROM DEALING WITH MEMBERS	32,036		27,762
	Return on investments:			
5	Investment income	27,774	40,751	
	Change in market value of investments (realised and unrealised)	332,034	-288,879	
	Taxation	-887	-1,010	
6	Investment management expenses	-5,369	-2,159	
	Net returns on investments	353,552		-251,297
	NET INCREASE / DECREASE(-) IN FUND VALUE	385,588		-223,535
	Opening net assets as at 1 April	1,100,456		1,323,991
	CLOSING NET ASSETS AS AT 31 MARCH	1,486,044		1,100,456

Contributions receivable are split between normal, deficit funding and other in accordance with the requirements of the Pensions Statement of Recommended Practice (SORP). Other employer's contributions relate to the payments for the cost of early retirements.

Pension Fund Accounts

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PENSION FUND NET ASSET STATEMENT

Notes	31 March 2010 £000		31 March 2009 £000	
INVESTMENT ASSETS				
Fixed Interest				
- UK Government	249		0	
Equities:				
- UK listed	315,601		216,820	
- UK unlisted	46		164	
- Overseas listed	471,794		327,413	
- Overseas unlisted	68,504		56,606	
Pooled investment vehicles:				
- Managed funds				
-property	78,486		60,677	
-other	220,175		190,244	
- Unit trusts				
-property	32,117		17,929	
-other	231,655		153,102	
8 Derivative contracts	863		1,573	
Cash deposits	30,900		50,800	
Debtors				
- Investment Income	2,924		2,897	
- Trades pending	6,213		5,581	
TOTAL INVESTMENTS		1,459,527		1,083,806
INVESTMENT LIABILITIES				
8 - Derivative contracts	-66		-1,380	
- Trades pending	-4,034		-5,071	
- Fees	-559		-645	
- Tax	-33	-4,692	-96	-7,192
CURRENT ASSETS				
- Contributions due from employers	5,413		5,890	
- Cash balances	27,467	32,880	18,401	24,291
CURRENT LIABILITIES				
- Unpaid benefits		-1,671		-449
7 NET ASSETS		1,486,044		1,100,456

The accounts do not take account of liabilities to pay pensions and other benefits after the period end.

Pension Fund Accounts

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NOTES TO PENSION FUND ACCOUNTS

1. CONTRIBUTIONS AND BENEFITS

Other contributions are charges to employer for the cost of early retirements.

An analysis of the contributions and benefits over the different categories of participating Authority is as follows:

	2009-10 £000	2008-09 £000
Contributions receivable:		
Administering Authority	36,679	33,151
Scheduled Bodies	48,505	45,337
Admitted Bodies	7,214	6,633
	92,398	85,121
Benefits payable:		
Administering Authority	26,825	23,070
Scheduled Bodies	32,921	27,896
Admitted Bodies	5,986	5,471
	65,732	56,437

2. NUMBER OF CONTRIBUTORS AND PENSIONERS

	31 March 2010			Total	31 March 2009 Total
	County Council	Scheduled Bodies	Admitted Bodies		
Contributors	11,831	10,192	1,350	23,373	23,071
Pensioners	6,159	5,260	906	12,325	11,604
Deferred Benefits	13,019	9,968	1,316	24,303	22,780

3. ACTUARIAL VALUATION

The funding position of the Fund is assessed every three years by the Council's actuary who completed an actuarial valuation of the Fund using the Projected Unit Method. Employers' contributions are reviewed in the light of this report. The most recent report was at 31 March 2007 and concluded that it was necessary to increase the average employers' contributions from 17.4% to 18.2%, phased in over a three year period from 1 April 2008. The market value of the Fund at the valuation date was £1,390m, and there was an actuarial deficit of £219m equivalent to a funding level of 86.4%. This deficit was spread over a period of 20 years. The assumptions used in the 2007 valuation were as follows: investment returns 6.1%; earnings growth 4.7%; price inflation 3.2% and discount rate 6.1%.

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4. ADMINISTRATIVE EXPENSES

Administrative expenses include a charge made to the Fund by the County Council in respect of work undertaken on the payment of benefits on behalf of all admitted bodies.

5. ANALYSIS OF INVESTMENT INCOME

	2009-10 £000	2008-09 £000
Fixed Interest	55	31
Dividends from equities	21,148	26,871
Pooled investment vehicles	5,178	5,439
Derivatives	663	5,360
Interest on cash deposits	241	2,183
Other (includes stocklending and underwriting)	489	867
	27,774	40,751

6. INVESTMENT MANAGEMENT EXPENSES

Includes fees charged by the fund's investment managers. These are calculated as a percentage of the assets under management.

