

Cumbria Local Government Pension Scheme

Annual Report
and Accounts
2015/16



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1/ Chairman's Introduction

As Chairman of the Cumbria Local Government Pension Scheme (LGPS) it is my pleasure to present, on behalf of my fellow Members of the Cumbria Pensions Committee, the Annual Report for 2015/16.

2015/16 continued in the same vein as 2014/15 i.e. to be a year of change and volatility across the whole spectrum of Fund activities (governance, investment and administration). Change, additional external demands and market volatility have become the “new norm” in the world of pensions, however while striving to rise to these additional demands the Committee never loses its focus on the ensuring successful delivery of day business. To ensure we continue to meet these requirements the Committee reviews the Fund's performance across a range of core activities at every meeting. This customer focused but performance driven approach ensures the Fund continues to strive for further improvements across all activities.

The aims of the Fund are to:-

- Meet the high expectations of both our members and employers in any engagement they have with the Fund;
- Achieve the targeted long term risk adjusted investment returns;
- Deliver value for money across all our externally provided services;
- Maintain high standards of regulatory compliance; and
- To exhibit strong Governance standards in all our activities.

2015/16 Summary Key Results:

Investments Portfolio:- Despite difficult markets the year-end position saw the Fund assets remain above the £2bn valuation with the assets increasing in value over the year by £19.493m (total Fund value rose from £2,027.316m (31/03/15) to £2,046.809m (31/03/16). This was achieved against a difficult backdrop in the markets which, despite volatility between months and quarters, saw a generally muted performance overall for the 12 months to 31st March 2016 for most markets.

During the year investments returned 1.9% (net of fees) representing an outperformance of 2.1% on the Fund's bespoke benchmark of -0.2%. While the one year result is positive, pension funds are, by their nature, long term investors and should therefore focus on performance over longer time periods. I am therefore pleased to report that the Fund has also outperformed its bespoke benchmarks over the 3, 5 and 10 year time horizons with the three-

year return of 8.1% outperforming the benchmark of 6.2% (per year), five-year return 8.5% outperforming benchmark of 7.5% (per year); and ten year return delivering 6.2%, again above the benchmark of 5.7% (per year).

Administration Activities: 2015/16 has been a busy year in terms of benefits and administration for the LGPS. In addition to the ‘day job’, key challenges faced have included; work on embedding and consolidating the changes required to administer the new career-average revalued earnings (CARE) scheme; ensuring scheme records meet the standards expected by The Pensions Regulator (tPR); and working with an expanding employer base. Despite these additional challenges, as reported in section 3.5.1 all administration key performance indicators were exceeded during 2015/16 and an overall performance level of 97% was achieved against a target of 90%.

We also recognise the continued issues being faced by many of our members and employers as they undertake the difficult processes to downsize their organisations in light of the continued national austerity measures facing local government. Pensions planning is a key aspect of this and as such officers from the Pension team have provided support to employers by attending meetings with their staff at venues across the county to provide information on the regulations and benefits available.

It is now five years since the Cumbria Fund transferred its administration activities to a collaborative arrangement with Lancashire County Council - “Your Pension Service” (YPS) and accordingly it was an appropriate time to formally review arrangements. During this time the service has gone from strength to strength with improvements in data quality, employer engagement, member information and the roll-out of on-line facilities. After formal consideration of both the past performance and the potential future benefits from additional scale (being brought about by changes at YPS which have extended the service to the London Pension Fund Authority (LPFA)) the Committee agreed to extend the arrangement.

Value for Money: - in addition to the review of the administration service provision the Fund also undertook period procurement reviews of several other contracts, most notably the custodian contract, achieving both service enhancements and cost reductions.

Governance: - Following completion in 2014/15 of the Constitutional changes required to establish the Cumbrian LGPS Local Pensions Board ('the Board'), the application and selection process to appoint members to the Board was completed early in June 2015. In line with Department of Communities and Local Government (DCLG) timescales the Board held its first meeting on 20th July 2015 and, in accordance with its terms of reference, has continued to meet twice yearly (with the second meeting of 2015/16 taking place on 9th October 2015).

Under the Chairmanship of Cllr Ian Stewart the Board has had a successful first year and included at pages 7 to 9 is their first Annual Report. Ian brings a wealth of LGPS experience having previously served for many years on the Cumbria Pensions Committee and I was pleased to welcome him and the other members to their new roles when I attended the Board's first meeting. Members of the Board have since attended joint training events alongside Members of the Committee and I look forward to the continued development of this constructive working relationship between the Committee and the Board for the future benefit of the Fund.

Further details of the activities of the Board during 2015/16 are set out in section 1.1 of this report.

Looking Forward to 2016/17 and Beyond

In addition to meeting the challenges of delivering the "day business", the Fund has faced a series of additional external demands in 2015/16, delivery of which will continue into 2016 and beyond. Additionally as I raised in my 2014/15 report, due to the anticipated adverse market conditions which directly affect the valuation of the Funds liabilities, the Fund sought to engage early with the Actuary in preparation for the 2016 Triennial Valuation. Alongside preparation of the data for the valuation the administration teams have also been working towards the Guaranteed Minimum Pension (GMP) reconciliation exercise which, a requirement initiated by HM Treasury across all contracted-out Pension Funds.

Asset Pooling Across the LGPS:- During 2015/16 Cumbria continued to take a leading role in working towards the delivery of the national initiative to combine assets across the LGPS into a few large asset pools. On the 15th July 2016 all Funds in the Local Government Pension Scheme (LGPS) in England and Wales submitted second stage plans to DCLG to pool individual

pension Fund assets into 8 national pooled investment partnerships. These ranged from pools with combined assets of £13bn to £36bn and collaborations of 3 to 33 Funds.

This initiative follows over three years of discussion between central government departments and the LGPS, culminating in the 2015 Budget when the Chancellor laid plans to require all LGPS Funds in England and Wales to come forward with proposals to create half a dozen asset pools, aimed at improving efficiency, professional resilience, reducing costs, and improving capability and capacity to invest in infrastructure by combining assets to invest at scale.

Members of the Cumbria Pension Committee and the Local Pension Board have been fully involved throughout the year receiving briefing sessions and updates to every Committee.

I am pleased to confirm that Cumbria took a leading role in this initiative, Cumbria is one of the founding partners of the Border to Coast Pensions Partnership (BCPP). Cumbria responded to the second consultation to DCLG, along with our 12 partner Funds in a joint proposal. The proposal outlined plans for the Funds to combine their assets to create a fully regulated, multi asset pool totalling £36bn, (of which the Cumbria Fund accounts for £2bn). Both this and the first stage outline BCPP joint consultation response (submitted February 2016) can be viewed at www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp

The BCPP proposal demonstrates achievable savings for all Funds plus the benefit from increased resilience from building a larger central team and investing the combined assets at scale. These savings translate directly to individual Fund performance and thereby help keep the Scheme sustainable in the longer term and maintain stable contribution rates for local employers.

If our proposals are agreed by government, the investments of the pooled funds will be managed by the BCPP on behalf of the individual LGPS Funds. Each Pension Fund and Pensions Committee will remain with its sovereignty unchanged, and neither the 54,500 Scheme members nor the 126 employers in the Cumbrian Fund will be directly affected by the changes.

If the proposal is approved by DCLG the target date for the BCPP asset pool being operational is expected to be April 2018.

2016 Triennial Valuation:- Discussions with the Actuary about appropriate methodology and data capture continued throughout 2015/16 and will continue into 2016 as the results are finalised. As part of the process the

Fund will again engage with employers on funding and contribution requirements. Austerity measures and a volatile economic climate are putting increased pressures on both employer finances and scheme funding costs and we expect this to be a major theme for valuation discussions this year.

There is an additional requirement following the 2016 Valuation i.e. that of the Government Actuary's Section 13 Report. This is a new requirement from the 2013 Public Service Pensions Act.

Guaranteed Minimum Pension Reconciliation The GMP reconciliations will see the pensions administration team at YPS working through significant amounts of data to ensure that locally held GMP liability records for employees who were 'contracted-out' of the Additional State Pension match those held by the Government. This is a national exercise and is being undertaken by all previously contracted-out pension Funds, including all LGPS Funds.

To sum up, the outlook for the LGPS and the Cumbrian Fund remains in many respects much as it did when I made my report last year. All Funds face challenges in the coming years as they seek to balance both a drive to improve day business at reduced cost and to meet the external demands and pressures coming from servicing additional national requirements whilst continuing to maintain investment performance in what are anticipated to be very difficult global markets.

That said, I believe the approach of both Members and Officers of the Fund towards strong governance arrangements, customer focused communication, performance driven monitoring and active outward facing engagement across all activities have placed Cumbria LGPS in a strong position to meet these challenges head on.

I hope you will find the report informative. However as we seek to continually improve we would welcome comment on its content and presentation. Further information is available from the contact points shown in section 14.

I would also like to convey the Committee's thanks to all the Council's staff involved in administering the Cumbria LGPS as well as YPS, and our external advisors for their work during the year in supporting the management and beneficiaries of the Fund.

Finally I would like to thank my fellow Committee Members for their contributions during 2015/16.



Cllr. Melvyn Worth
Chairman
August 2016

1.1 Annual Report of the Cumbria LGPS Local Pension Board for 2015/16

As Chairman of the Cumbria Local Pension Board (LPB) it is my pleasure to present, the Annual Report for the Cumbria LGPS Local Pension Board 2015/16 on behalf of my fellow Members.

Background

The Public Service Pensions Act (PSPA) 2013 introduced the requirement to have a Local Pension Board to assist in the governance of the Scheme. The Board has no remit as a decision making body but is established to assist Cumbria County Council as the Administering Authority to fulfil its functions which cover all aspects of governance and administration of the Cumbria Local Government Pension Scheme.

The PSPA 2013 also provided a new regulatory oversight by the Pensions Regulator. The regulator issued a code of practice no. 14 – Governance and administration of public service pension schemes (the “code”) in April 2015. The code provides scheme managers (Cumbria County Council as the local administering authority) and pension board members with a summary of their key governance and administration duties, standards of conduct and practice expected in relation to those duties.

Cumbria LGPS created and implemented the board ahead of the deadline of 1 April 2015, and has held two meetings during the year, in July and October 2015 – both were well attended. The board will continue to meet bi-annually, and align with Pension Committee meetings and work cycles, with the next meeting scheduled to take place on 19 July 2016. Where appropriate the Board has adopted all relevant policies of the Committee e.g. Code of Conduct and Reporting breaches of the law.

Membership

There is equal representation between scheme employers and scheme members, with three employer representatives allocated to the County Council; the District Councils and one for all other employers in the Fund; and three scheme member representatives selected to ensure all membership groups within the Fund are covered (Active/Deferred/Pensioners).

The administering authority must ensure that each person appointed to the Board has the relevant experience and the capacity to represent the employers or members (as appropriate) of the Fund. Initially this was done through selection by the Administration Authority but, following appointment, it becomes a member's individual responsibility to ensure they attend training, and keep abreast of issues to enable them to continue to fulfil the experience and capacity requirements.

Initial training was provided outlining Board duties and background to the LGPS and the Cumbria Fund. Further training was then delivered focussing on the 74 areas of knowledge and understanding as set out by the Shadow Scheme Advisory Board. Board members have also attended Pension Committee training and attended National Seminars:

Training	Delivery	Date
Training File with key fund & wider governance documents	Internal	20/07/15
Presentation on Board duties & background to the LGPS & Cumbria LGPS	Internal	20/07/15
Legal & Governance Issues	External	09/10/15
The Benefit Framework	External	09/10/15
The role of Audit	External	09/10/15
Pension Committee training sessions : National pooling update; post-pooling and governance structures, custody arrangements, passive management, equity strategies and property	Internal / External	15/06/16

Cumbria LPB page on CCC website:

<http://councilportal.cumbria.gov.uk/ieListMeetings.aspx?CId=1164&Year=0>

Work Programme during 2015/16

2015/16 was a busy year for the Cumbria LGPS as it faced a series of external pressures and new challenges (alongside all other LGPSs), including Government announcements part way through the year to progress asset pooling across the LGPS within a tight timescale. In addition the Fund continued with investment restructuring, internal service improvements, embedding benefits structure changes, implementing the Local Pension Board, and driving through further efficiencies.

The Board formally adopted the Cumbria LGPS Code of Conduct (Conflicts of Interest) Policy; adopted the current training policy of the Cumbria LGPS and approved the specific training plan for the Board for 2015/16; endorsed and adopted the Cumbria LGPS policy on reporting breaches to the Pension Regulator; and reviewed Pension Committee decisions made over the period, noting the recommendations they approved at their June and September meetings.

Looking forward to 2016/17

The Work Plan of the Cumbria LGPS will include:-

- 2016 Triennial Valuation
- Detailed pooling proposal for submission to government required in July, at individual fund and joint pool level
- Further pooling work to establish the BCPP (Border to Coast Pensions Partnership) as a formal entity (assuming approved by Government)
- Further administration work to accommodate changes to membership structures across employers due to continuing austerity measures
- Implementation of new Investment Strategy Statement following ongoing changes to investment regulations
- Planning for full Investment Strategy Review in 2017
- Continuing to develop knowledge and understanding of the Board

I would like to convey the Board's thanks to all the Council's staff involved in administering the Cumbria LGPS as well as YPS, and our external advisors for their work during the year in supporting the management and beneficiaries of the Fund.

I am particularly delighted that Grant Thornton (external auditors of 40% of LGPS funds) have recognised Cumbria LGPS as an example of best practice in their last two national governance review publications.

Finally I would like to thank my fellow Board Members for their contributions during 2015/16.



Cllr. Ian Stewart
Chairman
July 2016

2/ The Local Government Pension Scheme

2.1 Regulatory Background

The Local Government Pension Scheme (LGPS) is a statutory scheme, established by an Act of Parliament and governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- i. The Local Government Pension Scheme Regulations 2013 (as amended);
- ii. The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- iii. The Local Government Pensions Scheme (Management and Investment of Funds) regulations 2009 (as amended).

Whilst the regulations are set on a national basis, individual Funds are managed by designated administering authorities at a local level. Throughout England and Wales there are 89 such authorities. Cumbria County Council is the Administering Authority for the Cumbria LGPS and as such is responsible for administering the Fund for the benefit of its own employees and the employees of scheduled bodies and admission bodies. Full details of the 126 employers participating within the Fund are set out in the Pension Fund Accounts on page 110. Further details of the responsibilities and arrangements relating to Fund administration can be found in section 5.1 of this report.

2.2 Membership and Benefits

Membership of the LGPS is open to all eligible employees of local government and other participating employers who are under 75 years of age. Teachers, Police Officers and Firefighters are excluded from the Scheme as they are members of separate statutory pension schemes. In line with regulations all eligible employees are automatically enrolled¹ into Cumbria LGPS but have the freedom to opt-out should they so wish. Details of Cumbria LGPS membership numbers are set out in section 3.5.3 of this report.

The regulations specify the type and amounts of pension and other benefits payable in respect of Scheme members who leave, retire or die. They also fix employee contribution rates payable (see 2.3 below) on an ongoing basis (subject to the cost cap mechanisms²).

More detailed information on the benefits of the Scheme and how to join it can be obtained by visiting the Your

Pension Service website at:

www.yourpensionservice.org.uk/

2.3 Contribution Rates

2.3.1 Employee Contribution Rates

Employee contribution rates are set by regulation. During 2015/16 rates payable were between 5.5% and 12.5%:

Standard pay band table from 1st April 2015 to 31st March 2016	
If your whole time pay rate is:	You pay a contribution rate of:
up to £13,600	5.5%
£13,601 - £21,200	5.8%
£21,201 - £34,400	6.5%
£34,401 - £43,500	6.8%
£43,501 - £60,700	8.5%
£60,701 - £86,000	9.9%
£86,001 - £101,200	10.5%
£101,201 - £151,800	11.4%
Over £151,801	12.5%

2.3.2 Employer Contribution Rates

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

2.4 Regulatory Changes

The following key changes to regulations (both to LGPS specific regulations and the wider pension's regulations impacting on the LGPS) were announced during or impacted on 2015/16:

2.4.1 The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 (Statutory Instrument 2015 No. 57)

This statutory instrument formally established the National Scheme Advisory Board to advise the Secretary of State on the desirability of changes to the LGPS. It also included provision for administering authorities to establish local pension boards to assist them with the effective and efficient management and administration of the Scheme. The Instrument also provided for two separate sets of cost control mechanisms for the Scheme.

1. The Pensions Act 2008 established new duties for UK employers to automatically enrol their workforce in a pension scheme and make employer contributions. Automatic enrolment is a national statutory requirement both on the private and public sector employers to offer and enrol all eligible employees in an approved work place pension. The aim of this legislation is to increase the numbers of individuals saving for their retirement. The date by which employers must implement auto enrolment depends upon their size with the largest employers 'going live' first. Cumbria County Council (the largest employer within Cumbria LGPS) commenced automatic enrolment of its employees on 1st June 2013. See also section 2.4.2 of this report.

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

Good to know:

For details of membership of the Cumbria Pensions Board please see the Cumbria County Council website.

2.4.2 The Local Government Pension Scheme (Amendment) Regulations 2015 (Statutory Instrument 2015 No. 755)

This statutory instrument made amendments to the Local Government Pension Scheme Regulations 2013 (SI 2013/2356) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (SI2014/525) which came into force on 1 April 2014. The amendments provide clarifications and improvements to the Scheme regulations following consultation with scheme administrators.

2.4.3 Automatic Enrolment

The Pensions Act 2008 established new duties for UK employers to automatically enrol their workforce in a pension scheme and make employer contributions. Automatic enrolment is a national statutory requirement both on the private and public sector employers to offer and enrol all eligible employees in an approved work place pension. The aim of this legislation is to increase the numbers of individuals saving for their retirement.

This is primarily an issue for employers rather than pension scheme administration authorities however there are implications to the scheme. From the Cumbria LGPS perspective there are additional data collection and storage requirements and this will have an on-going cost to the Fund. The date by which employers must implement auto enrolment depends upon their size with the largest employers 'going live' first. Cumbria County Council (the largest employer within Cumbria LGPS) commenced automatic enrolment of its employees on 1st June 2013. The phasing in of automatic enrolment will continue until 2017 when all the employers within the Fund will be required to have implemented it. The Administration Authority has worked closely with employers to ensure they have access to current information and can take advantage of work already undertaken.

2.5 Other Matters Arising in 2015/16

2.5.1 Proposal to Pool Pension Assets Across the LGPS

Following over three years of research and debate between Central and Local Government departments the Chancellor in the 2015 Budget speech outlined plans that would require all LGPS Funds in England and Wales

to come forward with proposals to create half a dozen asset pools, aimed at improving efficiency, professional resilience, reducing costs, and improving capability and capacity to invest in infrastructure by combining assets to invest at scale.

The invitation, including the criteria against which proposals will be assessed, was subsequently issued in November 2015³. In summary the criteria were:

- A. Asset pools to achieve benefits of scale, preference for >£25bn;
- B. Strong governance and decision making, including regulatory frameworks to protect members and employers interests;
- C. Reduced costs and excellent value for money; and
- D. An improved capacity and capability to invest in infrastructure.

Authorities were asked to submit initial proposals, setting out their commitment to pooling and a description of their progress towards formalising arrangements with other authorities, by 19th February. A more detailed joint pool response was due on 15th July.

Eight Pools (encompassing all Funds in the Local Government Pension Scheme (LGPS) in England and Wales) submitted second stage plans to DCLG in July to pool individual pension Fund assets into national pooled investment partnerships. These range from pools with combined assets of £13bn to £36bn and collaborations of 3 to 33 Funds.

Members of the Cumbria Pension Committee and the Local Pension Board have been kept fully involved throughout the process with both update briefing sessions and Committee Papers. The Committee Chair, Cllr Mel Worth updated Council through his regular update on the Pension Committee minutes.

