

**CAMBRIDGESHIRE COUNTY COUNCIL
PENSION FUND ANNUAL REPORT
2010-2011**

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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

In a twelve month period in which several opposing forces were at play, there was some volatility in equity markets in which investor sentiment swung between confidence and concern about the prospects of global economic recovery.

At various times in the year, markets were overshadowed by fears about the debt burdens of peripheral European economies. Downgrades of sovereign debt in Greece, Portugal and Spain were followed by a €750 billion bailout for the Eurozone - an unprecedented response from the authorities. Ireland was also bailed out by the EU. At the end of the period, a devastating earthquake in Japan and unrest in the Middle East and North Africa also took their toll on confidence. However, with improving economic data from the US, and support from central banks in the form of low interest rates and monetary stimulus through quantitative easing, the balance ultimately fell in favour of equities.

Furthermore, company profits in many markets have been stronger than expected as companies benefit from the cost cuts made during the economic turndown in 2008 and 2009. This, along with merger & acquisition activity, has supported demand for equities.

Most major equity markets provided double-digit returns in sterling terms over twelve months to the end of March 2011. In particular returns from the US were strong as the economy has clearly continued to follow its recovery path. The UK, despite returning over 10%, has slightly lagged other markets. While economic growth has remained particularly robust in emerging

Introduction

markets such as China, inflation is rising and these economies have started raising interest rates. As a result, the very strong performance of these markets has moderated.

Over the year to end March, US equities returned +9.5% in sterling terms. Japanese equities returned -4.2% with Pacific Basin markets returning +4.5%. The UK market returned +8.7% and Europe +7.0%.

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 AUDITORS' REPORT TO THE MEMBERS OF CAMBRIDGESHIRE COUNTY COUNCIL

We have audited the pension fund accounts included in the pension fund annual report of Cambridgeshire County Council for the year ended 31 March 2011 which comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Respective responsibilities of the Chief Finance Officer and the auditor

The Chief Finance Officer is responsible for the preparation of the pension fund accounting statements which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, 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 48 of the Statement of Responsibilities of Auditors and of Audited Bodies, published by the Audit Commission in March 2010. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the pension fund; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the pension fund annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Independent Auditor's Report

Opinion on financial statements

In our opinion the pension fund's accounting statements:

- give a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, of the financial transactions of the pension fund during the year ended 31 March 2011, and the amount and disposition of the fund's assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In our opinion, the information given in the pension fund annual report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Julian Rickett (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge
Date: 12 October 2011

The maintenance and integrity of the Cambridgeshire County Council website is the responsibility of senior officers; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 / P. Tysoe Group Accountant

The Investment Managers are as follows:-

- Amundi (formerly Credit Agricole)
- Newton Investment Management Ltd
- State Street Global Advisors Ltd
- Schrodgers Investment Management Ltd
- Adams Street Partners
- Harbourvest Partners
- N W Brown Capital Partners Ltd
- UBS
- Equitix

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:- Steve Dainty
 Email: Stephen.Dainty@cambridgeshire.gov.uk
 Tel: 01223 703885

Investment arrangements:- Paul Tysoe / Mike Batty
 Email: Phtysoe@northamptonshire.gov.uk
 Email: mike.batty@cambridgeshire.gov.uk
 Tel: 01604 636481

Scheme Administration

Pension Administration

From 1 April 2010 to 30 September 2010 Cambridgeshire County Council administered the LGPS in-house. From 1 October 2010 administration moved to LGSS – joint in-house administration with Northamptonshire Pension Fund. This includes pensioner administration. Responsibility for Cambridgeshire issues rests with the Cambridgeshire Pensions Committee. Further information on governance can be found in Appendix B, Governance Compliance Statement.

Scheme administration costs total £2,116k which is shown in the accounts in Appendix F.

There were 1,523 individual contribution events. Of these 94.6% were received by the 19th of the following month as required by regulation and 99.3% by the end of that month. Of the remaining 0.7% received after the end of the month interest was charged.

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

	06-07	07-08	08-09	09-10	10-11
Active	22,198	22,308	23,071	23,373	23,037
Pensioner	10,689	11,054	11,604	12,325	13,053

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	0.4	3.7	6.3	8.8	11.5	17.3	18.3	15.4	11.7	5.7	0.9	0.1

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 until 30 September 2010 and then moved to LGSS Director of Finance

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	Reason for leaving should have been Business Efficiency not early retirement with employers consent but no waiving of early payment reductions.	Employer decision upheld.
Employer 2 nd Stage	Employer should have awarded ill-health pension.	Employer decision upheld.
Employer 2 nd Stage	Employer should have consented to early payment of deferred benefits on grounds of ill-health.	Employer decision upheld.

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 £1,613m, an increase of £127m 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
Newton	International equities
Amundi	European equities
State Street	UK equities (index tracking), Global equities (index tracking)

In December 2010 the mandate with RCM was terminated and the assets transferred to State Street's Global equity pooled fund which is managed on a passive basis.

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 (\$76m plus €28m); UBS have an investment of \$30m in an infrastructure fund; Equitix have an investment of £20m 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 £86.5m.

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.