7. INVESTMENT MANAGERS

The allocation of the fund over the Authority's investment managers and a reconciliation of the movements between the opening and closing market value is as follows:-

	31 March 2009	Purchases at Cost and Derivative Payments	Sales Proceeds and Derivative Receipts	Other Changes	31 March 2010	
	£000	£000	£000	£000	£000	%
Aberdeen Asset Management	59,954	475	-23,573	-36,811	45	0
UBS Global Asset Management	5,833	0	0	-5,678	155	0
Schroders Investment Management	471,933	157,980	-98,884	132,864	663,893	45
State Street Global Asset Management	106,486	42,500	0	59,248	208,234	14
Newton Investment Management	123,111	95,773	-86,187	41,564	174,261	12
RCM Investment Management	122,366	63,466	-65,799	46,424	166,457	11
Credit Agricole Asset Management	118,752	66,176	-60,379	43,135	167,684	11
BNY Mellon (Transition manager)	19	0	-34,791	34,773	1	0
Private Equity	56,770	7,853	-1,001	4,928	68,550	5
Pension Fund Net Debtors	4,796	0	0	-1,613	3,183	0
Cash with Council	18,401	0	0	9,066	27,467	2
Cash with custodian	12,035	0	0	-5,921	6,114	0
	1,100,456	434,223	-370,614	321,979	1,486,044	100
Equity Index futures transactions included above		9	-1374			

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Included within the balances held by the investment managers shown above are amounts in relation to cash and investment income debtors which are shown separately on the face of the net assets statement.

The Fund holds the following investments in unit trusts/pooled vehicles which exceed 5% of the total fund value: Schroder Unit Trusts Ltd Institutional Sterling Bond Market Fund £159,792,000 at 31 March 2010 (£102,998,000 at 31 March 2009), State Street UK Equity Index Managed Pension Fund £169,011,000 at 31 March 2010 (£106,485,000 at 31 March 2009). All pooled investment vehicles are operated by companies registered in the United Kingdom.

As at 31 March 2010 the fund has commitments to invest a further £78.0m in private equity investments in future years (£81.0m at 31 March 2009).

An analysis of “other movements” is as follows:

	£000
Change in market value of investments	332,034
Increase in cash and net debtors	-10,055
	321,979

The total of investment transaction costs incurred in the year was £641,000 (£848,000 2008/09).

8. DERIVATIVE CONTRACTS

Derivative contract assets include an exchange traded FTSE 100 Index future with an open value of £39,000 at a market value of £3.759m and cost value £3.720m. Derivatives are held as a flexible alternative to holding the underlying securities. Also included here is £0.824m outstanding on future foreign exchange contracts. Derivative contract liabilities include £0.066m outstanding on future foreign exchange contracts. Forward foreign exchange contracts are used to hedge against the currency risk of the Fund’s overseas investments. Forward foreign exchange contracts are over the counter contracts and are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date. The use of these contracts results in an exposure to the foreign exchange markets. The exposure at 31 March 2010 included a forward sale of £31.4m in Euros and forward purchases of other European currencies and US dollars totalling £17.9m.

9. STOCK LENDING

The total amount of stock released to a third party under a stock lending arrangement was £32,713,000 at 31 March 2010 (£50,904,000 at 31 March 2009). Collateral is held in the form of a letter of credit or AA+ rated bond.

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10. ADDITIONAL VOLUNTARY CONTRIBUTIONS

The amount of additional voluntary contributions (AVCs) paid by members during the year was £790,000 (£787,000 in 2008-09) and the value of investments was £4,817,000 at 31 March 2010 (£4,097,000 at 31 March 2009). AVCs are not included in the pension fund accounts in accordance with Regulation 5(2)(c) of the Pensions Schemes (Management and Investment of Funds) Regulations 1998.

11. A STATEMENT OF INVESTMENT PRINCIPLES

A Statement of Investment Principles is published in the Pension Fund Annual Report, which is available from the Corporate Finance Section, Shire Hall.

12. RELATED PARTY TRANSACTIONS

Under FRS8 "Related Party Disclosures" it is a requirement that material transactions with related parties, not disclosed elsewhere, should be included in a note to the financial statements. During the year, no Pensions Committee members have undertaken any material transactions with the Cambridgeshire County Council Pension Fund. A cash deposit of £27,467,000 with the County Council was outstanding at 31 March 2010. (£18,401,000 at 31 March 2009).

There were no material contributions due from employer bodies at the year-end, which remained outstanding after the due date for payment.

There are no other related party transactions other than those already disclosed in the County Council's Accounts.

13. MAGISTRATES TRANSFER

With effect from 1 April 2005, 71 employees of the Cambridgeshire Magistrates Courts transferred out of Cambridgeshire County Council Local Government Pension Scheme as part of a national transfer of the Magistrates Courts out of Local Government schemes. However, the fund has retained the liability for the Magistrates pensioners and deferred pensioners. As at 31 March 2010 the value of the transfer has not been agreed between the Local Authority actuary and the Government Actuary's Department. The transfer value is sensitive to the timing of the transfer and ranges from the fund owing £1,000,000 to the fund being owed £1,000,000 to or by the Magistrates Court depending on whether the valuation of transfers out are more or less than the retained liability. Pending the finalisation of the transfer value no amounts have been accrued to date within the Pension Fund accounts.