Cumbria is one of the founding partners involved in creating the Border to Coast Pensions Partnership (BCPP). Cumbria responded to the second consultation to DCLG, along with our 12 partner Funds in a joint proposal. The proposal outlines plans for the Funds to combine their assets to create a fully regulated, multi asset pool totalling £36bn, (of which the Cumbria Fund accounts for £2bn). Both this and the first stage outline BCPP joint consultation response (submitted February 2016) can be viewed at:

www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp

The BCPP proposal demonstrates achievable savings for all Funds plus the benefit from increased resilience from building a larger central team and investing the combined

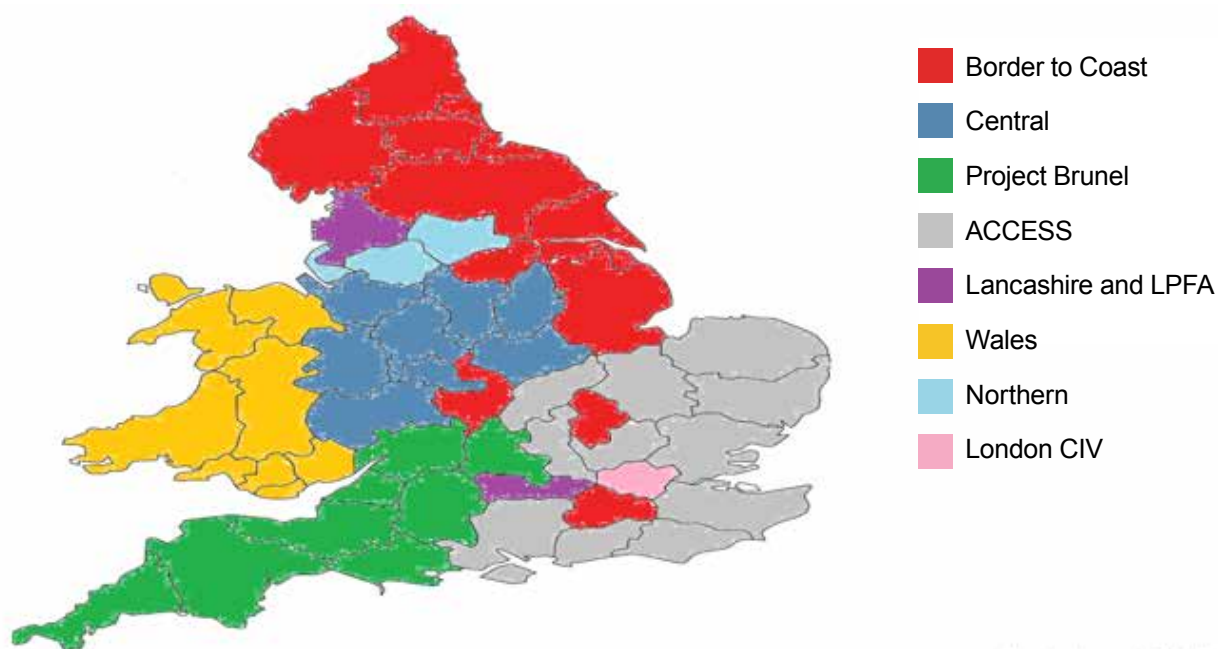
3. 'Local Government Pension Scheme: Investment Reform Criteria and Guidance'
www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf

assets at scale. These savings translate directly to individual Fund performance and thereby help keep the Scheme sustainable in the longer term and maintain stable contribution rates for local employers.

If proposals are agreed by government the investments of the pooled funds will be managed by the BCPP on behalf of the individual LGPS Funds. Each Pension Fund and Pensions Committee will remain with its sovereignty unchanged, and neither the 54,500 Scheme members nor the 128 employers in the Cumbrian Fund will be directly affected by the changes.

If the proposal is approved by DCLG the target date for the BCPP asset pool being operational is April 2018.

Funds Across LGPS in England and Wales Submit Proposals to DCLG to Create 8 National Asset Pools



northerntrust.com | © Northern Trust 2016

Border to Coast Pensions Partnership (BCPP)	Fund size 31 March 2015
Bedfordshire Pension Fund	£1.7bn
Cumbria Pension Fund	£2.0bn
Durham Pension Fund	£2.3bn
East Riding Pension Fund	£3.7bn
Lincolnshire Pension Fund	£1.8bn
North Yorkshire Pension Fund	£2.4bn
Northumberland Pension Fund	£1.1bn
South Yorkshire Pension Fund	£6.3bn
SY Passenger Transport Fund	£0.2bn
Surrey Pension Fund	£3.2bn
Teesside Pension Fund	£3.2bn
Tyne and Wear Pension Fund	£6.4bn
Warwickshire Pension Fund	£1.7bn
Border to Coast Pensions Partnership (BCPP)	£35.9bn





Cumbria County Council
Resources & Transformation,
Finance,
Pensions & Financial Services,
First Floor, West Wing,
The Parkhouse Building,
Kingmoor Business Park,
Carlisle, CA6 4SJ

cumbria.gov.uk 13

M&G		Real estate debt & long lease property
Nordea		Global Equities
Partners Group		Infrastructure
Schroder Investment Management		UK equities
Standard Life Pension Funds Ltd		UK corporate bonds
SL Capital Partners		Private Equity Secondaries
Unigestion		Private Equity Secondaries

Custodian

State Street Bank and Trust Company

Additional Voluntary contribution providers:

Prudential
Standard Life
Scottish Widows

Actuary

Mr J Livesey FIA, Mercer

Legal Advisers

Cumbria County Council Legal Services
DLA Piper UK LLP
Institutional Protection Services (IPS) / Spector,
Roseman, Kodroff & Willis PC (class actions)

Bankers

National Westminster Bank PLC

Auditor

Mr Gareth Kelly, Grant Thornton UK LLP

Performance Monitoring

State Street Investment Analytics (WM Company)

Independent Advisers

Mr TJA Gardener, Global Head of Consultant Relations,
AXA Investment Managers
Mr AJ Sutherland, Consulting Director, Deloitte

Pensions Administration (a delegated function from Cumbria County Council to Lancashire County Council)

Your Pension Service
Cumbria LGPS Team
PO Box 100, County Hall, Preston PR1 0LD
E: AskPensions@localpensionspartnership.org.uk
T: 0300 123 6717

Good to know:

For how to contact the Fund see section 14 of this report

3.2 Risk Management

Risk management is the process by which the Council systematically identifies and addresses the risks associated with its activities; it is a key element of good governance for any organisation. Officers of the Fund maintain a Cumbria LGPS risk register (details of the format of the register and the methodology for measurement of risk can be found in the Governance Policy Statement at section 7.2 of this report) and continually review and monitor risks throughout the year.

Pension Committee members receive a formal risk update on a quarterly basis as part of the quarterly monitoring report presented to the Committee. The quarterly monitoring report incorporates details of the major risks facing the Fund and includes a traffic light scoring system to categorise the anticipated likelihood and impact of each risk. Members actively monitor progress in relation to controls and actions taken to mitigate risk. Any emerging significant issues being escalated by Officers to the Chair and Vice Chair in the intervening periods.

Good to know:

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

3.2.1 Risks identified at March 2016:



There were no risks in the red category as at March 2016 however there were five risk areas (risks 1.5, 3.1, 3.2, 4.1b and 4.4) out of a total of eighteen risks identified as amber. Details of the amber risks are set out below at 3.2.1.1. In addition to this note 14 to the Financial Statements (page 96) details the nature and extent of risks arising from Financial Instruments.

3.2.1.1 Amber risks identified at March 2016:

Risk Ref	Owner	Risk area	Impact	Likelihood	Overall risk rating	Control(s)	Comment
			1: lowest, 5: highest		(impact x likelihood)		
			Previous quarter score in brackets Target score for risks above green shown in italics				
1.5	Scheme Manager	Exceptional workload pressures over the next 5 months due to emerging new pressures (the LGPS pooling agenda, GMP reconciliation and the IAS 19 shortened timetable for provision of information to employers) coinciding with significant core pieces of work (2016 triennial valuation and closedown 2015/16). All of which have externally determined deadlines.	3 <i>Target by 30/09/16 = 3</i>	4 <i>Target by 30/09/16 = 2</i>	12 Amber <i>Target by 30/09/16 = 6</i>	Staffing resource: the recruitment to additional posts approved by the Pensions Committee in March 2015. Recourse to independent expert advisors when required, e.g. the Fund's Actuary (valuation), YPS (GMP reconciliation) and other relevant external experts (e.g. pooling: additional budgetary provision for this was agreed in September 2015). Robust closedown timetable. Detailed workload planning.	2 new posts, approved by Committee in March 2015 (the delay in recruitment was due to the Finance restructure in 2015), have been appointed to with 1 of the successful applicants coming from the Pensions team and now in post, and the other, from the wider CCC Finance team, transitioning in over the coming weeks. Training is already underway for both appointees. The vacancy created by the Pensions team member moving to the new post has been recruited to and the individual appointed will be joining the team shortly. As in previous years the Fund has a robust closedown timetable which factors in the impact, where known, of other significant pieces of concurrent work and additional workload planning has taken place and is ongoing (e.g. full team meeting to consider workloads held on 09/02/16).

3. Funding

Risk Ref	Owner	Risk area	Impact	Likelihood	Overall risk rating	Control(s)	Comment
			1: lowest, 5: highest		(impact x likelihood)		
			Previous quarter score in brackets Target score for risks above green shown in italics				
3.1	Scheme Manager	Employer failure to pay contributions into scheme (e.g. due to employer error, business failure or general impact of increases in employer contribution rates)	4	2	8	Monthly monitoring of contribution payments by Scheme Manager to ensure contributions received are timely and accurate. This reconciliation is considered as part of the annual audit process.	Direction of travel Officers review employer covenant on an ongoing basis (e.g. review of Annual Accounts / Reports and through general discussions with employers). Monitoring and reconciliation of contributions undertaken monthly. Full reconciliation completed and checked as part of year end process.
			Target by 30/09/16 = 2	Target by 30/09/16 = 2	Amber Target by 30/09/16 = 4		
						Exercise to review employer covenants undertaken as part of triennial valuation process.	Officers are available for dialogue with employers throughout the year. In addition to this specific opportunities for employers to discuss issues include the annual Pensions Forum (Oct/Nov each year) and Employer surgeries (held at various locations throughout the county at least once a year).
						Use of bonds and guarantees	All entities seeking admitted body status are required to have an appropriate bond/guarantee in place prior to their admission being approved. Arrangements relating to existing employers were reviewed as part of the triennial valuation process.
3.2	Scheme Manager	Significant financial downturn occurs – '1' in 20' year event.	4	3	12	Diversification of managers and asset classes. Attendance at relevant training events, the monitoring of industry press and dialogue with independent advisors, investment managers and colleagues to identify and monitor market trends and ascertain options available to further mitigate market volatility where appropriate.	Direction of travel At the time of writing (Feb 2016) markets continued to experience a high level of volatility however, as reported elsewhere on the agenda, the Fund continues to deliver a positive return over 3, 5 and 10 year timeframes. The Fund undertook a detailed review of its investment strategy in 2012. A key element of the review was to ensure the fund was appropriately diversified to mitigate, as far as reasonable, against such systemic market risk. This is subject to ongoing review (e.g. quarterly monitoring of Fund performance to confirm investments are delivering expected performance in light of market conditions) to ensure that it remains fit for purpose.
			Target by 30/06/16 = 4	Target by 31/03/16 = 3	Amber Target by 30/06/16 = 12		

Risk Ref	Owner	Risk area	Impact	Likelihood	Overall risk rating	Control(s)	Comment
			1: lowest, 5: highest		(impact x likelihood)		
			Previous quarter score in brackets Target score for risks above green shown in italics				
4.1b	Scheme Manager	Changes to LGPS structures – pooling of investments is mandated and timescales / parameters / requirements are unrealistic / short term resulting in a significant increase in liabilities and, consequently, unsustainable employer contribution rates.	4	2	8 Amber	Regular monitoring of key sources of information e.g. government publications, industry expert briefings and press. Liaison with LGPS colleagues and other interested parties. Attendance at key meetings (e.g. LGA). Responses to consultations.	 Direction of travel The summer budget 2015 red book contained a section (2.19, p.78) announcing a consultation on legislation for delivering savings via the use of pooled investment vehicles for LGPS fund assets. The announcement didn't stipulate Fund mergers however it did indicate the use of 'backstop legislation' requiring authorities to pool where they 'do not come forward with sufficiently ambitious proposals'. Cumbria LGPS has been instrumental in developing the proposal for the 'Border to Coast Pensions Partnership' (BCPP) pooling arrangement which consists of 'like-minded' funds. At the core of the arrangement is a set of guiding principles which all funds have signed up to. These have been designed to ensure, amongst other key aims, that the governance and transition arrangements are robust as well as realistic and that asset allocation strategy is retained at an individual Fund level. BCPP submitted a joint response from all Funds involved to the DCLG consultation on 19th February and will be submitting a more detailed response by 15 July This is considered further in agenda items 8, 15, 16, 17, 18 & 20.
4.4	Scheme Manager	EU directive Markets in Financial Instruments Directive II (MiFID II) defaults Local Authorities to retail client status thus significantly reducing the pool of asset managers willing to provide services to Local Authority Funds.	4	3	12 Amber	At a national level: the LGA, FCA, DCLG and the Investment Association are involved in discussions to find ways to lessen the impact on LGPS authorities. At a Fund level: Officers are discussing MiFID II with each of the Fund's managers to determine what additional information or evidence they would require in order to recognise the Fund as a professional rather than a retail client.	 Direction of travel This is a moving agenda. Work is ongoing at a national and Fund level to mitigate against this risk. Ideally a national solution will be achieved. However, in recognition that this may not be achievable, the Fund is currently working with each of its individual investment managers to confirm whether they will recognise the Fund's election for professional status. Further developments in relation to this will be reported to the Committee as and when they arise.

3.2.2 Third party risk

Employers:

- Employer covenant – as set out in the annual Business Plan, monitoring of employer covenants is regularly undertaken with emphasis given to those who are identified as high risk. As in the 2013 triennial valuation, as part of the work on 2016 valuation the Actuary is undertaking a comprehensive covenant review of all employers in the Fund. This will be used to help inform appropriate individual employer contribution rates. While individual assessments are undertaken throughout the period between valuations a periodic full review is appropriate to help protect the solvency of the Fund and mitigate risk transference to other employers. The results of the 2016 review will be used to help identify and assist those employers who have the weakest covenants.
- Following the implementation of the Public Service Pension Act 2013 the key focus of the valuation process is ensuring the long term solvency of the Fund. However consideration must also be given to the secondary requirement of maintaining stable employer contribution rates. Where covenant risk is perceived as high the Administering Authority works closely with the employer to seek to mitigate the risk to the Fund e.g. through identification of a guarantor.
- Employer payment of contributions – contribution payments from employers are monitored on a monthly basis. Where a payment is late this is reported and necessary action taken, including where payment is sufficiently late, interest being charged on the late amount.

Third party service providers:

- Significant emphasis is placed on undertaking robust due diligence work at the selection stage on the governance arrangements of prospective third parties such as investment managers and core service providers (such as the Fund's Custodian and Actuary). Once appointed, third party organisations are monitored on an ongoing basis throughout the year through mechanisms such as review meetings, review of the pensions press and SSAE 16 (formerly SAS 70) Internal Control reports.

3.2.3 Investment Risk

The Cumbria Fund has a diversified portfolio which it has developed in consultation with expert investment advisors and the Fund's Independent Advisors. This spreads the risk associated with any particular form of investment whilst facilitating the growth potential of the Fund. The investment risks are spread further as a result of employing different active fund managers and also by using passive managed funds.

The detailed selection and timing of investment purchases and sales within each portfolio is delegated to the Fund Managers to complete within the boundaries as laid down in their individual Investment Manager Agreements (IMA).

The method of measuring manager performance is specific to each portfolio (i.e. it will take into account factors such as the type of asset, whether it is a passive or actively managed portfolio and availability of relevant benchmarks) and is detailed in the IMA. Manager's performance targets are set to avoid undue exposure to risk and their performance against target is monitored throughout the year and reported to the Investment Sub Group every quarter.

3.3 Financial Performance

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

3.3.1 Amounts due from employers

Details of amounts due to the fund from employers are disclosed in note 3 to the Financial Statements (see page 77). During the year there were 3 instances (relating to 3 employers) of late payment where payment was received more than 20 days after the due date mainly due to employer oversights. (2014/15: 9 instances relating to 7 employers). These late payments were too small to represent a percentage of total contributions due in 2015/16 (2014/15: 0.06%). In each circumstance of late payment, Officers from the Administering Authority liaised with the employer to determine why the payment was late and to work with the employer to ensure that the payment was made. No interest charges were levied on the overdue contributions in 2015/16 (2014/15 £nil) as the Administering Authority determined that the circumstances relating to each of the cases did not merit such an approach (due to it not being cost efficient to do so).

3.3.1.1 Amounts due from employers - employer specific issues in 2015/16

Cumbria County Council is the only Fund employer who, in agreement with the Actuary, opted to make an additional employer contribution towards non-ill-health early retirement. The rate as determined by the Actuary as part of the triennial valuation (it is reset at each triennial valuation) includes an element to compensate the Fund for delayed receipt of monies. The additional employer contribution from the County Council is to be used to offset the one-off costs of workforce restructuring to be undertaken in response to national reductions in

government funding support to Local Authority budgets. It is anticipated that this period of workforce reduction and restructuring will continue in the medium term.

The additional contribution from Cumbria County Council incorporated into the 2013 triennial valuation fund was an allowance of up to £7.312m for non-ill-health early retirements. Details of this can be found in the Funding report of the Actuarial Valuation as at 31st March 2013 at:

www.cumbria.gov.uk/elibrary/Content/Internet/536/654/1129/41754144322.pdf

3.3.2 Performance against budget

The gross expenditure budget for administering the Cumbria LGPS for 2015/16 was £5.008m (net of budgeted income from stock lending of £0.100m this equates to a net budget £4.908m as reported to the 8th March 2016). The outturn for 2015/16 was £4.836m (excluding pooled fund costs and entry fees and transaction costs) resulting in an under spend of £0.172m as detailed below.

	2015/16 Budget £'000	2015/16 Actual £'000	Variance £'000
Administrative costs:			
Pensions Administration	890	897	7
Employee costs	212	152	(60)
Legal advice	20	25	5
	1,122	1,074	(48)
Investment Management costs:			
Fund management fees	3,102	3,138	36
Custody fees	130	140	10
Pooled fund costs and entry fees*		3,609	3,609
Transaction costs*		234	234
	3,232	7,121	3,889
Oversight and governance costs			
Employee costs	273	213	(60)
Pension fund committee	30	26	(4)
Investment consultancy fees	20	15	(5)
Transition management services	126	73	(53)
Performance monitoring service	24	23	(1)
Shareholder voting service	15	16	1
Actuarial fees	65	37	(28)
Audit fees	26	25	(1)
Legal and tax advice	44	36	(8)
Other (including bank charges)	31	20	(11)
	654	484	(170)
	5,008	8,679	3,671
Excluding pooled fund costs and entry fees and transaction costs*	-	(3,843)	(3,843)
	5,008	4,836	(172)

* The Cumbria LGPS Administration budget does not incorporate pooled fund costs and entry fees and transaction costs. During 2014/15 Cumbria LGPS adopted CIPFA guidance on accounting for management expenditure and as a result of this these costs in 2015/16 are now accounted for as management expenses and adjusted from the change in market value and net income.

Good to know:

Total Management expenses paid in 2015/16 (£8.679m adopting CIPFA's 'Management Costs Guidance') equates to 0.42% of the Fund net assets.

Putting this into context: during 2015/16 active management of assets (63% of the Fund is under active management) delivered **outperformance** (i.e. excess return above that achieved by the equivalent passive portfolio) for the Fund **in the region of 2.1%** (net of fund management fees). This equates to **additional growth of approximately £42m** over and above that which would have been achieved had this element of the Fund been managed passively.