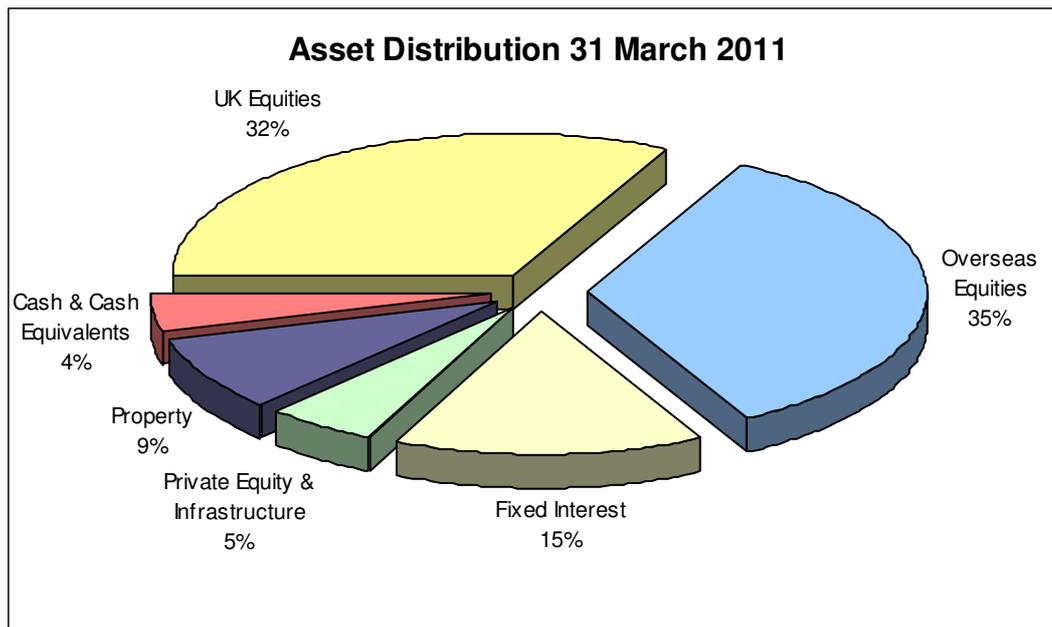
The fund actuary is Hymans Robertson. An agreed fee is paid for the triennial actuarial valuation, and advice on specific fund issues is charged at an hourly rate.

Investment Policy and Performance

Asset Allocation

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

	2010-11		2009-10		Target Allocation
	£000	%	£000	%	%
UK Equities	522,402	32	524,198	35	34.80
Overseas Equities	560,569	35	480,985	32	34.80
Fixed Interest	238,508	15	220,312	15	14.00
Private Equity & Infrastructure	86,542	5	68,550	5	5.00
Property	138,194	9	124,582	8	11.50
Cash & Cash Equivalents	66,371	4	67,417	5	0.00
Total	1,612,586	100	1,486,044	100	100



Investment Policy and Performance

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

Security Description	Market Value (£000)	Proportion of Fund (%)
MPF UK EQUITY INDEX SUB-FUND	184,301	11.5
SCHRODERS UNIT TRUSTS INSTL STERLING BROAD MKT BOND X ACC	84,677	5.3
SCHRODER INTERNATIONAL SELECTION FUND - STRATEGIC BD	84,031	5.2
MPF NORTH AMERICA EQUITY INDEX SUB-FUND	81,206	5.1
SCHRODER UNIT TRUSTS SCHRODER INSTITUTIONAL PACIFIC FD INC	32,222	2.0
MPF EUROPE EX UK EQUITY INDEX SUB-FUND	31,134	1.9
SCHRODER UT INDEX LKD GILT PFPV ACC II	28,349	1.8
MPF ASIA PACIFIC EQUITY INDEX SUB-FUND	27,306	1.7
MPF UK CONVENTIONAL GILTS ALL STOCK	26,891	1.7
MPF EMERGING MARKETS EQUITY INDEX SUB-FUNDS	21,703	1.4
	601,820	37.6

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

Security Description	Market Value (£000)	Proportion of Fund (%)
VODAFONE GROUP	20,425	1.3
GLAXOSMITHKLINE	18,141	1.1
ROYAL DUTCH SHELL	17,860	1.1
ASTRAZENECA	15,975	1.0
BP	15,552	1.0
BARCLAYS	14,795	0.9
LEGAL & GENERAL	13,640	0.8
HSBC	11,632	0.7
LOGICA	11,583	0.7
LLOYDS	11,020	0.7
Total	150,623	9.3