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14. ORGANISATIONS PARTICIPATING IN THE PENSION FUND AS AT 31 MARCH 2010

SCHEDULED BODIES:

Cambridgeshire County Council

Peterborough City Council

District Councils

Cambridge City Council
East Cambridgeshire District Council
Fenland District Council
South Cambridgeshire District Council
Huntingdonshire District Council

Town Councils

Chatteris Town Council
City of Ely Council
Huntingdon Town Council
Ramsey Town Council
Soham Town Council
St. Ives Town Council
St. Neots Town Council
Wisbech Town Council

Parish Councils

Bretton Parish Council
Burwell Parish Council
Cambourne Parish Council
Doddington Parish Council
Eye Parish Council
Fulbourn Parish Council
Gamlingay Parish Council
Girton Parish Council
Haddenham Parish Council
Hardwick Parish Council
Histon & Impington Recreation Ground Committee
Histon Parish Council
Holywell-cum-Needlingworth Parish Council
Impington Parish Council
Kimbolton & Stonely Parish Council
Linton Parish Council
Little Downham Parish Council
Little Paxton Parish Council
Littleport Parish Council
Manea Parish Council
Milton Parish Council
Sawston Parish Council
Sawtry Parish Council
Somersham Parish Council

Sutton Parish Council
Thorney Parish Council
Tydd St Giles Parish Council
Waterbeach Parish Council
Wimblington Parish Council
Yaxley Parish Council

Internal Drainage Boards

Burnt Fen IDB
Drysides IDB
Feldale IDB
Haddenham Level Commissioners
Holmewood & Stilton IDB
Littleport & Downham IDB
March East IDB
March Fifth IDB
March Sixth IDB
March Third IDB
Maxey IDB March & Whittlesey IDB
Middle Fen & Mere IDB
Middle Level Commissioners
North Level IDB
Old West IDB
Padnal and Waterden IDB
Ransonmoor IDB
Swaffham IDB
Waterbeach Level IDB
White Fen IDB
Whittlesey Fifth IDB
Whittlesey IDB
Yaxley IDB

Other Organisations

Anglia Polytechnic University
Cambridge Regional College
Cambridgeshire & Peterborough Fire Authority
Cambridgeshire Association of Local Councils
Cambridgeshire Magistrates' Courts Committee
Cambridgeshire Police Authority
Cambridgeshire Probation Committee
Cambridgeshire Valuation Tribunal
Hills Road Sixth Form College
Huntingdonshire Regional College
Isle College, Wisbech
Long Road Sixth Form College

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Ormiston Bushfield Academy
Peterborough Regional College
The College of West Anglia
Thomas Deacon Academy

ADMITTED BODIES:

Aaron Services Limited
ADEC
APS Limited
Bowthorpe Hall Centre
Cambridge & County Folk Museum
Cambridge Institute of Education
Cambridge Sports Hall Trust Limited
Cambridge Sports Lake Trust
Cambridge Water Company
Cambridgeshire Alcohol Advisory Service
Cambridgeshire Association for Social Welfare
Cambridgeshire Information & Technology Centre
Cambridgeshire PCT
Cambridgeshire Society for Mentally Handicapped Children
Cambridgeshire Society for the Blind
Centre 33
Commissions East Ltd
Conservators of the River Cam
CRI
Cross Keys Housing Association
CSCI
Cucina Ltd
East of England Regional Control Centre
Eastern Arts Board
Eastern Provincial Council for Local Authorities
Ecovert
Edwards and Blake Limited
Ely Museum
Ethelred House
Exelcare
Friends Therapeutic Community
Hereward Housing Association
Home Close
Home Meadow
Homerton College
Homerton School of Health Studies
Hughes Hall

Huntingdonshire Citizens' Advice Bureau
Huntingdonshire Housing Partnership
Innovative Services Ltd
ITNET
Kimbolton School
M.D.A (Europe)
Mears Group
Mepal Outdoor Centre
Methodist Homes
Nene Valley Research Committee
Ormiston Trust
Orton Family Centre
Oxford Archaeology
Perse School for Girls
Peterborough College of Adult Education (PCAE)
Peterborough Council for Community Relations
Peterborough Council for Voluntary Service
Peterborough Development Corporation
Peterborough PCT
Peterborough Youth Stadium
Railway House Association
Roddens Housing Association
Romsey Town Churches Youth & Community Centre
Screen East
Serco
Sport and Leisure Management
St Columba Centre
St Martin's Day Centre
St Neots Museum Ltd
St Raphael Club
Taylor Shaw Ltd
Tennant Support Service Company Ltd
The Cresset
The Farmland Museum
The Hillings
The Westgate and Petros Project
Turning the Red Lights Green
Wisbech & Fenland Museum
Wisbech Grammar School

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