Narrative on variances

- Employee costs – this budget assumed that previously vacant posts would be filled during 2015/16. Whilst recruitment was undertaken in 2015/16 costs will not be incurred until 2016/17. In addition the Fund received a contribution towards employee costs from Cumbria County Council of £0.008m for the work undertaken to set up the Cumbria Fire Local Pension Board on its behalf.
- Investment manager fees account for two thirds of the total budget and are linked directly to asset performance, and also affected by timing of any asset allocation or manager changes.
- Investment consultancy fees – the 2015/16 budget was increased in anticipation of there being a need to engage consultants to provide advice in advance of Cumbria's response to the Government's announcement regarding LGPS asset pooling. Due to competition in the market to provide this advice, the costs incurred in 2015/16 were less than expected. In addition, due to lower than anticipated activity sourcing and evaluating new products, investment advisor support and therefore cost was lower than budgeted.
- Pooled fund costs - the Fund has made the strategic decision to select alternative pooled funds in-house with advice from its independent advisors. The aim being to increase diversification and stability. Returns are already indicating positive performances net of fees and this is anticipated to continue in the longer term. Included in the pooled fund costs heading are the management fees deducted at source and any potential performance fees accrued. The growth of the portfolio of alternative pooled funds is ongoing and the resulting increased portfolio size has led to increased management fees of £2.840m in 2015/16. The corresponding positive investment returns required the accrual of performance fees of £0.769m in 2015/16.
- Transaction costs – along with the pooled fund costs mentioned above, these are inherent in investment activity. The costs arise from active management investment trading (i.e. purchases and sales), one-off costs at entry into funds, activity within pooled funds, and from transitions between asset types due to restructuring, and as such are not included in the budget for administering the Cumbria LGPS. However, as previously stated, they are accounted for as management expenses in 2015/16 in accordance with CIPFA guidance.
- Actuarial costs - this is a relatively light year in the 3 yearly valuation cycle which drives actuarial fees. Staff training has meant that initial employer queries, which previously would, have needed input from the actuary (at a fee), can now be dealt with internally and has contributed in lower than budgeted costs. Employers are fully recharged actuarial costs for provision of their year-end accounting disclosures or for any specific work undertaken on their behalf.

3.3.3 Analysis of pension overpayments, recoveries and amounts written off

The Cumbria Pension Fund pays approximately 14,900 pensioners every month and annual net pensions paid totalled £62.748m in 2015/16 (£60.612m in 2014/15). With such a large volume of pensioner payments, there is the risk of payment to a member of a pension greater than they are entitled to. The main cause of overpayments is the late notification of the death of a pensioner. Cumbria LGPS participates in the National Fraud Initiative (NFI) which is an exercise to match data and identify overpayments and help reduce occurrences. Wherever possible the Fund, while sympathetic to individual circumstances, will attempt to recover any overpayment and will only write off an overpayment as a last resort when it is uneconomical to pursue or all other avenues have been exhausted.

	2015/16		2014/15	
	£	Number of cases	£	Number of cases
Overpayments	48,643	92	37,936	69
Overpayments as % of annual pensions paid	0.08%		0.06%	
Overpayments recovered	42,115	83	30,333	64
Overpayments in process of recovery	6,528	9	7,603	4
Overpayments in process of recovery as a % annual pensions paid	0.01%		0.01%	
Overpayments written off	3,524	5	82	1

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

3.4 Performance against Business Plan 2015/16

As part of its governance arrangements the Pensions Committee approves a detailed Business Plan and associated budget prior to the start of the year and then reviews the half year performance against both to ensure that items are on track for delivery. The Committee received a report in November 2015 detailing the half year position for 2015/16 and an end of year update report in March 2016 outlining the expected final year outturn.

The purpose of the Cumbria LGPS annual Business Plan is to outline the Fund's goals and objectives for future years, as well as providing an Action Plan for the current year of the key priorities in order to ensure these objectives are delivered. While the plan is reviewed annually it builds on those prepared for earlier years.

The substantive work plan objectives in the 2015/16 Business Plan have either been achieved or are in progress of completion and it is anticipated that they will be delivered within budget. The main actions completed during 2015/16 are set out in Note 1(b) to the accounts on pages 68 to 71 of this report.

3.4.1 Looking Forwards - Business Plan 2016/17

The forthcoming year 2016/17 will see major changes driven by national requirements to all functions across the LGPS, including:-

- asset management arrangements (pooling),
- investment regulation,
- governance structures,
- benefits and administration data requirements

These changes are in addition to the cyclical triennial valuation work, which will be particularly onerous this year due to market conditions which will potentially lead to increasing deficits, coupled with budgetary issues being faced by a majority of the Funds employers.

Key deliverables planned for 2016/17 include:-

- Governance and Procurement (including contract management)
 - Review and update of Fund risks, policies and strategies;
 - Develop viable detailed proposal on asset pooling with other "like-minded" Funds;
 - Reviewing, measuring and delivering training to Members and Officers as outlined in the dynamic Training Plan;
 - Development and enhancement of contract review procedures and performance monitoring at both Committee and Officer level;
 - Involvement in consultations and assessment of impact on Cumbria of national decisions on the future structure of the LGPS;
 - Review of governance arrangements in response to financial, regulatory and structural changes resulting from the 2013 Public Service Pensions Act, e.g. role of the Pensions Regulator;
 - Development of the Fund's stewardship and corporate engagement framework;
 - Embedding and developing the role of the Cumbria LGPS Local Pension Board; and
 - More extensive reporting across a range of Fund activities to third parties e.g. DCLG, GAD, Scheme Advisory Board, the Pensions Regulator, External Audit etc.

● Fund Management

- Continue to progress the final phase of the 2012/13 Investment Strategy review which includes the realignment of UK equities and closure of BlackRock Alternatives portfolio, continual review of temporary overweight to equities and further investment in infrastructure and opportunistic products;
- Implement a new Investment Strategy Statement (replaces the SIP) once the full regulations are in place and guidance issued;
- Consideration of options to address the movement of the Fund towards a negative cash flow position;
- Recruiting and training new staff; and
- Initial planning work and compilation of key data for a full investment strategy review in 2017.

● Employers, Funding and Accounting

- Undertake the 2016 Triennial Valuation, with work including discussions with the actuary and larger employers regarding the outcomes and revisions to employer rates (from 1st April 2017);
- Continue to improve pension administration arrangements for the benefit of all members and employers of the Fund;
- Continue to monitor and improve employer communication and employer data submission issues;
- Continue communication and liaison with Fund employers and to embed the CARE 2014 Scheme and meet the data requirements of the Pensions Regulator;
- Completion of the 2015/16 Cumbria LGPS Annual Accounts and Annual Report incorporating any new regulatory/technical changes;

- Recruit and train new staff;
- Scheme reconciliation - GMP (Guaranteed Minimum Pension); and
- Monitor and respond to the impact on administration of changes to membership structures across the Fund's employers due to continuing austerity measures (this may also require changes to benefit structures to reflect the implementation of the 'Exit Cap' legislation).

3.5 Administration Management Performance

In February 2016 the arrangement with Lancashire County Council was extended. The service for both Lancashire and Cumbria has been contracted to the Local Pension Partnership from April 2016. This is a not for profit arrangement providing pension administration services to the public sector. It is anticipated that, due to the provision of these services at such scale, further savings will be delivered.

The overall performance for 2015/16 against key pensions' administration indicators was 97% against a target of 90% with all LGPS-specific indicators being exceeded. As the indicators (detailed below) suggest the delegation of function continues to be very positive. This strong performance was achieved against a challenging backdrop of ongoing change.

3.5.1 Key Performance Indicators

Indicator	Target %	Actual 2015/16 %	Actual 2014/15 %
Estimate benefits within 10 working days	90	95	98
Payment of retirement benefits within 10 working days	90	97	99
Payment of death benefits within 10 working days	90	98	99
Implement change in pensioner circumstance by payment due date	90	99	100
Respond to general correspondence within 10 working days of receipt	90	99	98
Action transfers out within 15 working days	90	97	94
Action transfers in within 15 working days	90	97	96
Pay refunds within 10 working days	90	91	96
Provide leaver statement within 15 days	90	95	97
Amend personal records within 10 working days	90	100	100
	90	97	98

The current work ongoing by the National Scheme Advisory Board recognises the importance of comparable data to evaluate Funds and work at a national level is ongoing to ensure this data is more consistent across Funds going forwards. Cumbria LGPS welcomes any developments nationally which enable us to more consistently benchmark ourselves to help in our drive to achieve best practice.

3.5.2 Performance against Key Administration Deliverables in 2015/16 Business Plan

The 2015/16 Business Plan key deliverables and progress thereon for the Pensions Administration function of the Cumbria LGPS were:

Area	Why	Progress during 2015/16
Employer communications	Good governance	Communication with employers is a key function of administration of an LGPS Fund. In addition to undertaking 'standard' employer communications (e.g. email circulars, website, surgeries) Fund officers and YPS continue to work closely with employers to support them in the development of processes to deliver the required data.

Effective and timely communications with and feedback from Fund employers and members has been the pivotal element of fund administration in 2015/16, contributing significantly to the delivery of all the above. As part of this commitment to raise awareness of pensions issues and the services available officers and YPS have again undertaken numerous communications and events during the year (see 11.2 for further details).

3.5.3 Number of Members in the Fund

Analysed by active, deferred and pensioner members:

Category	2015/16	2014/15	2013/14	2012/13
Actives	16,270	16,506	16,776	15,969
Deferred	23,339	21,768	20,045	19,525
Pensioners	14,910	14,403	14,117	13,594
TOTAL	54,519	52,677	50,938	49,088



4/ Investment Policy and Performance

4.1 Introduction

The purpose of this section of the report is to demonstrate how the investment strategy has been put into practice during the year and how this links to the statement of investment principles (Section 10).

4.2 Asset Allocation

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

Depending on market cycles and movements in Fund membership a more in depth review is undertaken by the Fund every three to seven years. The investment strategy (including the core investment objectives and asset allocations) must be capable of being flexible enough to meet prevailing market conditions and address any cashflow requirements. Therefore to ensure the current strategy is fit for purpose under the current and future market conditions the strategy was stress tested under different market scenarios.

The Cumbria Fund completed a detailed Investment Strategy Review in May 2012 which has been reviewed annually in the intervening period. The outcome of the review determined that, given the predicted longer term liability profile of the Fund, at a strategic level, the asset allocation to growth seeking assets versus defensive assets (68% to 32%) was still appropriate. This results in Cumbria having a more defensive strategy than the average LGPS which held 77% growth seeking to 23% defensive assets.

It was considered that reduced risk (through better diversification and enhanced inflation protection) and marginally enhanced return with a greater focus on

income (to recognise the Fund's maturing liability profile in the medium-term) may be achieved from an alternative allocation across the growth section of the portfolio. This has led to the strategic selection of an in-house portfolio of alternative pooled funds to increase diversification and stability. Returns are already indicating positive performances net of fees and this is anticipated to continue in the longer term.

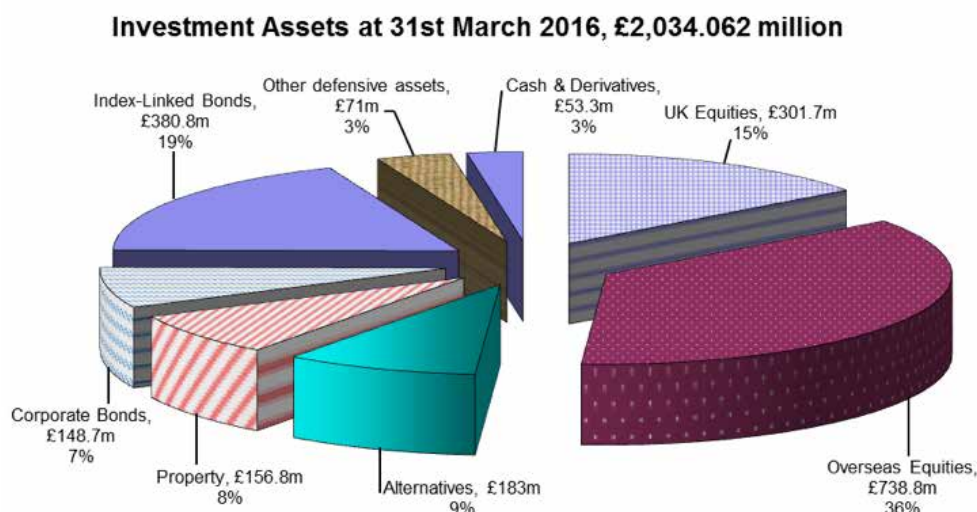
The process of implementing the changes in asset allocation has progressed steadily since 2012 with the following changes being made this year:-

- Increasing the commitments within the infrastructure and opportunistic portfolios towards their 9% targets, to 7.4% in infrastructure and 5.4% in opportunistic. This was done by the selection of suitable opportunistic investments (ongoing) with commitment made to SL Capital Secondary Opportunities Fund III;
- The continuation of planned drawdowns against agreed commitments within the infrastructure and opportunistic portfolios;
- The commencement of selecting suitable investments to a defensive asset allocation (income seeking with capital preservation), with commitment made to Babson Global Private Loan Fund of £25.0m; and
- The liquidation of the BlackRock alternatives portfolio has continued (£48.4m at 31/03/15 to £29.8m at 31/03/16) with funds released for investment into infrastructure and opportunistic products.

Investment assets as at 31st March 2016:

The following chart shows the distribution of the total

investment assets held by the investment managers across all the asset classes at the year-end:



The percentage (%) asset allocation has moved as follows since 1st April 2015:

	Assets as at 1st April 2015	Assets as at 31st March 2016	Movement
UK Equities	19%	15%	(4%)
Overseas Equities	35%	36%	1%
Fixed Interest Bonds	7%	7%	0%
Index-Linked Bonds	19%	19%	0%
Alternatives	11%	12%	1%
Property	7%	8%	1%
Cash & Derivatives	2%	3%	1%
	100%	100%	0%

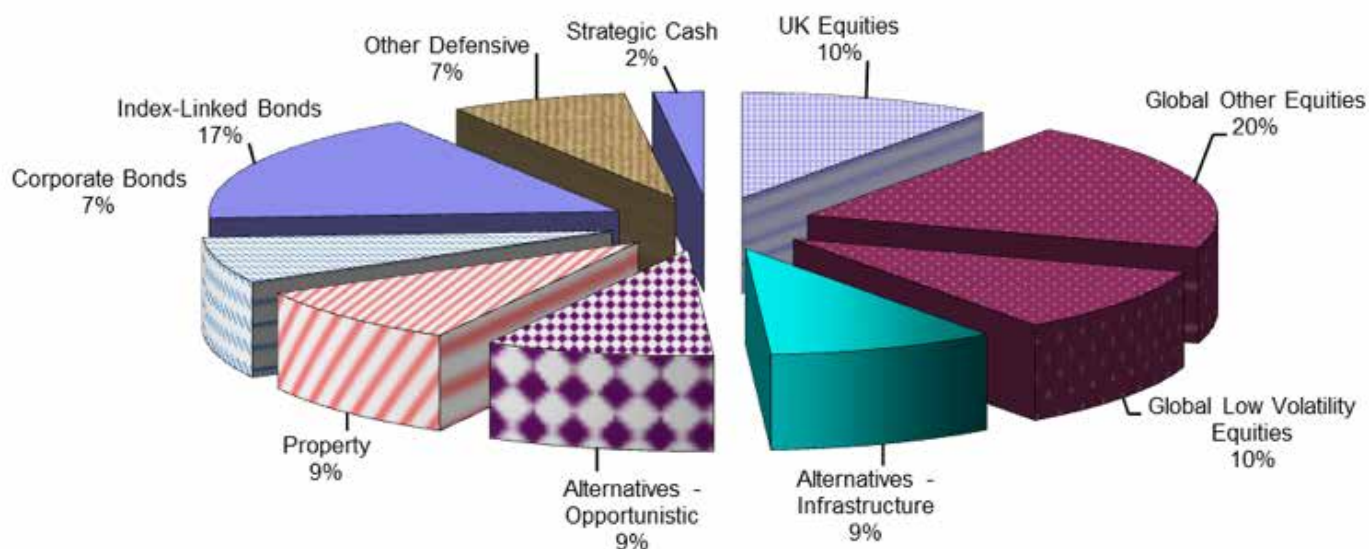
The key changes in asset holdings since the start of the year are reductions in UK equities (-4%) and increases in alternatives and property (1% each). These moves have arisen as a result of ongoing transition work to achieve the target investment allocation as per the revised Statement of Investment Principles (SIP) (the current Cumbria LGPS SIP can be found at section 10).

In order to implement the final allocations per the SIP the Fund is temporarily overweight equities than per the revised SIP (this position is discussed quarterly at the Investment Sub Group and reported to each Committee meeting). This overweight position will reduce as the Fund meets current commitments to and completes further allocations to alternatives. At May 2016 current commitments to alternatives totalled £283m (roughly 14% of Fund assets compared to the target SIP allocation to alternatives of 18%) of which £215m (roughly 11% of Fund assets) had been drawn down. The drawdown of these current committed and as yet unallocated amounts will be funded from the overweight element of the equity holdings.

Investment asset allocation once Investment Strategy has been fully implemented:

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

Benchmark Investment Asset Allocation



4.3 Investment Management, Administration and Custody

Overarching administration of investments (including accounting, appointment of investment managers, custodian, and other investment related services) is undertaken in-house by Cumbria County Council as Administering Authority of Cumbria LGPS.

In order to facilitate effective management of the Fund's assets through efficient use of the Pension Committee's time and to enable tactical investment decisions to be taken and actioned more nimbly in September 2013 the Council established a LGPS Investment Sub Group (for further details of the governance arrangements within Cumbria LGPS see section 7.1.1).

The Committee have delegated the day to day management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme (LGPS) regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Cumbria LGPS's assets are held in custody either by the Fund's independent custodian - State Street (equities, bonds, some cash and some alternatives) or by investment managers (UK property, some cash & most alternatives). The custodial services include trade settlement and processing, portfolio reporting, income collection and cash management.

A currency hedging account is operated directly with Legal & General in respect of 50% of the Fund's overseas equities exposure to the major currencies.

Detailed investment performance monitoring is undertaken by State Street Investment Analytics (WM Company). When required transition services are procured in line with Cumbria County Council's procurement procedures.

4.4 Investment Governance

4.4.1 Responsible Investment Policies

The Stewardship Code, published in 2010, had two primary objectives: to increase the quality and quantity of engagement between company boards and investors, and improve accountability and transparency down the investment chain to the real owners of the companies.

Good to know:

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

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

The Kay Review followed in December 2012 aiming to make companies more accountable to shareholders and the public. The Review raised concerns across the pensions industry that uncertainties and misunderstandings on the part of pension fund trustees about their fiduciary duties had contributed to them taking a short-term approach to investment. In response to these concerns in early 2014 the Local Government Association on behalf of the Shadow Scheme Advisory Board took advice from Mr Nigel Giffin QC on the following:-

- Does an LGPS administering authority owe a fiduciary duty and if so to whom is it owed?
- How should the wider functions, aims or objectives of the administering authority influence the discharge LGPS investment duties?

The opinion reached was: "In my view the administering authority does owe fiduciary duties, both to the scheme employers, and to the scheme members." The administering authority's power of investment must be exercised for investment purposes, i.e. what is best for the financial position of the Fund, not for any wider purposes. However, as long as that is the case, then the precise choice of investment can be influenced by social, ethical or environmental considerations.

This advice is directly in line with Cumbria LGPS policies on investing / divesting on social / ethical / environmental grounds. The Fund considers investments for maximisation of return, or minimisation of risk only - but if the same risk or return can be achieved from two investments then and only then could other considerations be taken into account. In doing so the Administering Authority may not prefer its own particular interests to those of other Fund employers and members. For further details see the Cumbria LGPS Statement of Investment Principles (SIP) at section 10 of this report.

4.4.2 Voting Arrangements and the UK Stewardship Code

The informed use of votes, while not a legal duty, is a responsibility of the owners of companies (shareholders or ourselves as a Pension Fund) and as such is an

implied fiduciary duty of pension fund trustees and investment managers to whom they may delegate this function. Members as “de-facto Trustees” have a duty to safeguard shareholder value and in this regard there is an increasing body of evidence to suggest that a well governed company is more likely to deliver stronger long term investment performance.

Responsibility for the exercise of voting rights in relation to the UK active portfolio is delegated to PIRC. They vote in accordance with their ‘standard voting template’ which is based upon relevant law, best practice, accounting standards and regulatory considerations. When considering voting recommendations PIRC also consider Board explanations, potential impact of oppose votes on corporate structure, materiality, opportunities for further votes in the future on the issue and market implications from any precedent created. However, the Fund has the opportunity to override votes should it so choose.

Responsibility for the global active portfolio is currently delegated to the investment managers. Investment managers are expected to approach the subject of voting with the same care and attention as other matters which influence investment decisions. Voting should be undertaken where it is believed it to be in the best interests of the Fund. Where a resolution is put forward which is particularly controversial the manager should liaise with the authority as appropriate. Investment managers need not vote on routine issues.

The investment managers and PIRC are required to report quarterly on their voting actions for every appropriate investment. Any responses received from companies concerned should also be reported. The Fund requires a full voting audit trail be available. The outcome of voting actions should also be shown if possible.