Investment Policy and Performance

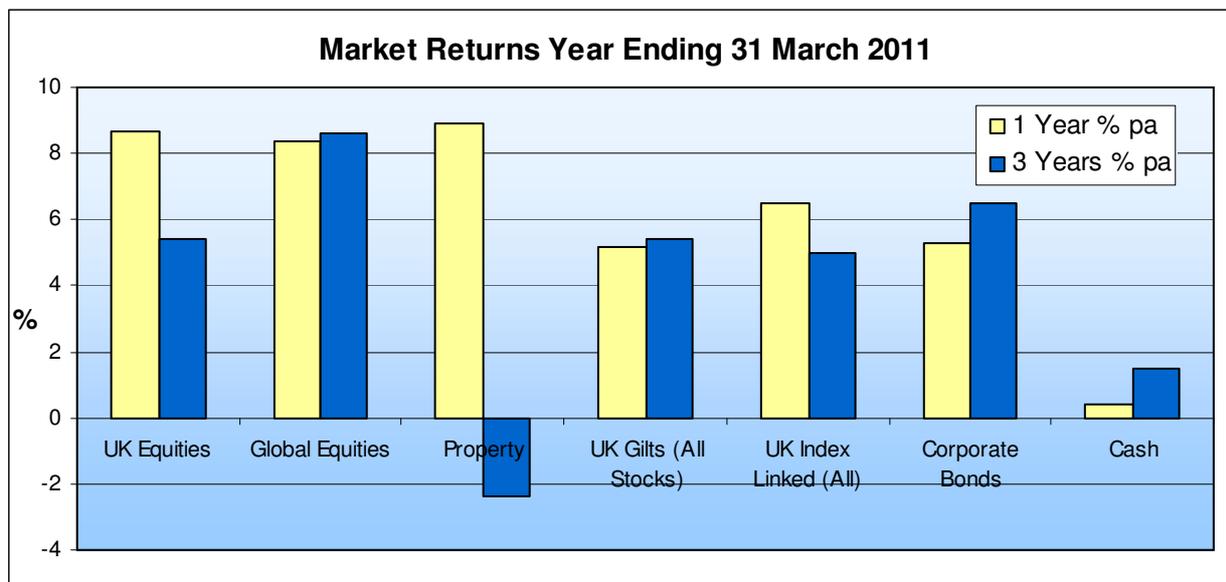
Investment Performance

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
2010/11 (one year)	6.9	80
2008/11 (three years)	4.6	62
2006/11 (five years)	3.3	63
2001/11 (ten years)	4.8	65

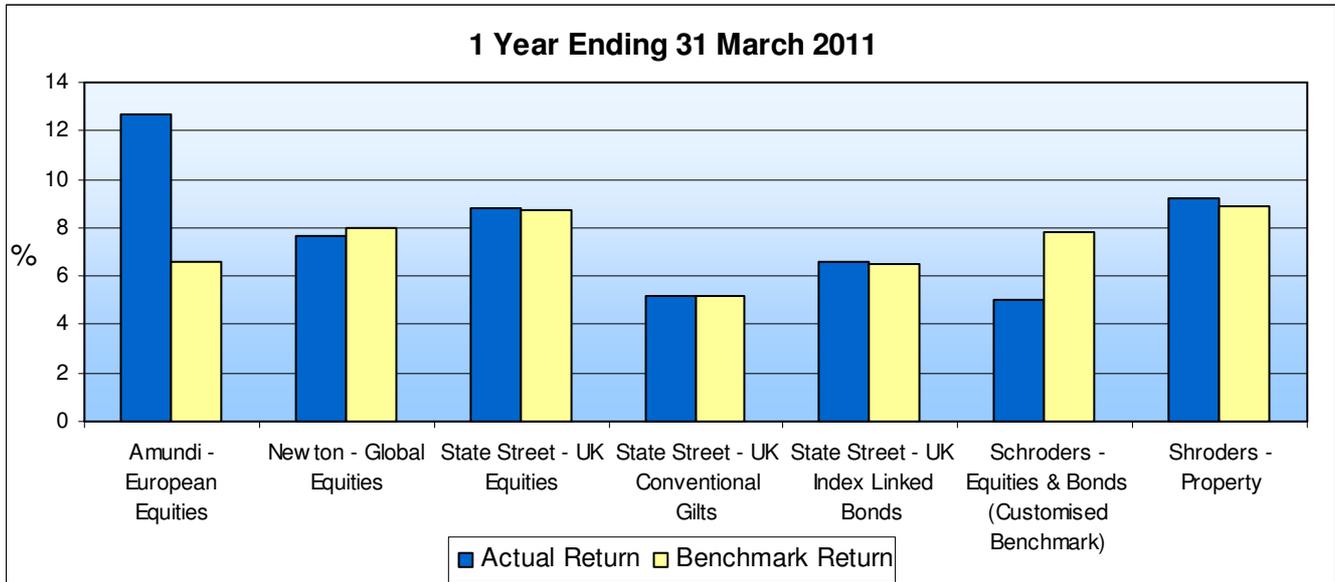
During the last year the Fund there was a neutral benefit from asset allocation decisions when measured against the WM Local Authority average Fund. However the manager's selection of stocks had a negative effect. The annualised performance of the fund has therefore been in the third quartile over the 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 end of 2010/11. 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:-