In endeavouring to invest in the best financial interests of the beneficiaries, the Members have also elected to invest in pooled indexed funds and cannot therefore directly influence the social, environmental and ethical policies and practices of the companies in which the pooled funds invest. The Members are satisfied that the Fund Managers Corporate Governance policy reflects the key principles of Socially Responsible Investment. All investment managers are required to adhere to the Stewardship Code.

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

Cumbria are also members of the Local Authority Pensions Fund Forum (LAPFF), (NB: for further details of bodies the Fund is a member of – see 5.3), and Members and officers have therefore been able to use the expertise of the Forum to enhance their understanding of Corporate Governance issues. LAPFF is a collaborative shareholder engagement group which brings together 71 local authority pension funds from across the UK with combined assets of over £175 billion. LAPFF seeks to protect the investments of its members by promoting the highest standards of corporate governance and corporate social responsibility (i.e. responsible action by the companies in which its members invest) on environmental, social and governance (ESG) issues. LAPFF meets on a quarterly basis and issues voting alerts including advice on how Funds should vote where voting issues arise in relation to particular companies.

Key voting issues affecting Cumbria LGPS investments during 2015/16:

Focus continued to be placed on remuneration and incentive schemes, as this was an area Members are keen is kept under review. Where investment managers voted to approve policies where we perceived there was no clear alignment to shareholder’s best interests, we have followed this up with them to question their rationale. In each case we have been satisfied with responses given, as they have been reassured after engagement that the companies involved were making moves to ensure greater alignment with investors’ interests.

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

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

Good to know:

During 2015/16 the Fund was fully compliant with the Myners Principles.

4.4.3 Compliance with Myners Principles

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

4.5 Investment Performance**Good to know:**

In 2015/16 the Fund outperformed its Fund specific benchmarks for the 1, 3, 5 and 10 years periods.

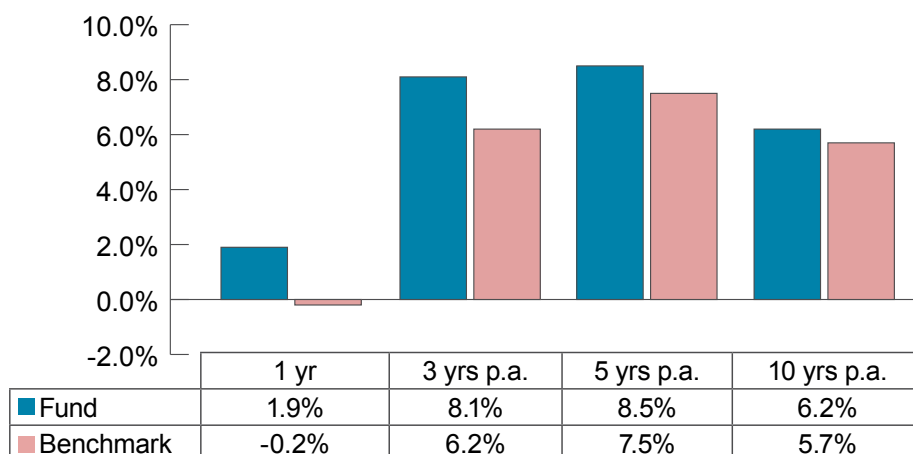
Detailed performance figures are shown at 4.5.1 to 4.5.4 below.

Asset allocation is widely held to drive approximately 80% of returns (see section 4.2 for detailed consideration of Cumbria LGPS asset allocation during 2015/16 and going forwards).

2015/16 was very volatile between months and quarters for many asset classes, but for the twelve month period to March 2016, many markets showed pretty flat performance overall. Property was the exception, providing strong returns of 11.7%. UK index-linked gilts had a return of 1.9% which was a lower return than the 2014/15 return of 21.1%. The Global Equities Markets have in the main fallen in 2015/16, averaging at -1.2% although there were variations by sector and geography. North American markets showed the strongest performance of 3.6%. Performance within the remaining areas were all negative, ranging from -3.3% for Japan to -5.4% for the Pacific. In contrast, the Fund's combined Global Equity active portfolio managers have provided a return of 5.2%, outperforming the market by 6.4% (net of fees).

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

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

**4.5.2 Investment Fund Manager Performance (net of fees)**

Fund Manager	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
Aberdeen	12.4	14.8	10.6	5.4
Legal & General	0.8	6.8	9.9	7.4
Loomis Sayles (from Dec 2013)	2.0	n/a	n/a	n/a
Nordea (from Nov 2013)	8.6	n/a	n/a	n/a
Schroders	(5.3)	5.4	6.0	5.8
Standard Life (from Oct 2012)	0.9	4.8	n/a	n/a

Source: WM

The Fund Manager mandates above cover 86% (£1,746m) of the Fund, the balance is invested in Alternative pooled funds

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

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

	1yr	3 yrs p.a.	5 yrs p.a.	10 yrs p.a.
Fund	2.1%	8.2%	8.7%	6.3%
Universe	0.2%	6.4%	7.1%	5.6%
Ranking	9th	8th	8th	16th

Source: WM

4.5.4 Fund returns over 1, 3, 5 and 10 years by Asset Class (gross of fees):

To 31 March	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
UK Equities	(4.6)	4.8	6.0	5.6
N. America Equities	5.3	13.2	12.6	9.5
Europe ex UK Equities	2.8	12.4	8.0	6.6
Japan Equities	6.7	11.8	9.1	2.8
Pacific Equities	(3.3)	3.6	6.2	10.2
Other International Equities	(0.1)	7.7	1.2	3.8
UK Corporate Bonds	1.0	4.9	7.4	5.5
Overseas Bonds	(0.3)	5.9	n/a	n/a
UK Index Linked Bonds	2.0	5.8	9.8	7.9
Cash / Alternatives	8.6	7.2	5.9	2.5
Property	10.9	13.8	10.3	5.6
Total Assets	2.1	8.2	8.7	6.3

Source: WM



5/ Fund Administration Report & Administration Strategy

5.1 Fund Member and Pensioner Administration

As stated in the Governance Policy Statement, it is the responsibility of the Pensions Committee to exercise the Council's responsibility as Administering Authority for the management of Cumbria LGPS, and the Assistant Director - Finance is responsible for securing the satisfactory provision of this service.

The Council delegates its functions in respect of Scheme to its Pension Fund Committee and discharges specific elements of the administration functions of the Scheme to:

- Lancashire County Council (LCC); and
- Officers within the core Cumbria Pensions team.

In February 2016 the arrangement with Lancashire County Council was extended. The service for both Lancashire and Cumbria has been contracted to the Local Pensions Partnership (LPP) from April 2016. This is a not for profit arrangement providing pension administration services to the public sector. It is anticipated that, due to the provision of these services at such scale, further savings will be delivered.

Monitoring of the service provision is a continual process which includes, at a strategic level, quarterly Board Meetings and, at a more detailed service level, quarterly review meetings between officers from Cumbria LGPS and LPP.

A key part of the monitoring process is the review of performance against agreed key performance indicators. As detailed at section 3.5 of this report all LGPS specific KPI targets were exceeded during 2015/16.

The Cumbria and Lancashire Funds continue to work together with LLP to build on the achievements realised to date thereby ensuring that members receive a high quality, progressive service at a reasonable cost.

5.2 Communications

Since inception a core focus of the Fund's administration has been on extending access to the administration team; be that face to face, electronically or over the phone. Clear and concise member communication and access to information is vital as we move forwards following the recent changes affecting members e.g. auto enrolment and changes to the pensions tax allowances. For further information on Communications see section 11 - Communications Policy Statement - of this report.

5.3 Arrangements for gathering assurance over the effective and efficient operation of Fund Administration

As per recommended practice the Fund has in place an administration strategy. The strategy seeks to ensure that robust arrangements are in place to ensure the effective and efficient operation of fund administration and that these arrangements are appropriately monitored e.g. through reporting of key performance indicators.

In addition to this to take advantage of sharing best practice, enhanced training opportunities and so as to benchmark itself against other Funds the Administering Authority was a subscriber to the following bodies during 2015/16:

- National Association of Pension Funds (NAPF)
- Local Authority Pension Fund Forum (LAPFF)
- CIPFA Pensions Network
- CIPFA Benchmarking
- Local Government Chronicle (LGC)
- Local Government Employers (LGE)
- Local Government Authority (LGA)
- Society of County Treasurers (SCT)

5.4 Internal Dispute Resolution Procedure

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

The Fund has undertaken approximately 14,500 contact points with members during 2015/16. During the year the Administering Authority had 7 new IDRP appeals, 4 of which were concluded, and 1 has now progressed to the Pensions Ombudsman for final determination.

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

Part A: Background, Purpose and Review

1. Background

- 1.1. As stated in the Governance Policy Statement, it is the responsibility of the Cumbria Pensions Committee to exercise the Council's responsibility as 'Administering Authority' for the management of Cumbria Local Government Pension Scheme (Cumbria LGPS).
- 1.2. The Council delegates its functions in respect of the Scheme to its Pension Fund Committee and discharges specific elements of the administration functions of the Scheme to:
 - Lancashire County Council (LCC) under the banner of Your Pension Service (YPS); and
 - Officers within the core Cumbria Pensions team.
- 1.3. The Administration Strategy (Parts B & C) is set out so as to illustrate the Fund's core responsibilities and whom they sit with.
- 1.4. The Communication Policy (Part D) is the overarching policy for the Cumbria Pension Fund.

2. Purpose

- 2.1. **Administration Strategy:** Regulation 59 of the Local Government Pension Scheme Regulations 2013 (the 2013 regulations) allows for the administering authority to prepare and publish, following consultation with Fund Employers, a 'Pension Administration Strategy' to facilitate best practices and efficient customer service in respect of the following:-
 - Procedures for liaison and communication with Fund employers;
 - The establishment of performance levels which the administering authority and fund employers are expected to achieve;
 - Procedures to ensure compliance with statutory requirements in connection with the administration of the LGPS;
 - Procedures for improving the methods of passing information between the administering authority and fund employers;
 - The circumstances when the administering authority may consider recovering additional costs that have been incurred due to the unsatisfactory performance of a Fund employer; and

- Any other matters that the administering authority consider suitable for inclusion in the 'Pension Administration Strategy.'

- 2.2. **Communications Policy:** Regulation 67 of the 2013 regulations states that an administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with:

- members;
- representatives of members;
- prospective members; and
- Fund employers.

In particular the statement must set out its policy on—

- the provision of information and publicity about the Scheme to members, representatives of members and Fund employers;
- the format, frequency and method of distributing such information or publicity; and
- the promotion of the Scheme to prospective members and their employers.

3. Compliance & review

- 3.1. The undertakings set out within this Pension Administration Strategy and Communications policy will be reviewed and published annually. As required by regulation 59(4) of the 2013 regulations Fund employers will be consulted on any changes to the Administration Strategy.

Part B: Administering Authority (and Your Pension Service) Undertakings

1. Liaison and Communication

- 1.1. The Fund has a dedicated team (consisting of dedicated officers within Your Pension Service and officers within the core Cumbria Fund) who will act as primary contact for employers in respect of all areas of pension administration. The team are responsible for core aspects of communication and employer liaison.

The Administering Authority (either via YPS or the core team) will:

Activity	Main contact
1.2. Ensure that Employer Forums and Conferences are held on a regular basis and actively seek to promote the LGPS via attendance at the following events, in conjunction with the employer: <ul style="list-style-type: none"> ● Pre-retirement courses ● New starters induction courses ● Benefit Statement and AVC surgeries 	YPS & core team
1.3. Provide a Helpdesk and email facility for enquiries for both members and employers.	YPS
1.4. Develop and actively promote the use of electronic/online facilities for data sharing and communication purposes between employers, Fund members and the Service.	YPS
1.5. Develop and actively promote the use of member and employer online self-service systems and provide day to day access and query support.	YPS
1.6. Provide Scheme information, including: <ul style="list-style-type: none"> ● New starter information and documentation; ● Scheme guides and fact sheets for both members and employers; ● Annual newsletters; and ● Employer bulletins (as and when appropriate). 	YPS
1.7. Provide employer training (as appropriate), for example: <ul style="list-style-type: none"> ● Pension basics and general employer administration functions; ● Changes to the regulations; ● New technological developments; and ● Navigation of systems. 	YPS & core team
1.8. Carry out annual employer visits for employers with more than 100 employees.	YPS
1.9. At the request of Fund employers provide appropriate attendance at seminars (e.g. pre-retirement or induction courses)	YPS
1.10. In conjunction with the pensions' team at Cumbria, arrange and facilitate one-off 'Road Shows' where there are material and/or extensive regulatory changes in respect of the Scheme.	YPS & core team
1.11. Publish, on the Cumbria County Council website, (www.cumbria.gov.uk/Finance): <ul style="list-style-type: none"> ● the Fund's Annual Report and Accounts; and ● the Fund's triennial valuation report; and ● the Fund's Policies, including the Funding Strategy Statement and Statement of Investment principles. 	Core team
1.12. Undertaken appropriate consultation with Fund members and employers as required.	Core team

2. Administration of the LGPS and Compliance

Activity	Main contact
2.1. Maintain and update members' records regarding additional contributions.	YPS
2.2. Calculate service credits, additional pensions or maximum cash on retirement where appropriate based on fund values received from the Additional Voluntary Contribution (AVC) providers.	YPS
2.3. Maintain and keep up to date additional contracts for members' contributions and provide information to employers on request on members' contributions regarding breaks in service / maternity/paternity/adoption and leave of absence.	YPS
2.4. Ensure that appropriate policies and procedures are in place and all relevant parties aware of their responsibilities in relation to reporting / recording legal breaches.	Core Team
2.5. Account to Her Majesty's Revenue and Customs in respect of income tax on pensions, refunds of AVCs and commutation of pensions where appropriate.	YPS
2.6. Send quarterly and annual event reports to HRMC in respect of lifetime and annual allowance reporting requirements.	YPS
2.7. Process pensioner payroll year end routines and comply with HMRC PAYE legislation.	YPS
2.8. Update systems and member records each year.	YPS
2.9. At each Actuarial Valuation period, provide the required data in respect of each member and provide statistical information on member movements over the valuation period in order that the Fund Actuaries can determine the assets and liabilities of the Fund.	YPS & Core Team
2.10. Reconcile contributions and update fund member personal and financial data received from employers in the LGPS2014 Data Collection File every pay period.	YPS & Core Team
2.11. Create member records for all new starters admitted to the LGPS. Send a welcome letter to all members, by email if possible.	YPS
2.12. Apply any retrospective adjustments to career average pay and accrual rates as informed by employers.	YPS
2.13. Update and maintain a member's record for any changes received in their circumstances.	YPS
2.14. Update member records in line with absence notifications, and set up APC arrangements to cover lost absence as appropriate.	YPS
2.15. Provide every active, deferred and pension credit member a benefit statement each year.	YPS
2.16. Process early leavers (deferred benefits / refunds) within 15 working days of the receipt of form YPS Employer – Leaver form. Pensions Increase Order will be applied to all deferred benefits each year in line with the annual Pensions Increase (Review) Order.	YPS
2.17. Arrange payment of retirement benefits and create a new record for ongoing pension scheme membership if applicable	YPS
2.18. Calculate and pay benefits within 10 working days of receipt of notification or date of entitlement, whichever is the latter.	YPS
2.19. Arrange to make pension payments on the last working day of each month.	YPS
2.20. Make payment of compensatory added years pensions as agreed on behalf of the employer in connection with redundancy retirements.	YPS
2.21. Apply Pensions Increases to pensions on the due date.	YPS
2.22. Implement changes in pensioner's circumstances by payment due date in the month of the receipt of the information.	YPS
2.23. Implement changes in spouse / dependants circumstances.	YPS
2.24. Make payments to the member's estate / nomination within one month of receipt of the required documentation.	YPS

Activity	Main contact
2.25. Produce and distribute P60s to pensioners by the 31st May each year.	YPS
2.26. Produce monthly reports and invoices for Pension strain costs to be recovered from employers.	YPS & Core Team
2.27. Raise invoices to employers to recover payments of compensatory added years pensions arising from redundancy retirements.	Core Team
2.28. Comply with the principal regulations (as amended from time to time) relevant to this Pension Administration Strategy Statement.	Core Team
2.29. Prepare the Annual Report and Accounts of the Cumbria Pension Fund.	Core Team
2.30. Ensure the appropriate policies, including the Funding Strategy Statement and the Statement of Investment Principles, and Administering Authority discretions are formulated, reviewed and publicised in accordance with the scheme regulations.	Core Team

3. Performance

- 3.1. In accordance with good practice and as recommended by the Pensions Regulator⁴ the Fund has a suite of performance targets to ensure it is delivering an efficient, effective and customer-focussed service. These targets will be kept under continual review to ensure that they are appropriate and reflect current circumstances and regulatory requirements.
- 3.2. The minimum performance targets set are shown below. Performance against these targets is reported to the Pension Fund Committee. The Annual Administration Report is reported to the Pension Fund Committee in June each year and is available in the Pension Committee minutes on the Council's website⁵ and key statistics are included in the Cumbria LGPS Annual Report.

3.3. Performance Targets

Performance Standard	Minimum Target
Estimate benefits within 10 working days	90%
Payment of retirement benefits within 10 working days	90%
Payment of death benefits within 10 working days	90%
Implement change in pensioner circumstance by payment due date	90%
Respond to general correspondence within 10 working days of receipt	90%
Action transfers out within 15 working days	90%
Action transfers in within 15 working days	90%
Pay Refunds within 10 working days	90%
Provide leaver statement within 15 days	90%
Amend personal records within 10 working days	90%

4. Paragraph 42 of Code of Practice no.14: 'Governance and administration of public service pension schemes

5. <http://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=150>

Part C: Employer Undertakings**1. Liaison and Communication**

- 1.1. The employer shall nominate a person / persons who will act as the primary contact(s) for general administration, HR & payroll, financial and regulatory/discretionary issues with Your Pension Service (YPS) or the core team.
- 1.2. The employer will facilitate an annual visit by YPS with the appropriate primary contact.
- 1.3. The employer shall nominate an authorised signatory/signatories in respect of all documents and instructions received by YPS or the core team.
- 1.4. The employer shall endeavour to ensure representation at Employer Forums and Practitioner Conferences as specified in Section 1.1.
- 1.5. The employer shall undertake to ensure that all personnel dealing with the Local Government Pension Scheme as part of their day to day role undergo appropriate training.
- 1.6. Where an employer contracts a third party HR or payroll provider the employer must authorise YPS or the core team if they wish YPS or the core team to deal directly with the payroll provider in matters of pensions administration or finance. However, this in no way enables an employer to delegate responsibility for the performance of any required actions (either regulatory responsibilities or requirements set by the Fund administering authority).

2. Performance Levels

- 2.1. Performance achieved by the Employer in relation to the following will be monitored by YPS and the core pensions team (as appropriate):
 - Payment of contributions collected, completion and submission of remittance advice to the core team;
 - Submission of YPS LGPS 2014 Payroll Data Collection File every pay period; and
 - Notification of leavers.
- 2.2. Employer performance will be reported to the Pensions Committee on an exception basis.

3. Administration of the LGPS and Compliance Contributions

- 3.1.1. The employer will ensure that both employee and employer contributions are deducted at the correct rate (plus any additional contributions as YPS may request the employer to collect). The employer must record the scheme section (50/50 or Main) in accordance with any election made by the scheme member, and deduct contributions as appropriate. The employer must maintain a policy to review employee tiered contribution rates, and notify YPS of any changes (see 3.5.3).
- 3.1.2. All contributions, but not Prudential, Standard Life, Scottish Widows or Equitable Life AVC's, must be paid to the Cumbria Pension Fund on a monthly basis and in any case before the 19th of the month following that in which they were deducted. Non-compliance may result in a fine on the employer.
- 3.1.3. A remittance advice must be completed and returned to the Core team by 19th of the calendar month following the month in which the contributions were deducted.
- 3.1.4. The employer will ensure that employee's Equitable Life, Scottish Widows, Standard Life and Prudential AVC's are paid direct to the provider as soon as possible after deduction but in any case before the 19th of the month following that in which they were deducted as stated above.
- 3.2. **Pension Strain** - Each month YPS will arrange for the core team to issue an invoice to the employer reflecting the cost of any non-ill health early retirements processed in the previous month. The employer must pay the amount within one month of the date of the invoice.
- 3.3. **Rechargeable Pensions** - Where amounts of discretionary pension are paid by YPS on the employer's behalf, the quarterly amounts will be recharged to the employer and payment must be made within 30 days of invoice date.