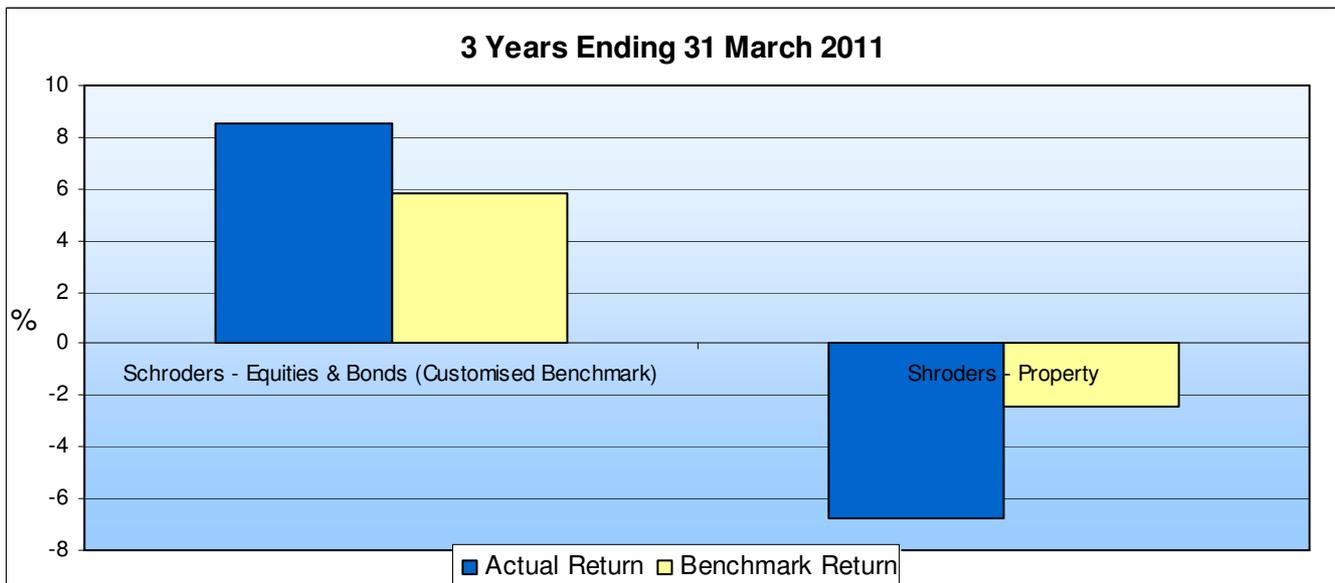


Investment Policy and Performance

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 Statement

Appendix A

Cambridgeshire County Council Pension Fund (“the Fund”) Actuarial Statement for 2010/11

This statement has been prepared in accordance with Regulation 34(1) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2010/11.

Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- 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.
- to ensure that the cost to employers is kept to a minimum.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 21 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 21 years

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund’s assets, which at 31 March 2010 were valued at £1,494 million, were sufficient to meet 73% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £555 million.

Individual employers’ contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund’s funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 31 March 2011.

METHOD

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

ASSUMPTIONS

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

Actuarial Statement

Appendix A

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases *	5.3%	0.8%
Price inflation/Pension increases	3.3%	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.0 years	23.8 years
Future Pensioners*	22.9 years	25.7 years

*based on a member aged 45 at the valuation date

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from Cambridgeshire County Council, administering authority to the Fund.

Experience over the year since April 2010

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The funding level (excluding the effect of any membership movements) remained broadly unchanged over 2010/11.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.



Geoffrey Nathan

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

28 June 2011

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 INTRODUCTION

This is the Funding Strategy Statement (FSS) of the Cambridgeshire County Council Pension Fund (“the Fund”), which is administered by Cambridgeshire County Council (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP and after consultation with the Fund’s employers and investment adviser and is effective from 31 March 2011

1.1 Regulatory framework

Members’ accrued benefits are guaranteed by statute. Members’ contributions are fixed in the Regulations at a level that covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework that includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant);
- the Local Government Pension Scheme (Administration) Regulations 2008 (regulations 35 and 36);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary’s triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

The key requirements relating to the FSS are that:

- After consultation with all relevant interested parties involved with the Fund, the administering authority will prepare and publish their funding strategy.
- In preparing the FSS, the administering authority must have regard to:
- FSS guidance produced by CIPFA
- its statement of investment principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Funding Strategy Statement

Appendix D

- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The Fund's actuary must have regard to the FSS as part of the fund valuation process.

2 PURPOSE OF THE FUNDING STRATEGY STATEMENT

- 2.1 The Department for Communities and Local Government (CLG) has stated that the purpose of the FSS is:
- “to establish a clear and transparent fund-specific strategy which will identify how employers’ pension liabilities are best met going forward;
 - to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
 - to take a prudent longer-term view of funding those liabilities.”

These objectives are desirable individually, but may be mutually conflicting. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers’ contributions, and prudence in the funding basis approach to funding the scheme’s liabilities across a range of employers participating in the Fund.

3 AIMS AND PURPOSE OF THE PENSION FUND

- 3.1 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.
- 3.2 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.
- 3.3 The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised at the end of the Statement.

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4 SOLVENCY ISSUES AND TARGET FUNDING LEVELS

4.1 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 2010 valuation is 26.1%. 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 considered are discussed in Section 4.5.

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 4.7.6.

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).

4.2 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 fund normally operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. The time horizon of the funding target for Community and Transferee Admission Bodies will vary depending on the expected duration of their participation in the fund. The treatment of departing employers is described in paragraph 4.8.

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The ongoing funding basis is normally used for each triennial valuation for all employers in the Fund. The ongoing funding basis assumes employers in the Fund are an ongoing concern and is described in the next section.

Where an admission agreement for an admission body that is not a Transferee Admission Body and has no guarantor is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe, the fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The Fund also reserves the right to adopt the above approach in respect of those admission bodies that are not Transferee Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

The Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.

4.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds advised by the Fund Actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Employers should be aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions 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.

In light of the statutory requirement for the Actuary to consider the stability of employer contributions 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 2010 valuation, it is assumed that the Fund's investments

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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 other than those referred to in 4.2 above.

4.4 Future Service Contribution Rates

The future service element of the employer contribution rate is traditionally 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 future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. Where it is considered appropriate to do so then the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a gilts basis (most usually for admission bodies that are not a Transferee Admission Body and that have no guarantor in place).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts. Designating bodies can determine which employees they want to participate as they have to pass a resolution stating who can join the scheme. A restrictive resolution is operated which can effectively close the scheme to new entrants

4.4.1 Employers that admit new entrants

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.

4.4.2 Employers that do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the Attained Age funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

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Both the Projected Unit and Attained Age funding methods are described in the Actuary's report on the valuation.

Both 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.

4.5 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
- 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 the 2007 and 2010 valuations and each subsequent triennial valuation period.

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.

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

4.6 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 (or pool of 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.