This also applies in respect of other rechargeable pension e.g. where the employer has liability to pay for pre 01.04.1974 pensions increase payments and other unfunded pensions.

3.4. **Year End Information** - The employer will provide information requested by the core team at year end by no later than that set out in the timetable provided by the Administering Authority at year end. The employer will also provide information requested by YPS at year end no later than that set out in the timetable provided by the Administering Authority at year end.

3.5. **Processing**

3.5.1. Data Collection file - Employers must submit the YPS LGPS2014 Payroll Data Collection file promptly at the end of every pay period. Data on this file must reconcile to contributions paid over each month, and must contain accurate figures of pensionable pay, including assumed pensionable pay where appropriate, for YPS to post to individual member records. Files should be at the latest submitted by 6th of the month following pay period end.

3.5.2. New Starters / Disclosure of Information - At the latest, on the first day of employment, the employer will provide all new starters with LGPS information and request that the employee completes a YPS Member – Enrolment Form.

The employer will notify the member of their formal admittance to the scheme, and the contribution rate they will pay.

If the employee opts out of the LGPS with less than three months active membership, the employer must refund contributions through payroll. The employer must not encourage employees not to join, or to opt out of the scheme.

The employer must continue to monitor the workforce in line with Automatic enrolment legislation, and re-enrol eligible employees to the LGPS at their re-enrolment date.

Employers must submit the YPS LGPS2014 Payroll Data Collection file promptly every pay period, from which YPS will arrange for scheme membership for any new starters.

3.5.3. Adjustments of Career average pay - Employers must submit form YPS Employer – Pension Pot Adjustments in the following circumstances:

- Where a retrospective change is made to the scheme section and the scheme section was reported incorrectly in a previous pay period;
- Where a member is brought into the scheme retrospectively and arrears of contributions are recovered;

- Where a leaver is overpaid, and pensionable pay has been reported incorrectly in a previous pay period.

3.5.4. Changes in circumstance - Employers must submit the YPS LGPS2014 Payroll Data Collection file promptly every pay period, from which YPS will arrange for the update of scheme member records in the following circumstances -

- Change of hours / weeks;
- Change of contract;
- Change of tiered contribution rate;
- Change of address.

3.5.5. Absence - Employers must submit the YPS LGPS2014 Payroll Data Collection file promptly every pay period, which will provide YPS with information regarding employees who are absent, including assumed pensionable pay where relevant. On return from the following absences, the member will have suffered a loss of pension benefits, and the employer must write to the member with information on how to buy back these benefits through payment of an Additional Pension Contribution (APC).

- Additional Maternity, Paternity or Adoption Leave on no pay
- Unpaid Leave of absence
- Strike

If the member elects to pay APCs to buy lost pension within 30 days of returning from unpaid leave, the employer must fund 2/3rds of the cost. The exception to this is strike where the employee must pay the full cost.

The employer must submit form YPS Employer – Return from Absence within 10 days of return from unpaid leave.

3.5.6. Benefit Estimates & Annual Benefit Statements - Employers must submit the YPS LGPS2014 Payroll Data Collection file promptly every pay period. Where YPS have queries on the data or status of any member these must be dealt with by the employer within 5 working days, so that YPS data is always correct and up to date ready for benefit estimate requests.

Where a fund member requests a benefit estimate for voluntary retirement, they should be directed by the employer to My Pension Online in the first instance. Once registered, the member can process their own estimate, or view their most recent benefit statement.

If the member requests a more complex estimate, or is retiring within the next 12 months, then the employer can request the estimate from YPS by completing the eform YPS Employer – Estimate request. Or the member can request this themselves.

Where a fund member or employer requires an early retirement estimate which requires the employer's consent there is likely to be a cost to the employer.

Therefore the estimate request must be made by the employer, through completion of eform YPS Employer – Estimate request.

- 3.5.7. Early Leavers - The employer will send completed form YPS Employer – Leaver Form to YPS when an employee leaves employment (or 'opts out' of the scheme) with no entitlement to immediate payment of retirement benefits. The employer will send the form as soon as reasonably practicable and no later than 10 working days after the final payment of salary following termination from the scheme membership.

- 3.5.8. Payment of benefits where employment is continuing - The employer will send YPS Employer – Confirmation of Flexible Retirement form to YPS as soon as the flexible retirement has been approved.

Completed YPS Employer – Leaver form and YPS Member – Personal Details form will also be forwarded to Your Pension Service together with all supporting documentation, as soon as reasonably practicable and no more than 5 working days after the final payment of salary following the date of termination.

If the member elects to re-join the Pension Scheme, or is automatically enrolled, the employer will set up a new employment record with a new pay reference number to enable separate reporting of pension cumulative and membership from the retired post.

- 3.5.9. Retirements - Employers must always request an estimate of retirement benefits where they are considering allowing a fund member to retire with early payment of pension (e.g. redundancy and employer consent retirements). There is likely to be a cost to the employer which should be considered before allowing the retirement. This does not apply to ill health retirements.

The employer will send a YPS Employer – Intention to Retire form to Your Pension Service as soon as it is known that an employee is leaving with an entitlement to immediate payment of pension benefits or is aged 60 or over.

Completed YPS Employer – Leaver forms and YPS Member – Personal Details forms will also be forwarded to Your Pension Service together with all supporting documentation, as soon as reasonably practicable and no more than 5 working days after the final payment of salary following the date of leaving.

Where an employer determines that preserved pension benefits are to be paid early, notification, including the date that benefits are to be brought into payment, will be provided to YPS within 5 working days following the date of the decision together with all supporting documentation.

Likewise, the employer should notify the member within 5 working days following the date of the decision, if their application has been refused.

- 3.5.10. Death-in-service The employer will send a completed YPS Employer – Leaver form to Your Pension Service following the death of a member within 5 working days of being informed of the employees' death. The YPS Employer – Leaver form must provide details of informant and next of kin, if known.

- 3.6. **Reporting legal breaches** – Employers must ensure that appropriate policies and procedures are in place and all relevant parties aware of their responsibilities in relation to reporting / recording legal breaches.

4. **Online Communication and Information Sharing**

- 4.1. **Data Sharing** - YPS and the core team undertake to develop alternative methods of data capture to automate processes and ensure that fund member data held is accurate and up to date. The employer will commit to the online/electronic requirements of YPS and the core team.

- 4.2. **Self service** - YPS undertakes to develop member and employer self service system functionality to improve customer service and provide instant access to pension information. The employer will commit to the use of the self service system.

4.3. **e-forms** - YPS undertakes to develop alternative methods of data capture to automate processes and ensure that fund member data held is accurate and up to date, including the development of e-forms. The employer will commit to the online/electronic requirements of Your Pension Service, including the requirement to use e-forms.

4.4. **Access** - The Employing Authority can authorise that specified employees are granted access to all active fund member records for that employer using Altair Employer Services. The employer must be satisfied that the individuals that are authorised have received appropriate information security training, and that system access is used for pension administration purposes only. The employer must observe its obligations under the Data Protection Act 1998 (or any legislation which amends or replaces this Act) arising in connection with use of the account and must not do anything which might imply a breach by Your Pension Service of such Act. The employer shall comply with obligations equivalent to those imposed on a data controller by the seventh principle of the Data Protection Act.

5. **Circumstances for recovery of Additional Costs**

5.1. **Underperformance** - Where the Administering Authority considers that the Employer has underperformed against the performance levels set out at part C of this statement, the Administering Authority will seek to recover additional costs under regulation 70 of the Local Government Pension Scheme Regulations 2013 if it is economic to do so.

5.2. **Late Payment** - In addition the Authority will seek to recover interest on late payment of contributions under the terms of regulation 71 of the Local Government Pension Scheme Regulations 2013 calculated at 1% above base rate on a day to day basis from the due date to the date of payment and compounded with 3 monthly rests.

6. **Other Matters**

6.1. **Employer Decisions** - Any decision made by the employer under the scheme regulations should be notified to the member within 10 working days of the decision being made and must be accompanied by a statement in respect of their right of appeal.

6.2. **Policies (Employer Discretions)** - The employer will ensure that policies are formulated, kept under review and publicised in accordance with the scheme regulations.

6.3. **Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP)** – the employer will ensure, where appropriate, they respond to formal consultations on the FSS and / or the SIP. Where no response is received from an employer the Fund will view this as acceptance of the proposal(s).

Part D: Communication Policy

1. Cumbria Pension Fund recognises the government's objective to help people save for their retirement and will aim to: -
 - Actively encourage the provision of good pension information in plain english and the promotion of pensions in the workplace.
 - Increase transparency and build trust, confidence and engagement in pension saving as the norm.
2. To achieve its aim the Administering Authority will undertake to: -
 - Provide clear, accurate and timely communication about the Local Government Pension Scheme to all stakeholders.*
 - Actively promote the Scheme to prospective members and their employers.
 - Take a multimedia approach in recognition that different styles and methods of communication suit different stakeholders
 - Use and encourage the use of electronic/online communication and information sharing.
 - Support Fund employers, providing publicity and information toolkits, to enable employers to fulfil their responsibility to communicate and share information with members in relation to the Scheme.
 - Treat information security with the upmost importance.

3. Communication Programme

The Fund will regularly review the format, frequency and method of communication. The following programme is currently in use.

Information	Stakeholder*	Format	Frequency	Method of distribution
Actuarial Valuation	All Stakeholders	Formal report	Triennial	Website & Forum
Fund Policy & Statements	All Stakeholders	Website	As amended	Website
Annual Benefit Statements	Members	Online self-service** paper	Annual	Online/email alert/ mail
Customer Satisfaction Survey	All Stakeholders	Website	Ongoing	Click Question
Member Guides	Members	Website	On or before employment On request	Via employer HR/payroll departments Email / internet / mail
Employer Updates	Employer	Website, online	As required	Email, website
Pensioner payslips/ P60's	Members	Online self-service, paper	Annually	Online / email / mail
Employer Guide	Employer	Website	As amended	Online, email
Employer training	Employer	Presentation / Webcast	In line with agreement / on request	Face to face / website
Factsheets	All members	Website / paper	As required / on request	Website / email
Individual member information	All Stakeholders	Self- service / paper	As required	Website / email
Employer information pack	Employers	Website / paper	On admission	Website / email
Newsletters	Members	Website / email / paper	Annual	Website / email
Scheme change & legislative change	All Stakeholders	Presentation / webcast / website	As required / on request	Face to face / website
Fund report & accounts	All Stakeholders	Website**	Annually	Website
Performance standards	All Stakeholders	Website	As amended	Website
Query	All Stakeholders	Telephone / email / online / letter	Mon – Fri	Telephone / email / online / letter

*Stakeholders are defined as members, representatives of members, prospective members and employers (members are defined as active, deferred or pensioner members).

** unless otherwise requested.

Scheme Regulations and Overriding Legislation

Cumbria Pension Fund undertakes to comply with Local Government Pension Scheme Regulations and the relevant Overriding Legislation. In particular, the Fund undertakes to comply with the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [2013/2734]. A full list of Scheme and related legislation is set out below: -

Local Government Pension Scheme Regulations 2013 [2013/2356]

Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [2014/525]

Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 [2000/1410]

Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [2013/2734]

And the following including any relevant regulations made under the legislation set out below:

Finance Act 2004 [c.12]

Pension Schemes Act 1993 [c.48]

Pensions Act 1995 [c.26]

Pensions Act 2004 [c.35]

Pensions Act 2008 [c.30]

Public Service Pensions Act 2013 [c.25]

Welfare Reform and Pensions Act 1999 [c.30]

Pensions (Increase) Act 1971 [c.56]

Data Protection Act 1998 [c.29]

Income Tax (Earning and Pensions) Act 2003 [c.1]



6/ Actuarial Report on Funds

6.1 Introduction

Legislation requires that all individual local government pension funds undertake an actuarial valuation every three years. The purpose of the valuation is to inform long term policy and strategy to ensure the Fund is able to meet its liabilities to past and present contributors.

Valuations prior to the 2016 valuation have been carried out in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. The most recent valuation was carried out as at 31 March 2013. Changes to employer contribution rates as a result of this valuation took effect from 1 April 2014. Following a change in regulations the 2016 valuation, which was ongoing at the time of writing, will be undertaken in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

The Rates and Adjustments Certificate, issued by the Actuary to Cumbria LGPS as at 31 March 2014 and which was applicable for the year ended 31 March 2016, has been included at **6.3**. The full Actuarial Valuation report is available on the Cumbria County Council website at:

www.cumbria.gov.uk/eLibrary/Content/Internet//536/654/1129/41754144322.pdf

6.2 Executive Summary

6.2.1 Funding Level

The funding level of the Fund as at 31 March 2013 was 78% (compared to 79% in 2010).

Figure 6.2.1(a) *Funding level – assets versus liabilities at actuarial valuation date:*

	31 March 2013	31 March 2010
Total Assets	1,659	1,278
Liabilities:		
Active members	744	702
Deferred pensioners	429	219
Pensioners	943	688
Total Liabilities	2,116	1,609
Past service surplus / (shortfall)	(457)	(331)
Funding level	78%	79%

Whilst the asset performance was above expectations this was outstripped by increasing liabilities the primary drivers behind which were uncertainty in the markets and the impact of exceptionally low gilt yields.

In the period immediately following the date of the valuation (i.e. between 31 March 2013 and 31 August 2013, however, there were significant changes in the financial market position including an increase in gilt yields. The Actuary estimated that, considering changes in the major financial factor only, as at 31 August 2013 the impact of the market changes meant the funding level increased to approximately 83%. This was taken into consideration when setting employer contribution rates.

2013/14 saw a continuation of this rally in yields (resulting in the Fund valuation rising to 85% as at 31st March 2014) however during 2014/15 the rally stalled and yields again fell (to a level below that seen in 2012/13). By the end of 2015/16 yields had fallen further. In light of this the Actuary estimates that despite strong growth in investment assets, on consideration of financial factors alone, the funding position reduced by 3% to 76% as at 31st March 2016.

It should be recognised that valuations across the LGPS are carried out using a variety of assumptions and methodologies. So, while at a first glance the funding level and default deficit recovery period (see **6.2.2.2**) would place Cumbria in the mid ground of LGPS in England and Wales, these results are not on a like for like basis. Following on from the release of the 2013 valuation results, two of the major actuarial firms within the LGPS (Hymans Robertson and AON Hewitt) undertook a more in depth review of these results and rebased them on a single set of assumptions. On these rebased results Cumbria LGPS moved comfortably into the top quartile across a variety of measures.

This section of the 2014/15 Annual Report noted the increasing scrutiny of the LGPS and the consequential likelihood that this would result in national scrutiny of actuarial factors in 2016. This has proven to be the case and, during 2015/16, it was announced that the Government Actuary (GAD) had been appointed by DCLG to report under Section 13 of the Public Service Pensions Act (PSPA) 2013 in connection with the LGPS.

Section 13 provides for a review of LGPS valuations and employer contributions to check and report on whether they are appropriate. Key considerations are:

- Is the actuarial valuation in accordance with scheme regulations;
- Has it been carried out in a way which is consistent with other valuations; and
- Is the rate of employer contributions set at a level to ensure the Fund's solvency and the long-term cost-efficiency of the scheme?

GAD's role (which they clarified at a seminar during 2015/16 is not, in their view, that of a regulator) is to report on whether four main aims are achieved in relation to each Fund: compliance, consistency, solvency and long term cost efficiency. If GAD determines a Fund is not compliant then the report may recommend remedial steps which the Fund must consider. Section 13 also includes provision for the Secretary of State to require a Fund report on progress in taking remedial steps and also to direct the Fund to take such remedial steps as the Secretary of State considers appropriate.

GAD is currently undertaking a 'dry run' of the process using the 31st March 2013 valuations. The Section 13 report from GAD in relation to the March 2016 valuation exercise is expected to be published by 30th September 2018.

Officers have confirmed with the Fund's Actuary that, on the basis of what has been circulated to date, there is no reason to believe that the Fund's 2013 or proposed 2016 methodology will cause any issues with the new reporting requirements under Section 13 of the PSPA.

6.2.2 Contribution Rates

In addition to calculating the value of the assets and the liabilities of the Fund the purpose of the triennial actuarial valuation is to set employer contribution rates (employee contribution rates are set in regulations) for the next three years. The rates for 2015/16 were therefore set by the 2013 Actuarial Valuation. In setting employer contribution rates during the 2013 Valuation the Actuary and the Fund were required to have regard to two fundamental principles;

- To set contribution rates which are sufficient to secure the Funds' solvency within an appropriate deficit recovery period, and
- To ensure employer contribution rates remain as stable as possible.

There are two elements of employer contributions as detailed in **6.2.2.1** and **6.2.2.2** below.

6.2.2.1 Normal Contribution Rate (also known as the "Common Contribution Rate")

The normal contribution rate (or 'Common Contribution rate' as it's also known) is set by the Actuary at each Actuarial Valuation. It is the average rate payable by employers within Cumbria LGPS to ensure that there are sufficient assets built up to meet the future benefit payments in respect of future service.

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found at 6.3 and in the 2013 actuarial valuation report at the web address detailed at 6.1.

Figure 6.2.2.1(a) Normal Contribution rate

	% of Pensionable Pay	
	31 March 2013	31 March 2010
Normal contribution rate for retirement and death benefits	20.0	18.3
Allowance for administrative expenses	0.5	0.4
Total normal contribution rate	20.5	18.7
Average member contribution rate	6.3	6.2
Common Contribution rate	14.2	12.5

6.2.2.2 Contributions to reduce the deficit

In addition to ensuring that sufficient assets are built up to meet future costs, during each Actuarial Valuation the Actuary also considers what employer contribution addition is required to address any shortfall between the assets and liabilities of the Fund (i.e. the deficit). In doing this the Actuary considers the period over which the deficit will be recovered (the deficit recovery period) and calculates the amount payable per annum by employers to address the shortfall (the contribution addition).

- The default deficit recovery period for the Fund has been set at 19 years.
 - Individual employer deficit recovery periods have been set based on the financial strength of the employer's covenant along with consideration of factors such as whether an employer is open or closed (i.e. whether new employees can join the Scheme or not) and whether an employer is in the Fund as a result of a fixed-term contract.
- The contribution addition to eliminate the shortfall of £343m as at the 31 August 2013 (following post valuation market changes) valuation has been calculated by the actuary as £20m per annum increasing at 4.1% per annum (equivalent to 8% of the projected Pensionable Pay at the valuation date).



6.3 Actuarial Certificate



Rates and Adjustments Certificate issued in accordance with Regulation 36 of the Administration Regulations

Name of Fund

Cumbria Local Government Pension Scheme

Primary Contribution Requirements

I hereby certify that, in my opinion, the common rate of employers' contributions payable in each year of the period of three years beginning 1 April 2014 should be at the rate of 14.2 per cent of Pensionable Pay (including those in respect of members of the LGPS under the 50:50 option).

I hereby certify that, in my opinion, the amount of the employers' contributions payable in each year of the period of three years beginning with 1 April 2014, as set out above, should be individually adjusted as set out in the attached schedule. Contributions will be made monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically) unless otherwise noted in Appendix H (the Schedule to the Rates and Adjustment Certificate).

Further Adjustments

For employers where no allowance for non-ill-health early retirement costs is included in the valuation a further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of three years covered by this certificate. In addition, there will be an individual adjustment for each ill-health early retirement from Cumbria County Council during that three year period. These individual adjustments will be calculated in accordance with methods agreed from time to time between the Fund's actuary and the Administering Authority. The adjustment for non-ill health early retirements occurring for the Cumbria County Council in the period of three years covered by this certificate will take into account the allowance incorporated at the 2013 valuation as detailed on the attached schedule.

The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer in total over the 3 years covered by the certificate. Additional contributions or a different pattern of contributions may be paid if requested by the employer concerned at the sole discretion of the Administering Authority as agreed with the Actuary. The total contributions payable by each employer will be subject to a minimum of zero.

The individual employer contributions may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or parties including where the third party or parties participate in the Fund.

In cases where an element of an existing Fund employer's deficit is transferred to a new employer on its inception, the Fund employer's deficit recovery contributions, as shown on the schedule to this Certificate in Appendix H, may be reallocated between the Fund employer and the new employer to reflect this, on advice of the Actuary and as agreed with the Administering Authority so that the total payments remain the same overall.

The Administering Authority and employer with advice from the Fund's Actuary can agree that contributions payable under this certificate can be sourced under an alternative financing arrangement which provides the Fund with equivalent cash contributions.

Regulation 36(8)

For Cumbria County Council I have shown on the attached Schedule the allowance made for non-ill health early retirements over the period of three years beginning 1 April 2014 taken into account when setting this employer's contribution rate.

No allowance for non-ill health early retirements has been made in determining the results of the valuation for other employers, on the basis that the costs arising will be met by additional contributions. Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.



Signature

Name
Date of signing
Qualification

John Livesey
31 March 2014
Fellow of the Institute and Faculty of
Actuaries



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Tower Place, London EC3R 5BU



Schedule to the rates and adjustments certificate dated 31 March 2014

Employers	2014/15			2015/16			2016/17			Non-ill-health early retirement allowance included for the 3 years 2014/17
	Individual adjustment (% / £)	Total Contribution Rate (% / £)	Individual adjustment (% / £)	Individual adjustment (% / £)	Total Contribution Rate (% / £)	Individual adjustment (% / £)	Individual adjustment (% / £)	Total Contribution Rate (% / £)		
Allerdale Borough Council	-1.6 plus £615,800	12.6 plus £615,800	-1.6 plus £791,300	-1.6 plus £791,300	12.6 plus £791,300	-1.6 plus £980,200	-1.6 plus £980,200	12.6 plus £980,200		
Appleby Grammar School	0.6 plus £24,500	14.8 plus £24,500	0.6 plus £31,700	0.6 plus £31,700	14.8 plus £31,700	0.6 plus £39,600	0.6 plus £39,600	14.8 plus £39,600		
Arnside National CofE School	5.5 plus £900	19.7 plus £900	5.5 plus £2,500	5.5 plus £2,500	19.7 plus £2,500	5.5 plus £4,200	5.5 plus £4,200	19.7 plus £4,200		
Attendo Monitoring Ltd	13.0 plus £2,500	27.2 plus £2,500	13.0 plus £5,000	13.0 plus £5,000	27.2 plus £5,000	13.0 plus £7,700	13.0 plus £7,700	27.2 plus £7,700		
Barrow and District Society for the Blind	10.0 plus £26,200	24.2 plus £26,200	10.0 plus £27,300	10.0 plus £27,300	24.2 plus £27,300	10.0 plus £28,400	10.0 plus £28,400	24.2 plus £28,400		
Barrow Borough Council	-0.8 plus £1,044,500	13.4 plus £1,044,500	-0.8 plus £1,087,300	-0.8 plus £1,087,300	13.4 plus £1,087,300	-0.8 plus £1,131,900	-0.8 plus £1,131,900	13.4 plus £1,131,900		
Barrow Citizens Advice Bureau	5.9 plus £2,600	20.1 plus £2,600	5.9 plus £2,700	5.9 plus £2,700	20.1 plus £2,700	5.9 plus £2,800	5.9 plus £2,800	20.1 plus £2,800		
Barrow Sixth Form College	3.1 plus £1,200	17.3 plus £1,200	3.1 plus £7,000	3.1 plus £7,000	17.3 plus £7,000	3.1 plus £13,300	3.1 plus £13,300	17.3 plus £13,300		
Brampton Parish Council	n/a	£540	n/a	n/a	£560	n/a	n/a	£590		
Broughton Primary School	0.8 plus £3,800	15.0 plus £3,800	0.8 plus £5,800	0.8 plus £5,800	15.0 plus £5,800	0.8 plus £7,900	0.8 plus £7,900	15.0 plus £7,900		
Burton Morewood CofE Primary School	3.2 plus £2,700	17.4 plus £2,700	3.2 plus £4,000	3.2 plus £4,000	17.4 plus £4,000	3.2 plus £5,400	3.2 plus £5,400	17.4 plus £5,400		
Caldew School	-1.4 plus £55,500	12.8 plus £55,500	-1.4 plus £58,800	-1.4 plus £58,800	12.8 plus £58,800	-1.4 plus £62,200	-1.4 plus £62,200	12.8 plus £62,200		
Care Quality Commission	8.0 plus £86,300	22.2 plus £86,300	8.0 plus £89,800	8.0 plus £89,800	22.2 plus £89,800	8.0 plus £93,500	8.0 plus £93,500	22.2 plus £93,500		
Carlisle City Council	-0.6 plus £972,100	13.6 plus £972,100	-0.6 plus £1,022,600	-0.6 plus £1,022,600	13.6 plus £1,022,600	-0.6 plus £1,075,700	-0.6 plus £1,075,700	13.6 plus £1,075,700		
Carlisle College	1.2 plus £43,100	15.4 plus £43,100	1.2 plus £64,700	1.2 plus £64,700	15.4 plus £64,700	1.2 plus £88,100	1.2 plus £88,100	15.4 plus £88,100		
Carlisle Housing	5.5 less £23,200	19.7 less £23,200	5.5 less £24,200	5.5 less £24,200	19.7 less £24,200	5.5 less £25,200	5.5 less £25,200	19.7 less £25,200		

Employers	2014/15		2015/16		2016/17		Non-ill-health early retirement allowance included for the 3 years 2014/17
	Individual adjustment (% / £)	Total Contribution Rate (% / £)	Individual adjustment (% / £)	Total Contribution Rate (% / £)	Individual adjustment (% / £)	Total Contribution Rate (% / £)	
Carlisle Leisure	-2.3	11.9	-2.3	11.9	-2.3	11.9	
Carlisle Leisure Allerdale	1.0	15.2	1.0	15.2	1.0	15.2	
Cartmel Priory CofE School	4.0 plus £8,200	18.2 plus £8,200	4.0 plus £15,100	18.2 plus £15,100	4.0 plus £22,400	18.2 plus £22,400	
Castle Carrock School	2.6 plus £3,500	16.8 plus £3,500	2.6 plus £4,900	16.8 plus £4,900	2.6 plus £6,400	16.8 plus £6,400	
Cleator Moor Town Council	1.2 less £900	15.4 less £900	1.2 less £600	15.4 less £600	1.2 less £200	15.4 less £200	
Cockermouth Town Council	-0.2 less £700	14.0 less £700	-0.2 less £700	14.0 less £700	-0.2 less £700	14.0 less £700	
Copeland Borough Council	-1.8 plus £430,600	12.4 plus £430,600	-1.8 plus £554,300	12.4 plus £554,300	-1.8 plus £687,400	12.4 plus £687,400	
Creative Management Services	6.2 less £200	20.4 less £200	6.2	20.4	6.2	20.4	
Crosby on Eden CofE School	3.9 plus £1,800	18.1 plus £1,800	3.9 plus £3,100	18.1 plus £3,100	3.9 plus £4,400	18.1 plus £4,400	
Cumbria Cerebral Palsy	9.4 less £100	23.6 less £100	9.4 plus £200	23.6 plus £200	9.4 plus £500	23.6 plus £500	
Cumbria County Council (including schools) (see note 2)	-1.2 plus £10,733,700	13.0 plus £10,733,700	-1.2 plus £10,612,200	13.0 plus £10,612,200	-1.2 plus £10,481,300	13.0 plus £10,481,300	£7,312,000
Cumbria Deaf Association	4.6 plus £3,600	18.8 plus £3,600	4.6 plus £8,600	18.8 plus £8,600	4.6 plus £14,000	18.8 plus £14,000	
Cumbria Local Valuation Panel	-5.6 plus £9,900	8.6 plus £9,900	-5.6 plus £14,100	8.6 plus £14,100	-5.6 plus £18,600	8.6 plus £18,600	
Cumbria Probation Service	5.5	19.7	n/a	n/a	n/a	n/a	
Cumbria Tourist Board	TBC	TBC	TBC	TBC	TBC	TBC	
Cumbria Waste Management	2.3 plus £27,000	16.5 plus £27,000	2.3 plus £31,800	16.5 plus £31,800	2.3 plus £37,000	16.5 plus £37,000	
Dallam School	0.5 plus £50,800	14.7 plus £50,800	0.5 plus £61,800	14.7 plus £61,800	0.5 plus £73,700	14.7 plus £73,700	

Employers	2014/15		2015/16		2016/17		Non-ill-health early retirement allowance included for the 3 years 2014/17
	Individual adjustment (% / £)	Total Contribution Rate (% / £)	Individual adjustment (% / £)	Total Contribution Rate (% / £)	Individual adjustment (% / £)	Total Contribution Rate (% / £)	
Dearham Primary	-0.6 plus £8,800	13.6 plus £8,800	-0.6 plus £9,200	13.6 plus £9,200	-0.6 plus £9,600	13.6 plus £9,600	
Eaglesfield Paddle CofE VA Primary School	0.0 plus £9,400	14.2 plus £9,400	0.0 plus £11,500	14.2 plus £11,500	0.0 plus £13,800	14.2 plus £13,800	
Eden District Council	0.2 plus £127,900	14.4 plus £127,900	0.2 plus £139,800	14.4 plus £139,800	0.2 plus £152,500	14.4 plus £152,500	
Eden Housing Association	-2.9 plus £49,100	11.3 plus £49,100	-2.9 plus £59,300	11.3 plus £59,300	-2.9 plus £70,300	11.3 plus £70,300	
Egremont & District Pool Trust	-10.6 plus £4,200	3.6 plus £4,200	-10.6 plus £4,400	3.6 plus £4,400	-10.6 plus £4,600	3.6 plus £4,600	
FOCSA Services (UK) Ltd	9.1 plus £28,500	23.3 plus £28,500	9.1 plus £34,800	23.3 plus £34,800	9.1 plus £41,500	23.3 plus £41,500	
Furness Academy	-0.2 plus £91,200	14.0 plus £91,200	-0.2 plus £115,300	14.0 plus £115,300	-0.2 plus £141,200	14.0 plus £141,200	
Furness College	-1.1 plus £38,000	13.1 plus £38,000	-1.1 plus £56,400	13.1 plus £56,400	-1.1 plus £76,200	13.1 plus £76,200	
Ghyllside Primary	2.3 plus £11,300	16.5 plus £11,300	2.3 plus £14,800	16.5 plus £14,800	2.3 plus £18,500	16.5 plus £18,500	
Gilsland CofE Primary	0.2 plus £2,100	14.4 plus £2,100	0.2 plus £2,200	14.4 plus £2,200	0.2 plus £2,400	14.4 plus £2,400	
Glenmore Trust	3.9 plus £25,000	18.1 plus £25,000	3.9 plus £28,200	18.1 plus £28,200	3.9 plus £31,500	18.1 plus £31,500	
Graham Asset Management Ltd	5.7 less £3,100	19.9 less £3,100	5.7	19.9	5.7	19.9	
Great Corby Primary School	0.4 plus £2,500	14.6 plus £2,500	0.4 plus £2,700	14.6 plus £2,700	0.4 plus £3,000	14.6 plus £3,000	
Harraby Community Centre	12.6 less £500	26.8 less £500	12.6 less £500	26.8 less £500	12.6 less £500	26.8 less £500	
Higham Hall College	9.9 less £12,100	24.1 less £12,100	9.9 less £12,600	24.1 less £12,600	9.9 less £13,100	24.1 less £13,100	
Home Group Ltd (Copeland Homes)	-1.7 less £2,500	12.5 less £2,500	-1.7 less £2,600	12.5 less £2,600	-1.7 less £2,700	12.5 less £2,700	

Employers	2014/15		2015/16		2016/17		Non-ill-health early retirement allowance included for the 3 years 2014/17
	Individual adjustment (% / £)	Total Contribution Rate (% / £)	Individual adjustment (% / £)	Total Contribution Rate (% / £)	Individual adjustment (% / £)	Total Contribution Rate (% / £)	
Kendal Brewery Arts Centre Trust Limited	9.8 plus £11,600	24.0 plus £11,600	9.8 plus £12,100	24.0 plus £12,100	9.8 plus £12,600	24.0 plus £12,600	
Kendal College	-0.7 plus £35,900	13.5 plus £35,900	-0.7 plus £58,900	13.5 plus £58,900	-0.7 plus £83,700	13.5 plus £83,700	
Kendal Town Council	3.5 less £2,900	17.7 less £2,900	3.5 less £1,900	17.7 less £1,900	3.5 less £800	17.7 less £800	
Keswick School	0.4 plus £48,100	14.6 plus £48,100	0.4 plus £59,600	14.6 plus £59,600	0.4 plus £71,800	14.6 plus £71,800	
Keswick Town Council	3.7 less £1,400	17.9 less £1,400	3.7 plus £500	17.9 plus £500	3.7 plus £2,600	17.9 plus £2,600	
Kirkbie Kendal School	0.6 plus £34,000	14.8 plus £34,000	0.6 plus £41,300	14.8 plus £41,300	0.6 plus £49,200	14.8 plus £49,200	
Kirkby Stephen Grammar School	0.6 plus £24,600	14.8 plus £24,600	0.6 plus £31,300	14.8 plus £31,300	0.6 plus £38,500	14.8 plus £38,500	
Lake District National Park Authority (see note 2)	-2.0 plus £248,400	12.2 plus £248,400	-2.0 plus £253,100	12.2 plus £253,100	-2.0 plus £257,700	12.2 plus £257,700	
Lakeland Arts Trust	TBC	TBC	TBC	TBC	TBC	TBC	
Lakes College West Cumbria	0.2 plus £30,700	14.4 plus £30,700	0.2 plus £50,900	14.4 plus £50,900	0.2 plus £72,700	14.4 plus £72,700	
Longtown Community Centre	13.2 less £1,000	27.4 less £1,000	13.2 less £1,000	27.4 less £1,000	13.2 less £1,000	27.4 less £1,000	
Maryport Town Council	-0.5 less £600	13.7 less £600	-0.5 less £400	13.7 less £400	-0.5 less £100	13.7 less £100	
Mellors Catering (Whitehaven)	7.6 less £500	21.8 less £500	7.6 less £400	21.8 less £400	7.6 less £300	21.8 less £300	
Mellors Police Catering Services	11.6 plus £100	25.8 plus £100	11.6 plus £500	25.8 plus £500	11.6 plus £900	25.8 plus £900	
Morton Community Centre	-1.0 less £500	13.2 less £500	-1.0 less £500	13.2 less £500	-1.0 less £500	13.2 less £500	
North Country Leisure	-3.0 less £300	11.2 less £300	-3.0 less £300	11.2 less £300	-3.0 less £300	11.2 less £300	

Employers	2014/15		2015/16		2016/17		Non-ill-health early retirement allowance included for the 3 years 2014/17
	Individual adjustment (% / £)	Total Contribution Rate (% / £)	Individual adjustment (% / £)	Total Contribution Rate (% / £)	Individual adjustment (% / £)	Total Contribution Rate (% / £)	
Oaklea Trust	4.4 plus £4,400	18.6 plus £4,400	4.4 plus £4,600	18.6 plus £4,600	4.4 plus £4,800	18.6 plus £4,800	
Office of the Police & Crime Commissioner for Cumbria (see notes 2 & 3)	-1.5 plus £2,397,000	12.7 plus £2,397,000	-1.5	12.7	-1.5	12.7	
Orian Solutions Limited	5.3 less £131,300	19.5 less £131,300	5.3 less £99,300	19.5 less £99,300	5.3 less £64,400	19.5 less £64,400	
Penny Bridge Academy	3.0 plus £4,600	17.2 plus £4,600	3.0 plus £4,800	17.2 plus £4,800	3.0 plus £4,900	17.2 plus £4,900	
People First	4.4 less £4,100	18.6 less £4,100	4.4	18.6	4.4	18.6	
Queen Elizabeth Grammar School	2.8 plus £19,000	17.0 plus £19,000	2.8 plus £30,200	17.0 plus £30,200	2.8 plus £42,300	17.0 plus £42,300	
Queen Elizabeth School	-0.3 plus £67,400	13.9 plus £67,400	-0.3 plus £82,100	13.9 plus £82,100	-0.3 plus £97,900	13.9 plus £97,900	
Richard Rose Academy	-2.2 plus £119,000	12.0 plus £119,000	-2.2 plus £158,500	12.0 plus £158,500	-2.2 plus £200,900	12.0 plus £200,900	
Seaton Infant School	-0.3 plus £5,800	13.9 plus £5,800	-0.3 plus £6,000	13.9 plus £6,000	-0.3 plus £6,200	13.9 plus £6,200	
Settlebeck High School	1.7 plus £11,400	15.9 plus £11,400	1.7 plus £15,200	15.9 plus £15,200	1.7 plus £19,300	15.9 plus £19,300	
Soundwave	2.0 less £200	16.2 less £200	2.0 less £100	16.2 less £100	2.0 plus £100	16.2 plus £100	
South Lakeland District Council (see note 2)	0.1 plus £940,900	14.3 plus £940,900	0.1 plus £929,200	14.3 plus £929,200	0.1 plus £917,800	14.3 plus £917,800	
South Lakeland Leisure	-1.3 less £6,600	12.9 less £6,600	-1.3 less £4,100	12.9 less £4,100	-1.3 less £1,500	12.9 less £1,500	
South Lakes Housing	1.7 less £25,900	15.9 less £25,900	1.7 less £27,000	15.9 less £27,000	1.7 less £28,100	15.9 less £28,100	
Stramongate School	2.7 plus £9,500	16.9 plus £9,500	2.7 plus £13,500	16.9 plus £13,500	2.7 plus £17,800	16.9 plus £17,800	

Employers	2014/15		2015/16		2016/17		Non-ill-health early retirement allowance included for the 3 years 2014/17
	Individual adjustment (% / £)	Total Contribution Rate (% / £)	Individual adjustment (% / £)	Total Contribution Rate (% / £)	Individual adjustment (% / £)	Total Contribution Rate (% / £)	
The Queen Katherine School	1.6 plus £51,100	15.8 plus £51,100	1.6 plus £69,400	15.8 plus £69,400	1.6 plus £89,100	15.8 plus £89,100	
Trinity School	1.7 plus £55,800	15.9 plus £55,800	1.7 plus £70,700	15.9 plus £70,700	1.7 plus £86,700	15.9 plus £86,700	
Tullie House Trust	4.7 less £22,100	18.9 less £22,100	4.7 less £19,300	18.9 less £19,300	4.7 less £16,100	18.9 less £16,100	
Ulverston Town Council	6.3 less £4,500	20.5 less £4,500	6.3 less £2,300	20.5 less £2,300	6.3	20.5	
West House	-1.1 plus £14,300	13.1 plus £14,300	-1.1 plus £34,400	13.1 plus £34,400	-1.1 plus £56,000	13.1 plus £56,000	
West Lakes Academy	-0.8 plus £61,900	13.4 plus £61,900	-0.8 plus £69,900	13.4 plus £69,900	-0.8 plus £78,500	13.4 plus £78,500	
Wigton Joint Burial Committee	2.2 less £200	16.4 less £200	2.2 plus £200	16.4 plus £200	2.2 plus £500	16.4 plus £500	
Wigton Town Council	-1.2 plus £1,900	13.0 plus £1,900	-1.2 plus £2,000	13.0 plus £2,000	-1.2 plus £2,100	13.0 plus £2,100	
William Howard School	1.0 plus £74,600	15.2 plus £74,600	1.0 plus £99,100	15.2 plus £99,100	1.0 plus £125,500	15.2 plus £125,500	

Former Employers	Proportion of Pension Increases to be Recharged %
Charlotte Mason College	100
Project Homeless (Cumbria) Limited	100
Workington Port Health Authority	100
Lake District Cheshire Homes	100

Notes:

- The percentages shown are percentages of pensionable pay and apply to all members, including those who are members under the 50:50 option under the LGPS from 1 April 2014.
- The £ lump sum contributions for Cumbria County Council, the Lake District National Parks Council, the Lake District National Parks Authority, the Office of the Police and Crime Commissioner and South Lakeland District Council are all payable by 30 April 2014.
- The contributions for the Office of the Police and Crime Commissioner will need to be reallocated between that employer and the Office of the Chief Constable on its admission to the Fund. The allocation will be determined by the Office of the Police and Crime Commissioner and the Administering Authority acting on actuarial advice.
- The total contributions payable by each employer each year will be subject to a minimum of zero.
- In cases where an element of an existing Fund Employer's deficit is transferred to a new employer on its inception, the Fund Employer's deficit recovery contributions shown in this certificate may be reallocated between the Fund Employer and the new employer to reflect this, on advice from the actuary.