4.7 Stability of Employer Contributions

4.7.1 Solvency issues and target funding levels

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:-

- capping of employer contribution rate increases / decreases within a pre-determined range ("Stabilisation")
- the pooling of contributions amongst employers with similar characteristics
- the use of extended deficit recovery periods
- the phasing in of contribution increases / decreases

4.7.2 Stabilisation

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority has commissioned the Fund Actuary to carry out extensive modelling to explore the long term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is

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justifiable to limit employer contribution rate changes from 1 April 2011, subject to the following conditions being met:

- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
- there are no material events prior to 1 April 2011 which render the stabilisation unjustifiable.

Contributions for such employers will not increase in 2011/12, 2012/13 and 2013/14.

In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been “stabilised” and are therefore paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

The Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

The LGPS regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities. The role of the Fund Actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

4.7.3 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 2010 valuation this was 20 years with the exception of Transferee Admission Bodies where a shorter period is used.

4.7.4 Phasing in of Contribution Rises

Transferee Admission Bodies are generally not eligible for phasing in of contribution rises however there may be some flexibility if the contract is for a sufficient period. Other employers may be permitted to phase in contribution rises over a period of six years.

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

Employers that are permitted and elect to use a longer deficit spreading period than was used at the 2007 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 is expected to lead to higher contributions in the long-term

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(depending on the actual financial and demographic performance of the Fund relative to the valuation assumptions).

4.7.6 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. At the 2010 valuation:

- Schools are pooled with their funding Council;
- Academies were not pooled with their previous funding Council;
- A Small Bodies pool was operated – this contains bodies with less than 20 active employees who have similar admission agreements;
- A Resolution Bodies pool was operated – mainly covering Town & Parish Councils and Internal Drainage Boards;
- A number of small pools were operated where a successor admitted body has taken on the liabilities of a predecessor;
- Scheme employers were pooled with Transferee Admission Bodies that have ceased leaving liabilities.

On occasion Transferee Admission Bodies may be pooled with their Awarding authority if their contract is on a “pass-through” basis.

4.8 Admission Bodies ceasing

Admission Agreements for Transferee 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.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement:

- Last active member ceasing participation in the LGPS;
- The insolvency, winding up or liquidation of the admission body;
- Any breach by the admission body of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the admission body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the admission body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the Fund.

In addition either party can voluntarily terminate the admission agreement by giving the appropriate period of notice as set out in the admission agreement to the other party (or parties in the case of a Transferee Admission Body).

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

Note that although the Regulations only make specific provision for termination valuations to be carried out for admission bodies, the Administering Authority will look to apply the same principles to other employers leaving the Fund, where appropriate.

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

- a) For Transferee 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.
- b) For pass through agreements there is no initial rate assessment and a valuation is not triggered at cessation. The employees remain pooled for the duration of the contract with the ceding employer.
- c) For admission bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, 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. Where there is a guarantor, the approach to the cessation valuation will need to be discussed with the guarantor. Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.
- d) 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.

In the event that the Fund is not able to recover the required payment in full directly from the Admission Body or from any bond or indemnity or guarantor, then:

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- a) In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to include the Transferee Admission Body in a pool with the awarding authority and thus recover any outstanding amounts via an increase in the awarding authority's contribution rate over an agreed period.
- b) In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

4.9 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 employee could voluntarily retire without incurring a reduction to their benefit.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could voluntarily retire without incurring a reduction to their benefit and without requiring their employer's consent to retire. Members receiving their pension unreduced before this age other than on ill-health grounds are deemed to have retired early.

The additional costs of premature retirement are calculated by reference to these ages.

Employers must make these additional contributions as either a one off payment to the fund within three months of the early retirement being paid or over a three or five year period with appropriate interest.

4.10 New admitted bodies

The Fund requires the following from any potential Admission Bodies wishing to join the Fund.

Transferee Admission Bodies will be required to have a guarantee from the transferring scheduled body and also provide a bond if requested by the Awarding Authority. The bond could be required to cover the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the employer's contract
- any other risks deemed necessary by the awarding authority

The usual approach to new Community Admission Bodies requests for admission is to reject the application unless it is to cover existing member of the LGPS and the applying body has a firm guarantee of future funding/support.

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The Administering Authority will consider requests from successor Community Admission Bodies to join the Fund where they are replacing, in whole or part, a previous Admitted Body, are retaining any previous sponsorship that guarantees their liabilities and can demonstrate that the change strengthens the viability of the admitted body into the future.

The general approach of the Administering Authority is therefore to only accept bodies whose responsibilities are guaranteed in one way or another. This approach reduces the risk to the Fund of potentially having to pick up any shortfall in respect of Admission Bodies.

5 LINKS TO INVESTMENT STRATEGY

5.1 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.

5.2 Consistency with funding basis

The funding policy currently adopts an asset out-performance assumption of 1.6% per annum over and above the redemption yield on fixed interest gilts. This resulted in a return on the Fund's assets of 6.1% p.a. to be adopted for the 2007 and 2010 formal valuation. The Fund's investment strategy is as currently outlined in the Fund's Statement of Investment Principles. The Fund's Actuary considers that the funding basis does conform to the requirements to take a "prudent longer-term" approach to funding.

The Administering Authority has sought specific advice from the Fund's Actuary on the interaction between funding and investment strategy. In particular, the Administering Authority will consider the implications of the combined strategy on the key objectives of stability of contributions, affordability for employers, transparency of process and method, and prudence. The Administering Authority considers that its funding and investment policy appropriately balances these objectives.

The Administering Authority is aware that, in the short term – such as the three yearly assessments at formal valuations – the proportion of the Fund invested in equities brings the possibility of considerable volatility and there is a material chance that in the short term and even medium term, the asset returns will fall short of the out-performance

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target. The stability measures described in Section 3 will dampen down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

5.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

5.4 Inter-valuation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by conducting an interim quarterly valuation within each triennial period. The Fund reports back to employers at the annual Pensions Forum.

6 KEY RISKS AND CONTROLS

6.1 Types of Risk

The Administering Authority is aware that unforeseen changes of a financial, demographic, regulatory or governance 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.

6.2 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.	<p><i>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</i></p> <p><i>Analyse progress at three-yearly valuations for all employers.</i></p> <p><i>Inter-valuation roll-forward of liabilities between formal valuations subject to market experience.</i></p>
Inappropriate long-term investment strategy.	<p><i>Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.</i></p> <p><i>Consider measuring performance</i></p>

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Risk	Summary of Control Mechanisms
	<i>relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices.</i>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p><i>Inter-valuation monitoring, as above.</i></p> <p><i>Some investment in bonds helps to mitigate this risk.</i></p>
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.	<p><i>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</i></p> <p><i>Inter-valuation monitoring, as above, gives early warning.</i></p> <p><i>Some investment in index-linked bonds also helps to mitigate this risk.</i></p> <p><i>Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</i></p>
Effect of possible increase in employer's contribution rate on service delivery and admission / schedule bodies.	<p><i>Seek feedback from employers on scope to absorb short-term contribution rises.</i></p> <p><i>Mitigate impact through deficit spreading and phasing in of contribution rises.</i></p>

6.3 Demographic Risks

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Risk	Summary of Control Mechanisms
Pensioners living longer.	<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> <p><i>Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.</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>
A company admitted to the Fund as an admission body may become financially unviable.	<p><i>A surety bond is required to cover the potential risk of the admitted body becoming insolvent and the value of this surety or bond is reviewed regularly to ensure it provides adequate cover for the financial risks involved.</i></p>
Ill-health retirements significantly more than anticipated.	<p><i>The employer may be charged additional contributions if this exceeds the ill-health assumption built in.</i></p>

6.4

Regulatory Risks

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees.	<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</i></p>

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<p>Changes to national pension requirements and/or Inland Revenue rules. e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006, abolition of 85 year rule, new 2008 scheme, tax simplification and budget changes for higher earners.</p>	<p><i>issued by the ODPM and comments where appropriate.</i></p> <p><i>The Administering Authority will consult employers where it considers that it is appropriate.</i></p> <p><i>In all circumstances where it appears that changes may impact on the Fund's solvency the Administering Authority will consider seeking actuarial advice to mitigate or manage the impact of such changes.</i></p>
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6.5 Governance Risks

Risk	Summary of Control Mechanisms
<p>Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).</p>	<p><i>The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.</i></p>
<p>Administering Authority not advised of an employer closing to new entrants.</p>	<p><i>The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations.</i></p> <p><i>For some employers, deficit contributions are expressed as monetary amounts.</i></p>
<p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.</p>	<p><i>In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Transferee Admission Agreements to inform it of forthcoming changes.</i></p>
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p><i>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</i></p>

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	<p><i>The risk is mitigated by:</i></p> <ul style="list-style-type: none"> • <i>Robust processes being in place to create the admission agreement.</i> • <i>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.</i> • <i>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</i> • <i>Vetting prospective Community employers before admission.</i> • <i>Scheme employers vetting prospective transferee employers before admission.</i> • <i>Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.</i>
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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 amend the FSS and SIP as required.
- Negotiate Admission Agreements and ensure appropriate safeguards are in place.

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.
- Be a signatory to Transferee Admission Agreements as the ceding employer and set the level of any required bond. Keep the level of the bond under review.

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

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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

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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 53 to 55), 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.

BASIS OF PREPARATION

The Pension Fund Statement of Accounts has been prepared in accordance with the Code of Practice on Local Authority Accounting in the UK 2010/11, issued by CIPFA, and the main recommendations of the Statement of Recommended Practice (SORP): 'Financial Reports of Pension Schemes' (revised May 2007) issued by PRAG. This is the first year of preparation that the Code has incorporated the requirements of International Financial Reporting Standards (IFRS). Disclosures in the accounts have been limited to those required by the Code of Practice on Local Authority Accounting in the UK, 2010/11.

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. The actuarial position of the Scheme which takes into account these obligations is available on Cambridgeshire County Council's website, <http://www.cambridgeshire.gov.uk/lgps>

ACCOUNTING POLICIES

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

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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.

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

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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.

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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Notes	2010-11		2009-10	
	£000	£000	£000	£000
CONTRIBUTIONS AND BENEFITS				
1	Contributions receivable:			
	Employers:			
	- Normal	55,599	51,285	
	- Deficit funding	14,634	13,745	
13	- Other	10,383	2,490	
	Members:			
	- Normal	24,763	24,878	
	Transfers in from other schemes:			
	- Individual transfers	8,371	13,094	
		113,750		105,492
1	Benefits payable:			
	Pensions	-51,139	-48,688	
	Commutation of pensions and lump sum retirement benefits	-15,776	-15,529	
	Lump sum death benefits	-1,066	-1,515	
	Payments to and on account of leavers:			
	- Individual transfers out to other schemes	-20,256	-5,654	
	- Refunds of contributions	-18	-22	
4	Administrative expenses	-2,116	-2,048	
		-90,371		-73,456
	NET ADDITIONS / WITHDRAWALS(-) FROM DEALING WITH MEMBERS		23,379	32,036
	Return on investments:			
5	Investment income	28,039	27,774	
	Profit and losses on disposal of investments and changes in value of investments	82,004	332,034	
	Taxes on income	-1,040	-887	
6	Investment management expenses	-5,840	-5,369	
	Net returns on investments		103,163	353,552
	NET INCREASE / DECREASE(-) IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR		126,542	385,588
	Opening net assets as at 1 April		1,486,044	1,100,456
	CLOSING NET ASSETS AS AT 31 MARCH		1,612,586	1,486,044