7/ Governance & the Governance Compliance Statement

7.1 Introduction

Governance in the public service context is the leadership, direction and control of public service organisations to ensure they achieve their agreed aims and objectives, and in doing so serve the public's best interests. Good governance leads to good management, good performance and good stewardship of public money as well as being a legal requirement.

From 1 April 2015 management arrangements of the Cumbria Local Government Pension Scheme has five elements: the Cumbria LGPS Local Pensions Board, Cumbria Pensions Committee & Investment Sub-Group, Cumbria Pensions Forum, Advisers and Officers.

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

The purpose of each is summarised as follows:

- **Governance Policy Statement** (see section 7.2) – sets out the roles and responsibilities, describes risk management (which is also considered in section 3.2 of this report), and reports compliance against a set of best practice principles.
- **Administration Strategy & Communications Policy** (see section 5.5) – details the formal arrangements for pensions and benefits administration for the Fund, and the communications with members, employers and pensioners.
- **Statement of Investment Principles** (see section 10) – details how the Fund's assets are invested, the fund managers and benchmarks, and the Fund's compliance with Myners Principles.

- **Cash Investment Policy** (see section 12.4) – the management of the pension fund cash, bank account and investment of surplus cash.
- **Funding Strategy Statement** (see section 9) – identifies how the Fund's pension liabilities will be funded in the longer term and addresses solvency issues.
- **Admissions and Termination Policy** (see section 12.3) – details the policy on employer admissions and the methodology on cessation from the Fund.
- **Discretions Policy** (see section 12.2) – detailing the policy regarding the exercise of certain discretions to assist in the management of the Fund.
- **Training Policy** (see section 12.1) – sets out the policy concerning the training and development of members of all committees and officers responsible for management of the Fund.
- **Policy & Procedure on Reporting breaches of the law** (see section 12.5) – sets out the policy and procedures to be followed by persons involved with the Cumbria LGPS in relation to reporting breaches of the law.

7.1.1 Governance arrangements within the Cumbria LGPS

During 2015/16 the management arrangements of Cumbria LGPS consisted of five elements: Cumbria Pensions Committee (7.1.1.1), Cumbria Investment Sub Group (7.1.1.2), Cumbria Pensions Forum (7.1.1.3), Cumbria LGPS Local Pension Board (7.1.1.4) and Advisers and Officers (7.1.1.5).

Local Pension Board

1 Employer CCC (Advisory)
1 Employer District Councils
1 Employer Other
3 Member Representatives
(Selected to ensure all membership types represented)

Pensions Forum

Employers (Consultative)
Members

OFFICERS

Pensions Committee

8 CCC Cllr (Strategic)
1 District Cllr Decision Makers
2 Trade Union
2 Independent Advisors

Investment Sub Group

S151 (Tactical Decision Maker)
3 Cllrs
1 CIO
2 External Advisors

7.1.1.1 Cumbria Pensions Committee

The local government pension scheme, unlike private pension schemes, does not have trustees but elected Members perform similar duties to Trustees. Cumbria County Council, as Administering Authority for Cumbria LGPS, has the ultimate responsibility for administration of benefits under the scheme. Under section 101 of the Local Government Act 1972 Cumbria County Council has delegated its functions as the Administering Authority to the Cumbria Pensions Committee (hereafter 'the Committee').

The committee has 11 members (8 County Councillors, 1 District Councillor and 2 non-voting employee representatives).

Advice is given by Cumbria County Council's Section 151 Officer (who is the Assistant Director – Finance), the Council's finance team and by two independent advisers. The current advisers are appointed for their knowledge of investments and of pension funds; one adviser being primarily an investment specialist, the other complementing these investment skills with actuarial knowledge of the liability profile of the Fund.

Services are also provided by the Fund actuary, Mercer Ltd, and by other consultants and lawyers wider services.

The delegated duties and responsibilities of the Committee are set out in section 2H of Cumbria County Council's Constitution (which is available online at: www.cumbria.gov.uk/council-democracy/constitution/part2/decisionmakingbodies/2h.asp). Details of the formal Terms of Reference of the Committee are set out in detail in the Governance Policy Statement below at 7.2.

7.1.1.2 Cumbria Investment Sub Group

The dedicated Investment Sub Group advises the Section 151 Officer in the exercise of their delegated powers to appoint / terminate non-SIP investment managers, thus speeding up decision making. This enables limited Committee Agenda time to be focused on the issues that add most value to the Fund.

The Investment Sub Group consider, and continually review the investment management structure for the Pension Fund and are responsible for advising the Section 151 Officer on the appointment and termination of non-SIP investment managers and the establishment and review of performance benchmarks and targets for investment. The group also considers the detail of any regulatory changes to investment limits or national policy changes that are made in this area, reporting to the Pensions Committee on their findings and recommendations.

Details of the composition of the Group and its Terms of Reference are set out in the Governance Policy Statement below at 7.2.

7.1.1.3 Cumbria Pensions Forum

The purpose of the Cumbria Pensions Forum is to seek the views of stakeholders within the Cumbria LGPS and provide information on performance across the management disciplines of the Fund and discuss items of common interest in relation to pensions. Membership of the Forum is open to all employer bodies within the Fund. Further details of the Forum, including its Terms of Reference are detailed in the Governance Policy Statement below at 7.2.

The Forum meets annually and during 2015/16 met on 15th October 2015. The meeting date for 2016/17 will be 21st November 2016 and we would be delighted to see stakeholders at this meeting.

7.1.1.4 Cumbria Pensions Board

The Board is constituted under the Public Service Pension Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014. The requirement for a Pensions Board came into effect from 1 April 2015, and was established to assist the Administration Authority to fulfil its functions in relation to all aspects of governance and administration of the Pension Fund. The Board has no remit as a decision making body.

7.1.1.5 Advisors & Officers

Advice is given by Cumbria County Council's Assistant Director - Finance (s.151 Officer), the Council's Pensions Finance Team and by two independent advisers; Mr Tim Gardener and Mr Alistair Sutherland. The current advisers are appointed for their complementary knowledge and experience of investments, actuarial matters and wider pensions issues.

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

7.1.1.6 Conflicts of Interest

Each Member of the Pension Committee formally considers conflicts of interest at each meeting and the outcome is declared in the public minutes. As detailed in note 16 to the accounts during 2015/16 any related party transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

7.1.1.7 Training 2015/16

Members and Officers are required to undertake training to satisfy the obligations placed upon them by the:-

- Myners Principles (as detailed in the Statement of Investment Principles in section 10 of this report);
- Pensions Regulations and the Pensions Regulator;
- CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills;
- LGPS Governance Compliance Statement; and
- The Committee's own Training Policy (see section 12.1 of this report).

The Cumbria Pensions Committee ensures that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements. This helps ensure the effective acquisition and retention of the relevant public sector pension scheme knowledge and skills for all those (Members and Officers) charged with governance; oversight; financial administration and decision-making for the Cumbria Local Government Pension Scheme (LGPS).

These policies and practices are guided principally by reference to a comprehensive framework of knowledge and skills requirements as set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks (KSF). The KSF has been produced to assist the improvement of governance arrangements of the LGPS. It is intended to improve the ability of elected representatives and paid employees to manage the Fund.

A training policy (see section 12.1 of this report) and an outline training plan designed to cover the Knowledge and Skills Framework is produced annually by Cumbria LGPS and is updated throughout the year as any knowledge and skills gaps are identified either through emerging events or changes to Committee Membership. The Training Plan incorporated in the Training Policy relates to 2016/17 (the 2015/16 Training Plan is set out in the 2014/15 Annual Report which can be found at: www.cumbria.gov.uk/elibrary/Content/Internet/536/654/1129/4229112511.pdf and reflects the 2016/17 Business Plan draft Committee Timetable.

Training undertaken by members of the Cumbria Local Pension Board is referenced in the Annual Report of the Local Pension Board (see section 1.1).

The formal training undertaken by Members and Officers during the 2015/16 financial year has consisted of:

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

Date	Training Course/Information Report
Jun-15	Liability Driven Investment, presentation delivered by Legal & General
Jun-15	Key Features when Reviewing LGPS Annual Report and Accounts presentation, by Alison Clark
Jun-15	EU Issues for LGPS including EU Referendum, presentation delivered by Squire Patton Boggs
Sept-15	GMP Reconciliation Exercise (new statutory requirement) presentation, delivered by AON Hewitt.
Sept-15	Presentation on the Pooling of Investment Assets post the Budget announcement, by Fiona Miller
Sept-15	Reporting Breaches to the Pensions Regulator, new policy requirement, by Alison Clark
Oct-15	2016 Actuarial Valuation, presentation delivered by Mercers
Oct-15	Reporting Breaches to the Pensions Regulator (new policy requirement), and updates on the Administration and Communications policies, by Alison Clark
Oct-15	Pensions Administration: YPS 2014/15 Performance Results, presentation delivered by Diane Lister (YPS)
Dec-15	Consultation of Draft LGPS Management & Investment Regulations and Update on LGPS Pooling, by Fiona Miller
Dec-15	2016 Actuarial Valuation, presentation delivered by Mercers
Mar-15	Annual Fund Policy Update, by Alison Clark
Mar-15	Progress update on LGPS Pooling following February Submission to Government, by Fiona Miller
Mar-15	Progress update on the considerations for the 2016 Actuarial Valuation, by Alison Clark

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

Date	Training Course/Information Report	Attendees/ Members	Officers
Apr-15	Local Government Pension Risk & Liabilities		2
Apr-15	LGA Shadow Scheme Advisory Board		1
May-15	NAPF Local Authority Conference		2
Jun-15	Scottish LGPS Investment & Governance Group (hosted by Cumbria)		4
Jun-15	LGC Pension Fund Symposium		1
Jul-15	CIPFA – Operational Governance of LGPS		2
Jul-15	CIPFA – Local Government Accounting Workshop		1
Sep-15	LGC - Investment Summit		2
Sep-15	PIRC – Corporate Governance		1
Oct-15	CIPFA Pensions Network – Autumn Workshop		3
Oct-15	LGPIF Local Government Pension Investment Forum		4
Oct-15	LGA Firefighters Pension Forum		1
Nov-15	YPS – Employers Practitioners Seminar		3
Nov-15	L&G Currency Hedging Session		4
Nov-15	CIPFA Pensions Network – Annual Conference		2
Nov-15	NatWest – Fraud Awareness Training		8
Nov-15	LAPFF LGPS Seminar		1
Dec-15	CIPFA – Debt Management Masterclass		1
Dec-15	LAPFF Annual Conference		2
Dec-15	Scottish LGPS Investment & Governance Group		1
Dec-15	Investment Management Certificate		3
Jan-16	CIPFA LGPS Investment Regulations Summit		2
Jan-16	CIPFA LGPS Pensions Summit 2016		2
Feb-16	CIPFA Technical Update – Pensions IFRS Accounting and Audit		3
Feb-16	Elected Member Educational Event	2	
Mar-16	LGC Investment Seminar	1	2
Mar-16	Scottish LGPS Investment & Governance Group		1
Mar-16	NAPF (now PLSA) Investment Seminar		2
Mar-16	RGRD – CIVs & Ownership rights seminar		1
Mar-16	PIRC Voting Guidelines 2016		1

7.1.1.8 Summary of Committee & Sub Group Attendance and formal training in 2015/16

Committee Member (member of Pensions Committee only unless otherwise indicated)		Voting rights?	Attendance at meetings	Training received (days)
Cllr. MH Worth	Chair - Committee & Sub Group	Yes	8	2.5
Cllr. SB Collins	Vice Chair - Committee & Sub Group	Yes	8	2.0
Cllr. NH Marriner	Committee & Sub Group	Yes	8	4.0
Cllr. J Airey		Yes	3	2.0
Cllr. G Humes		Yes	2	1.0
Cllr. DE Southward		Yes	4	2.5
Cllr. G Strong		Yes	3	2.0
Cllr. H Wall		Yes	3	2.0
Cllr. G Troughton	Co-opted District Councillor	Yes	4	2.5
R Bevan	Employee representative	No	4	3.5
K McDonald	Employee representative	No	3	3.0
Substitutes				
Cllr. B Doughty		-	-	-
Cllr. DS Fairburn		-	-	-
Cllr. N Hughes		-	-	-
Cllr. D Roberts		-	-	-

7.1.1.9 Audit

The finance and operational arrangements of the Fund are subject to review and audit both by Grant Thornton and the Cumbria's and Lancashire County Council's (as part of the delegated function) internal audit services to increase effectiveness and efficiency. Reports issued by our auditors are subject to consideration by the Council's elected Members through scrutiny at the Council's Audit and Assurance Committee.

The audit of the 2014/15 Pension Fund accounts resulted in an unqualified and unmodified positive opinion and the Fund's external auditor (Grant Thornton) noted that the working papers accompanying the financial statements were of a high standard and provided in accordance with the agreed timetable.

7.2 Governance Policy Statement

In accordance with regulation 55 of the Local Government Pension Scheme Regulations 2013 the Council is required to prepare, maintain and publish a written governance statement addressing certain issues.

This current version of the Governance Policy Statement was presented to and approved by the Pensions Committee held on 8 March 2016.

Cumbria County Council administers the Cumbria Local Government Pension Scheme and is governed in accordance with relevant regulations.

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

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

Terms of Reference of the Pensions Committee

Functions

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

These responsibilities will include, but not be limited to:

- To submit the Pension Fund Accounts to the Council in line with current financial regulations.

- To submit reports to the Council (as a minimum three times a year) updating it on the governance, risk monitoring and performance of the Fund following meetings of the Committee.
- To receive and where necessary instruct corrective action, in response to both internal and external auditor reports.
- To approve the formal Triennial Actuarial Valuation of the Fund, with due consideration being given to balancing the Fund's objectives of ensuring the long term solvency of the Fund while aiming to maintain stable employer contribution rates.
- To (as a minimum) annually review and approve any amendments to the statutory policy statements as required by LGPS regulations (currently the Funding Strategy Statement, the Governance Policy Statement, Admissions and Terminations Policy, Administration and Communications Policy, Discretions Policy, Cash Investment Policy, and the Statement of Investment Principles).
- To produce and maintain an Administration and Communications Policy for the Pension Fund for the admission of employing bodies as contributors to the Fund; that fulfils all communication and consultation requirements with employers of the Fund.
- Prior to the commencement of the financial year to approve an Annual Business Plan and associated Budget for that year to cover all matters of expenditure to be charged to the Fund. To review performance against this throughout the year.
- To approve and annually review the Fund's Training Policy to ensure those charged with the management of the Fund (Members and Officers) are appropriately experienced and qualified.
- To receive minutes and consider recommendations from and ensure the effective performance of the Pension Fund Forum and the Investment Sub Group.
- To receive and consider recommendations from the Cumbria Local Pension Board. Formulate and review tolerance ranges to delegate to the Investment Sub Group to allow them to implement tactical changes to the Investment Strategy or Asset Allocation. Maintain and review an appropriate management and governance structure of the Investment Sub Group to achieve the effective delivery of the Pension Fund objectives.
- To contribute nationally to the development of policy and regulation in regards to the Local Government Pension Scheme and wider Public Sector Pensions policy.

Committee Membership

Eight county councillors, plus one co-opted district councillor, representing the six district councils in Cumbria

and two non voting employee representatives. Equal weight will be given each Members vote with the Chair having the casting vote should the need arise.

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

Committee Operating Structure

The Pension Committee is a committee constituted under section 101 of the Local Government Act 1972 therefore key functions and terms of the Committee, including the following, are as detailed elsewhere in the Constitution:

- Appointment the Chair / Vice Chair,
- Reimbursement Members allowances,
- Quoracy,
- Code of Conduct,
- Conflicts of Interest, and
- Publication and Data protection.

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

Knowledge and Understanding

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

Creation of Working Parties / Sub Groups

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

Role of Advisors

- The Committee is required to ensure all Members have access to appropriate professional advice and representation prior to making any decisions concerning the general management of the Fund.
- To assist in the above the Committee will be required to appoint industry specific advisors to enable it to fulfil its obligations e.g. Fund Actuary; tax specialists; etc. these contracts are to be awarded through the Councils normal procurement process and once appointed will be managed on behalf of the Committee by the Section 151 Officer.

- The Committee may also appoint Independent Advisors, their role being to assist and support Members in their understanding and challenge of either service providers or Officers.
- Independent Advisors will be appointed by the Members, and thereafter report directly to the Chair of the Committee.
- All Members of the Committee have the right to access the support of Independent Advisors appointed to the Fund, however due regard has to be taken of securing value for money and as such whether in the first instance Officers could provide the assistance required.
- On appointment all Independent Advisors will be required to sign a declaration statement outlining any potential conflicts they may have. Once appointed they must immediately report any changes of circumstance directly to the Chair of the Committee for their consideration and further action should this be necessary.

Terms of reference of the Investment Sub Group

The Constitution of the Investment Sub Group is:

Functions

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

These responsibilities are:

- To provide an update report outlining activity in the preceding period, any decisions made by the Section 151 Officer and the proposed work schedule for the next period.
- To carry out monitoring at an individual manager level of the performance of the Fund's investment managers and to escalate any matters of concern to the Pension Committee.
- To consider, and continually review an investment management structure for the Pension Fund and to be responsible for assisting the Section 151 Officer in:-
 - the appointment and termination of investment managers with holdings of less than 5% of the portfolio; and
 - the establishment and review of performance benchmarks and targets for investment.

Membership

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

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

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

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

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

Group Operating Structure

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

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

Terms of Reference of the Pensions Board

Functions

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

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

And to

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

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

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

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

Board Membership

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

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

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

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

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

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

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

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

Board Operating Structure and Codes of Conduct

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

Commissioning of Service providers and Advisors

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

Role of Officers

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

Publication and Data Protection

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

Terms of Reference of the Pensions Forum

The Constitution of the Cumbria Pensions Forum is:

Employers:

- (a) County Council: Nine Members
- (b) District Councils: One member nominated by each Council (including member of the Pensions Committee)
- (c) Statutory Bodies: One member nominated by each employer.
- (d) Admitted Bodies: One member nominated by each employer

Employees:

- (a) County Council: Eight employee representatives appointed by UNISON, of whom two shall be current pensioners.
- (b) District Councils: One employee representative for each District appointed by UNISON, together with one current pensioner.

- (c) Statutory Bodies: Eight employee representatives appointed by UNISON, together with one current pensioner.
- (d) Admitted Bodies: Three employee representatives appointed by UNISON.

Where an appointed representative is unable to attend, a substitute may attend in their place.

The terms of reference of the Cumbria Pensions Forum are:

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

- (a) administration of pensions and information to employees and pensioners in Cumbria;
- (b) discretionary benefits under the Scheme;
- (c) the state of the Fund (the Annual Report and Accounts shall be submitted to the Forum);
- (d) investment policy;
- (e) developments in public sector pension matters and to make appropriate recommendations to the County Council;
- (f) the Chairman of the Pension Forum shall be a Member of the County Council;
- (g) the Forum shall meet at least once per year;
- (b) a special meeting of the Forum may be called by the Chairman, and he/she shall call a meeting within 21 days if requested in writing by three District Councils or by five employer bodies;
- (c) the Forum members will have access to public Pension Committee papers, and are invited to comment where appropriate.

The Cumbria Pensions Forum meets to inform and consult with the wider representation of employing organisations, and employee and pensioner representatives. The dates of these meetings are synchronised with those held by the Pensions Committee to allow for Forum input.

The meetings will be Public meetings, and invitations will be circulated as widely as practicable to employer bodies and employee representatives. The membership of the Cumbria Pension Committee will be represented at each meeting, including where possible the Chair and Vice-Chair.

The policies in relation to voting and reimbursement of expenses of Committee members are inherited from Cumbria County Council, and form part of its Constitution. (Further details can be found on the Council's website at www.cumbria.gov.uk)

All facility time is paid by Cumbria County Council, as set out in the Trade Union Facilities Agreement.

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

The Assistant Director – Finance is the County Council's Chief Financial Officer under section 151 of the Local Government Act 1972 (Section 151 Officer) and is the Officer responsible for the proper administration of the Council's financial affairs.

The functions, including the delegated authority of the Assistant Director – Finance are set out in Part 5G of the Council's Constitution, the Financial Standing Order.