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PENSION FUND NET ASSET STATEMENT

Notes	31 March 2011 £000		31 March 2010 £000	
INVESTMENT ASSETS				
Fixed Interest				
- UK Government	0		249	
Equities:				
- UK listed	320,594		315,601	
- UK unlisted	6,282		46	
- Overseas listed	357,797		471,794	
- Overseas unlisted	80,260		68,504	
Pooled investment vehicles:				
- Managed funds				
-property	92,989		78,486	
-other	403,006		220,175	
- Unit trusts				
-property	45,205		32,117	
-other	240,082		231,655	
8 Derivative contracts	0		863	
Cash deposits	24,089		30,900	
Debtors				
- Investment Income	3,391		2,924	
- Trades pending	1,665		6,213	
TOTAL INVESTMENTS		1,575,360		1,459,527
INVESTMENT LIABILITIES				
8 - Derivative contracts	-469		-66	
- Trades pending	-1,951		-4,034	
- Fees	-553		-559	
- Tax	-159	-3,132	-33	-4,692
CURRENT ASSETS				
- Contributions due from employers	6,282		5,413	
- Cash balances	29,381	35,663	27,467	32,880
13 NON CURRENT ASSETS		5,688		0
CURRENT LIABILITIES				
- Unpaid benefits		-993		-1,671
7 NET ASSETS OF THE SCHEME AVAILABLE TO FUND BENEFITS AT THE PERIOD END		1,612,586		1,486,044

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The accounts do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial position of the Scheme which takes into account these obligations is available on Cambridgeshire County Council's website.

IAS26 requires the actuarial present value of promised retirement benefits to be disclosed using the accounting basis rather than the funding basis (which is used when calculating contribution rates) at 31 March 2011. This information will be published together with these accounts.

NOTES TO THE ACCOUNTS

1. CONTRIBUTIONS AND BENEFITS

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

	2010-11 £000	2009-10 £000
Contributions receivable:		
Administering Authority	39,863	36,679
Scheduled Bodies	51,375	48,505
Admitted Bodies	7,821	7,214
	99,059	92,398
Magistrates	6,320	0
	105,379	92,398
Benefits payable:		
Administering Authority	28,000	26,825
Scheduled Bodies	34,009	32,921
Admitted Bodies	5,972	5,986
	67,981	65,732

2. NUMBER OF CONTRIBUTORS AND PENSIONERS

	31 March 2011			Total	31 March 2010 Total
	County Council	Scheduled Bodies	Admitted Bodies		
Contributors	11,915	9,410	1,712	23,037	23,373
Pensioners	6,467	5,549	1,037	13,053	12,325
Deferred Benefits	13,475	10,096	1,360	24,931	24,303

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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 actuarial valuation at 31 March 2007 concluded that it was necessary to increase the average employers' contributions from 17.4% to 19.0%, 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%.

The actuarial valuation at 31 March 2010 was undertaken using a stabilisation methodology and as a result contribution rates will be unchanged from 1 April 2011. More information on this can be found in the valuation report on the Councils website. The market value of the Fund at the valuation date was £1,494m, and there was an actuarial deficit of £555m equivalent to a funding level of 73%, which is spread over a period of 20 years. The assumptions used in the 2010 valuation were as follows: investment returns 6.1%; earning growth 1.0% in the first two years then and 5.3% thereafter; price inflation 3.3% and a discount rate 6.1%.

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

	2010-11 £000	2009-10 £000
Fixed Interest	9	55
Dividends from equities	21,342	21,148
Pooled investment vehicles	5,240	5,178
Derivatives	377	663
Interest on cash deposits	375	241
Other (includes stock lending and underwriting)	696	489
	28,039	27,774

6. INVESTMENT MANAGEMENT EXPENSES

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

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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 2010	Purchases at Cost and Derivative Payments	Sales Proceeds and Derivative Receipts	Other Changes	31 March 2011	
	£000	£000	£000	£000	£000	%
Aberdeen Asset Management	45	0	0	-2	43	0
UBS Global Asset Management	155	0	0	-137	18	0
Schroders Investment Management	663,893	169,321	-158,305	27,184	702,093	43.7
State Street Global Asset Management	208,234	172,876	-2,510	22,986	401,586	25.0
Newton Investment Management	174,261	99,257	-93,963	7,835	187,390	11.7
RCM Investment Management	166,457	38,094	-197,184	-6,947	420	0
Credit Agricole Asset Management	167,684	89,954	-79,027	9,816	188,427	11.7
BNY Mellon (Transition manager)	1	285,021	-287,803	2,848	67	0
Private Equity	68,550	13,739	-3,925	8,178	86,542	5.4
Pension Fund Net Debtors	3,183	0	0	7,241	10,424	0.3
Cash with Council	27,467	0	0	1,914	29,381	1.8
Cash with custodian	6,114	0	0	81	6,195	0.4
	1,486,044	868,262	-822,717	80,997	1,612,586	100
Equity Index futures transactions included above		46	-138			

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 £84.677m at 31 March 2011 (£159.792m at 31 March 2010), State Street UK Equity Index Managed Pension Fund £184.301m at 31 March 2011 (£169.011m at 31 March 2010), Schroder Strategic Bond Fund at 31 March 2011 £84.031m (£0 at 31 March 2010), State Street North America Equity Index Managed Fund £81.206m at 31 March 2011 (£0 at 31 March 2010). All pooled investment vehicles are operated by companies registered in the United Kingdom.

As at 31 March 2011 the fund has commitments to invest a further £91.300m in private equity investments in future years (£78.017m at 31 March 2010).

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An analysis of “other movements” is as follows:

	£000
Change in market value of investments	82,004
Increase in cash and net debtors	-1,007
	80,997

The total of investment transaction costs incurred in the year was £0.471m (£0.641m 2009/10).

8. DERIVATIVE CONTRACTS

There were no derivative contract assets at 31 March 2011. Derivatives are held as a flexible alternative to holding the underlying securities. There was also no amount outstanding in respect of future foreign exchange contracts. Derivative contract liabilities include £0.469m 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 2011 included forward sales of £37.233m (£31.436m at 31 March 2010) in Euros and other foreign currencies and forward purchases of foreign currencies totalling £20.831m (£17.894m at 31 March 2010).

9. STOCK LENDING

The total amount of stock released to a third party under a stock lending arrangement was £47.078m at 31 March 2011 (£32.713m at 31 March 2010). Collateral is held in the form of a letter of credit or AA+ rated bond.

10. ADDITIONAL VOLUNTARY CONTRIBUTIONS

The amount of additional voluntary contributions (AVCs) paid by members during the year was £1.023m (£0.790m in 2009-10) and the value of investments was £5.464m at 31 March 2011 (£4.817m at 31 March 2010). 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.

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12. RELATED PARTY TRANSACTIONS

Under IAS24 "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 £29.381m with the County Council was outstanding at 31 March 2011 (£27.467m at 31 March 2010).

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. An assessment of the transfer by the scheme's actuary, which was agreed by the Government Actuary's Department in March 2011, has resulted in an annual amount of £0.632m to be paid by the Ministry of Justice (former Department for Constitutional Affairs) to the Fund as the valuation of the transfer out was less than the retained liability. Annual Payments will commence in April 2011 for ten years. In accordance with the Pensions SORP (May 2007) these amounts have been accrued in the 2010/11 accounts. £6.320m is shown in 'Other Contributions' in the Fund Account and £6.320m has been accrued in the Net Asset Statement (£0.632m in current assets and £5.688m in non-current assets).

14. BULK TRANSFERS

With effect from 31 March 2006, Isle College, a Scheduled Employer in the Cambridgeshire Fund, ceased to exist. All staff transferred to the College of West Anglia, a Scheduled Employer in the Norfolk Pension Fund, on 1 April 2006. A protracted series of negotiations followed to determine the cessation position for Isle College and to agree a bulk transfer payment to the Norfolk Fund with regards to those members of the LGPS who wished to transfer their pension rights. The College of West Anglia agreed to take on all residual liabilities in connection with Isle College, signing a legal agreement dated 7 June 2010. They made a cash injection into the Cambridgeshire Fund in June 2010 amounting to £0.950m. This improved the funding position following the cessation of Isle College to the extent that a bulk transfer payment could be made at the end of June 2010, amounting to £1.730m - the final transfer payment was reduced to take account of all transfers that had been paid on account to that date. The Isle College position will be reassessed at each triennial valuation, with the College of West Anglia committed to making good any deficit that materialises through adverse experience. There were no other bulk transfers in or out of the Fund during 2010/11.

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15. ORGANISATIONS PARTICIPATING IN THE PENSION FUND AS AT 31 MARCH 2011

SCHEDULED BODIES:

Cambridgeshire County Council

Peterborough City Council

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-Needingworth 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

Mepal 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

Arthur Mellows Village College Academy

Cambridge Regional College

Cambridgeshire & Peterborough Fire Authority

Cambridgeshire Association of Local Councils

Cambridgeshire Magistrates' Courts Committee

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Cambridgeshire Police Authority
 Cambridgeshire Probation Committee
 Cambridgeshire Valuation Tribunal
 Huntingdonshire Regional College
 Isle College, Wisbech
 Kings School Academy
 Linton Village College Academy
 Long Road Sixth Form College
 Ormiston Bushfield Academy
 Peterborough Regional College
 The College of West Anglia
 Thomas Deacon Academy

ADMITTED BODIES:

Aaron Services Limited
 ADEC
 Advanced Cleaning Services
 APS Limited
 Avocet Cleaning Services
 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 Community Services Trust
 Cambridgeshire Information & Technology Centre
 Cambridgeshire PCT
 Cambridgeshire Society for Mentally Handicapped Children
 Cambridgeshire Society for the Blind
 Caterlink Limited
 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
 Crosshall Infant School Academy Trust
 Crosshall Junior Schools Academy Trust
 Hills Road Sixth Form College
 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
 Lunchtime UK Limited
 M.D.A (Europe)
 Mears Group
 Mepal Outdoor Centre
 Methodist Homes
 MITIE Facilities Management
 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 Cultural and Leisure Trust
 Peterborough Development Corporation
 Peterborough PCT
 Peterborough Youth Stadium
 Railway House Association
 Roddens Housing Association
 Romsey Town Churches Youth & Community Centre
 Screen East

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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
Trojan Commercial Cleaning Contracts Limited
Turning the Red Lights Green
Wisbech & Fenland Museum
Wisbech Grammar School