In addition to these functions the Assistant Director has authority in respect of the Cumbria Local Government Pension for the following to:

- (a) Pay pensions, gratuities, grants etc. to members, other beneficiaries and creditors of the Pension Fund, in accordance with the Superannuation and Pensions Acts and Regulations and agreed policy of the Council thereunder.
- (b) In consultation with members of the Investment Sub-Group appoint investment managers to the Cumbria Local Government Pensions Scheme.
- (c) Approve the procurement and award of contracts incidental to the discharge by the Pensions Committee of functions on behalf of the Local Government Pensions Scheme, including decisions relating to the management, modification and termination of such contracts; **NB** Decisions taken in accordance with this paragraph are incidental to the non-executive functions of the Pensions Committee and are not Key Decisions of the Council.

The Assistant Director – Finance has the authority to sign, for the purposes of the local Government Contracts Act 1997, each certificate given under the Act.

Knowledge and Skills

Cumbria Local Government Pension Scheme adopts the key recommendations of the 'Code of Practice on Public Sector Pensions Finance Knowledge and Skills'.

This organisation recognises that effective financial administration and decision-making (note 1) can only be achieved where those involved have the requisite knowledge and skills.

Accordingly this organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector

pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.

These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks and the Pensions Regulator Tool Kit.

This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.

This organisation has delegated the responsibility for the implementation of the CIPFA Code of Practice to the Assistant Director of Finance (Section 151 Officer), who will act in accordance with the organisation's policy statement, and where he/she is a CIPFA member, with CIPFA Standards of Professional Practice (where relevant).

Note 1: Decision-makers are those with executive authority serving on governing boards, i.e. Cumbria Pensions Committee.

Risk Management

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

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

Risk matrix

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

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

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

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



Governance Compliance Statement

The Local Government Pension Scheme Regulations 1997 were amended on the 30 June 2007 (Regulation 73A(1)(c)) to require Administering Authorities to report the extent of their compliance against a set of best practice governance principles published by Communities and Local Government (CLG).

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

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

8/ The Pension Fund Accounts

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8 Financial Statements and Notes to the Accounts

The Statement of Accounts for the Cumbria Local Government Pension Scheme (LGPS) is presented in its entirety and separately from the General Fund in Cumbria County Council's Accounts. Although the County Council is the Administering Authority, the Fund covers both County Council employees and those of other scheduled, resolution and admitted bodies. These Accounts (financial statements and certain sections) are summarised to form part of Cumbria County Council's Annual Accounts.

The Accounts for the Cumbria LGPS summarise the Fund transactions for the financial year 2015/16 and the position at the year-end date, 31st March 2016. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

They do not take account of obligations to pay pensions, lump sums or other benefits which fall due after the financial year end. IAS26 'Retirement Benefit Plans' requires the actuarial present value of promised retirement benefits to be disclosed and this information can be found in Note 23 'Actuarial Position of the Fund'.

The Code of Practice does not currently define what constitutes administrative expenses nor does it require any breakdown of these costs. In the interests of greater transparency and comparability CIPFA have prepared 'Management Costs Guidance' (final version issued on 9th June 2016) which the Fund has elected to adopt. To ensure comparability for our readers prior year figures have been adjusted. The change has no effect on the valuation of investments or the net asset value of the Fund.

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

In addition we have undertaken a review of the presentation of the Investment Assets on the Net Asset Statement; to ensure comparability for our readers we have restated the Fund's 2014/15 published financial statements in relation to the net investment assets. The change impacts upon figures within the Balance Sheet only; it has no effect on the valuation of investments or the net asset value of the Fund.

Details of the change can be found in note 1(c) to the Financial Statements and details of the investment assets can be found in notes 10, and 10(a) to (f).



8.1 The Financial Statements

Pension Fund Account for the year ended 31st March 2016

	Notes	2014/15		2015/16	
		£000's	£000's	£000's	£000's
Dealings with members, employers and others directly involved in the fund					
Contributions	3		96,005		60,048
Transfers in from other pension funds	4		2,294		4,883
			98,299		64,931
Benefits	5		(73,747)		(77,477)
Payments to and on account of leavers / employers exit	6		(39,183)		(4,185)
Net additions / (deductions) from members			(14,631)		(16,731)
Management expenses*	7 & 8		(8,765)		(8,679)
Returns on investments					
Investment Income		30,654		41,863	
Taxes on Income		(203)		(177)	
Net investment income	9	30,451		41,686	
Profit and losses on disposal of investments and changes in the market value of investments	10(d)	245,531		3,217	
Net return on investments			275,982		44,903
Net increase in the net assets available for benefits during the year			252,586		19,493
Net assets at the start of the year			1,774,730		2,027,316
Net assets at the end of the year			2,027,316		2,046,809

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

Net Assets Statement as at 31st March 2016

	Notes	31 March 2015	31 March 2016
		£000	£000
Investment assets	10	2,016,710	2,040,205
Investment liabilities	10	(8,723)	(6,143)
Total net investment assets*		2,007,987	2,034,062
Long term assets	12a	1,643	1,314
Current assets	12b	20,329	14,397
Long term liabilities	13a	(298)	(237)
Current liabilities	13b	(2,345)	(2,727)
Net assets of the Fund available to fund benefits at the period end		2,027,316	2,046,809

* Prior year restated to follow the 2015/16 CIPFA suggested format, including all investment debtors and creditors in the total net investment assets figure. For details see notes 1(c) and 10.

8.2 Notes to the Financial Statements

Note 1 (a): Description of the Fund

The Purpose of the Fund is to provide pension benefits for current and future Fund members through ensuring it can:-

- pay out monies in respect of scheme benefits (pensions), transfer values, cost, charges and expenses, as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;
- receive monies in respect of contributions, transfer values and investment income, and
- invest all deposits and, whilst balancing both risk and return, aim to consistently outperform against the Fund's benchmark over the longer term.

Through balancing the strategic investment of the Fund's assets to the liability profile of the membership, the aims of the Cumbria LGPS are to:-

- ensure that sufficient resources are available to meet all liabilities as they fall due;
- manage the long term sustainability of the Fund;
- enable employer contribution rates to be kept as stable as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies;
- manage employers' liabilities effectively;
- maximise the returns from investments within reasonable risk parameters, and
- aim to close the scheme deficit by 2033.

Membership to the Cumbria LGPS is open to:-

- all eligible employees of scheduled bodies (local government, academies, colleges) within the county who are not covered by alternative pension arrangements (the main categories of employees covered by alternative arrangements are teachers, fire service uniformed personnel and police officers);
- membership is also open to other eligible employees of employers of the Fund (usually this includes employers to whom contracts have been awarded for the provision of public services within the county).

All eligible local government employees are automatically entered into the scheme. Employees may choose to opt out at any point in time.

As at 31st March 2016 the total membership of the Fund was approximately 54,500 (2014/15: 52,700) and consisted of approximately: 16,300 contributors/actives (2014/15: 16,500); 23,300 deferred members (2014/15: 21,800) and 14,900 pensioners (2014/15: 14,400).

At 31st March 2016 there were 126 (2014/15: 118) employer bodies in the Cumbria LGPS (for the full list see Note 25), this increase reflects the continued growth in academies and outsourcing of local government services to other providers. This growth in employer bodies is expected to continue over coming years.

Note 1 (b): Activity and Performance During 2015/16

During the year to 31st March 2016 the Cumbria LGPS value increased by £19.493m from £2,027.316m (31/03/15) to £2,046.809m (31/03/16). The Fund returned 1.9% (net of fees) for the year which was an outperformance of 2.1% on the Fund's bespoke index performance benchmark for the year of -0.2%. This was attributable to active management outperformance in the investment portfolios and to the increase of investment in alternative assets such as infrastructure and private equity.

2015/16 year was very volatile between months and quarters for many asset classes, but for the twelve month period to March 2016, many markets showed negligible performance overall. Property was the exception, providing strong returns of 11.7%. UK index-linked gilts had a lower return than 2014/15 of 1.9% (2014/15 21.1%). The Global Equities Markets have in the main fallen in 2015/16, averaging at -1.2% although there were variations by sector and geography. North American markets showed the strongest performance of 3.6%. Performance within the remaining areas were all negative, ranging from -3.3% for Japan to -5.4% for the Pacific. In contrast, the Fund's combined Global Equity active portfolio managers have provided a return of 5.2%, outperforming the market by 6.4% (net of fees).

The Fund performed well over the medium to longer term with the three-year return of 8.1% (net of fees) outperforming the bespoke hedged benchmark of 6.2% (per year) by a significant 1.9%. The ten year Fund return was 6.2% (net of fees), 0.5% above the benchmark of 5.7% (per year).

Cumbria LGPS ranks well for investment performance in comparison to its peers. The average Local Authority Pension Fund performance for the year was 0.2% (gross of fees), resulting in a ranking for Cumbria of 9th out of 88.

CIPFA recommends that the management of investment returns should primarily be against a fund specific benchmark derived from the individual fund's investment strategy which directly reflects the risk and liability profile of the Fund. However benchmarked comparisons to the Fund's peer group is also used as it is considered a valuable tool in assessing each fund's individual strategy

and overall performance. The table below shows the very credible Cumbria Fund performance compared to the WM Local Authority universe (88 funds) for the 1, 3, 5 and 10 years:

Period	1 Year %	3 Years % per year	5 Years % per year	10 Years % per year
Gross of fees*				
Cumbria Pension Scheme	2.1	8.2	8.7	6.3
WM LA Universe Average	0.2	6.4	7.1	5.6
Ranking	9th	8th	8th	16th

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

The Cumbria Fund completed a detailed Investment Strategy Review in May 2012 which has been reviewed annually in the intervening period. The outcome of the review determined that, given the predicted longer term liability profile of the Fund, at a strategic level, the asset allocation to growth seeking assets versus defensive assets (68% to 32%) was still appropriate. This results in Cumbria having a more defensive strategy than the average LGPS which held 77% growth seeking to 23% defensive assets.

It was considered that reduced risk (through better diversification and enhanced inflation protection) and marginally enhanced return with a greater focus on income (to recognise the Fund's maturing liability profile in the medium-term) may be achieved from an alternative allocation across the growth section of the portfolio. This has led to the strategic selection of an in-house portfolio of alternative pooled funds to increase diversification and stability. Returns are already indicating positive performances net of fees and this is anticipated to continue in the longer term.

The process of implementing the changes in asset allocation has progressed steadily since 2012 with the following changes being made this year:-

- Increasing the commitments within the infrastructure and opportunistic portfolios towards their 9% targets, to 7.4% in infrastructure and 5.4% in opportunistic. This was done by the selection of suitable opportunistic investments (ongoing) with commitment made to SL Capital Secondary Opportunities Fund III;
- The continuation of planned drawdowns against agreed commitments within the infrastructure and opportunistic portfolios;
- The commencement of selecting suitable investments to a defensive asset allocation (income seeking with capital preservation), with commitment made to Babson Global Private Loan Fund of £25.0m; and

- The liquidation of the BlackRock alternatives portfolio has continued (£48.4m at 31/03/15 to £29.8m at 31/03/16) with funds released for investment into infrastructure and opportunistic products.

The majority of work plan objectives in the 2015/16 Business Plan have either been achieved or are in progress of completion and all will be delivered within budget. The main actions completed are:-

- Consideration of options to address the movement of the Fund towards a negative cash flow position, due to the impact of reductions in funding from central government (austerity) on Fund employers and reducing staffing levels. This impacts on the maturity profile of the Fund membership. A detailed cash monitoring process together with liaison with Cumbria Chief Finance Officers Group and the Actuary in preparation for the 2016 valuation has been established with the aim to ensure that cash is available when required.
- Development and enhancement of the revised tiered performance reporting framework with the aim of ensuring the three operational levels of the Fund (Pensions Committee, Investment Sub Group and Officers/Advisers) receive the right information to support the specific role in investment management, governance and oversight of the Fund. Quarterly conference calls and Annual face-to-face reviews with Investment Managers, and quarterly meetings of senior officers with Your Pension Service (YPS), assist in this process and feed into the Quarterly ISG meetings.
- A review of the Custody Services contract was undertaken through the use of the National LGPS Framework (hosted by Norfolk County Council) thereby reducing the complexity and costs of a full tender whilst benefiting from the negotiated reduced fees due to increased scale. The resulting contract was the re-appointment of State Street Bank as Custodian under a 5 year contract to 31st March 2021 with an option to extend this for a further 2 years if required.

- Successfully securing fee reductions from existing managers in 2015/16.
- Review and enhancement of Fund governance arrangements in response to regulatory and structural changes. Following improvements to the quarterly monitoring report allowing Committee Members to be advised of any material risk, policy changes, governance or financial monitoring issues each quarter, Cumbria was approached by the Scheme Advisory Board to be part of the trial of performance metrics; these have now been adopted across the LGPS.
- Improved monitoring for the LGPS 2014 CARE Scheme through Officers and YPS working closely and supporting employers, enabled the Fund to meet the revised deadlines for issue of the Annual Benefit Statements.
- Selection process for the establishment of a Local Pensions Board for Cumbria was undertaken in May and June 2015, the first meeting was held in July 2015 where Terms of Reference and a Training Plan were approved.
- Members of the Cumbria Pensions Committee were kept informed and involved in the government consultations issued during the year on the structure and regulations of the LGPS including topics such as Investment Regulations and LGPS Pooling and Exit Payment Caps.
- Timely completion of the Pension Fund Annual Accounts and Annual Report for 2014/15 with positive feedback received from the Auditor. Further improvements have been made to the layout and content of the report to improve readership of the on-line publication.
- Additional staffing resources to support revised structures and increased workloads were approved by the Pension Committee and recruitment to two new posts was completed in January 2016.
- Review, measurement, and delivery of the training plan to both new and continuing Members and Officers. Resources concentrated on key issues identified by feedback, up and coming national legislative / policy changes and ongoing LGPS work. For example, training on the Actuarial Valuation process in advance of the upcoming triennial valuation was provided to Members and Officers; this issue will continue to be addressed in 2016/17 as the results of the valuation become known.
- Three Officers of the fund are in the process of completing the final stage of the IMC investment management qualification, to support the move into more complex asset classes, with a further officer due to start training shortly.

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

- PIRC (Pensions & Investment Research Consultants) were appointed from 1st January 2015 to deliver an enhanced level of shareholder engagement and they now vote on all active UK equity shares held by the Fund. Phase 2 of the development of the Fund's stewardship and corporate engagement will be taken forward in line with the pooling agenda.
- The Investment Sub Group continued to review products that may be a suitable fit for the strategic asset allocation to infrastructure and opportunistic investments. Progress in searching for new products has slowed in the last few quarters due to the prioritisation of the pooling agenda.
- Following initial discussions with the Actuary regarding the 2016 Triennial Actuarial Valuation, Mercer presented to the March 2016 Committee a review of the Funding Strategy, these communications and actions will continue throughout the valuation process to its completion in 2017.
- Due to internal promotion following the abovementioned recruitment to two new posts, one vacant post has been recruited to and will be filled in 2016/17.
- To enhance skills across the team and to support succession planning, staff are continuing their study for the Foundation Degree in Pensions Administration and Management qualification and for the Chartered Financial Analyst (CFA) UK Level 4 Certificate in Investment Management.

Looking forward, 2016/17 is also expected to be another busy year for Local Government Pension Schemes. Regulation, Governance, deficit management and national consideration of structural arrangements in the progression of the pooling agenda across the LGPS are driving significant changes at an unprecedented speed.

In addition to standard activities such as the review of Fund strategy, risk and policies, and the production of the Annual Report and Accounts, the proposed key deliverables in 2016/17 (grouped under three main headings) include:

Governance and Procurement

- Strategy, Fund risk and policies reviews and updates.
- Continue to develop viable detailed proposals on asset pooling with other like-minded funds in the Border to Coast Pensions Partnership.
- Reviewing, measuring and delivering training to Members and Officers as outlined in the dynamic Training Plan and extending this to Local Pensions Board Members where appropriate.

- Development and enhancement of contract review procedures and performance monitoring at both Committee and Officer level.
- Involvement in consultations, and assessment of impact on Cumbria of decisions on the future structure of the LGPS.
- Review of governance arrangements in response to financial, regulatory and structural changes.
- Development of the Fund's stewardship and corporate governance framework.
- Embedding and developing the role of the Cumbria Local Pension Board.
- More extensive reporting across a range of Fund activities to third parties e.g. Department for Communities and Local Government (DCLG), Government Actuaries Department (GAD), Scheme Advisory Board, the Pensions Regulator and External Audit etc.

Fund Management

- Develop, train Members and Officers thereon and implement a new Investment Strategy Statement once full regulations are in place and guidance issued;
 - Continue to progress infrastructure and opportunistic investment options,
 - Complete realignment of UK equities and closure of BlackRock Alternatives portfolio,
 - Continual review of temporary overweight to equities.
- Consideration of options to address the movement of the Fund towards a negative cash flow position, by continuing the work on a strategic allocation to cash, additional reasons being; strategic downside protection, funding new assets and working capital needs.
- Recruit and train new staff resource; training of new Officers will be required to ensure they meet the high levels of knowledge required.
- Plan for a full Investment Strategy review in 2017 post the finalisation of the actuarial triennial valuation.

Employers, Funding and Accounting

- Undertake the 2016 Triennial Actuarial Valuation work, including discussions with the Actuary and larger employers regarding the outcomes and revisions to employer rates (from 1st April 2017).
- Continue to improve pension administration arrangements for the benefit of all members and employers of the Fund.
- Continue to monitor and improve employer communication and employer data submission issues.
- Continue communication and liaison with Fund employers and embed the CARE 2014 Scheme and meet the data requirements of the Pensions Regulator.

- Completion of the 2015/16 Cumbria LGPS Annual Accounts and Annual Report incorporating any new regulatory/technical changes.
- Recruit and train new staff to support workloads due to increasing member numbers.
- Scheme reconciliation – GMP (Guaranteed Minimum Pension).
- Monitor and respond to impact on administration of changes to membership structures across the Fund's employers due to continuing austerity measures (this may require changes to benefit structures to reflect the implementation of the 'Exit Cap' legislation).

The Cumbria LGPS Annual Report and Accounts gives further details of the Fund's performance, management structure and investment news. The Annual Report and Accounts 2015/16 will be published on-line when finalised (and at the latest by the statutory deadline of 1st December 2016) at www.cumbria.gov.uk/finance, where the previous year's report is also available.

Note 1 (c): Clarification of Accounting Policy & Reclassification

Management Expenses

The CIPFA Code of Practice (the Code) requires that 'administrative expenses' in relation to a retirement benefit plan are disclosed on the face of the fund account. The Code of Practice does not currently define what constitutes administrative expenses nor does it require any breakdown of these costs. In the interests of greater transparency and comparability CIPFA have prepared 'Management Costs Guidance' (issued 9th June 2016). The guidance aims to promote transparency, consistency, completeness, and the reliability of information in connection with the costs of managing the LGPS.

The change to the presentation of the Accounts is that the management fees on pooled investment vehicles deducted at source and any potential performance fees accrued will be disclosed on the face of the Fund Account and in the Management Expenses Note. The Fund has elected to adopt this change for the 2015/16 Accounts.

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

2014/15 Heading	2014/15 £'000	Adjustment £'000	Description of adjustment	2014/15 restated £'000
Management expenses	-8,063	-702	Disclosure of Management fees deducted from pooled funds	-8,765
Profit and losses on disposal of investments and changes in the market value of investments	244,829	702	Pooled fund costs moved to expenses	245,531
Total	236,766	0		236,766

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

Net Investment Assets

Each year CIPFA publish non-mandatory example accounts as a good practice guide for pension fund accounts. The 2015/16 example accounts (the 'Local Government Pension Scheme Fund Accounts 2015/16 - Example accounts and disclosure checklist') incorporated changes designed to improve clarity and declutter the accounts. These changes included amendments to disclosure relating to investments.

In light of this and the detailed work the Fund undertook regarding the disclosure of management costs during 2015/16, the Fund has reviewed the disclosure of investment balances. The conclusion of this review was to show specific investment related debtor and creditor balances within Net Investment Assets. This should provide the reader of the accounts with greater clarity and more comparability with other LGPS accounts than if they were shown within Current Assets and Liabilities on the Net Assets Statement.

The 2015/16 accounts therefore show sales receivable, investment income accrued, property debtors, purchases payable, and property creditors within Investment Assets and Investment Liabilities (as appropriate) rather than within Current Assets or Current Liabilities (as appropriate). This results in a movement of debtor / creditor balances between lines in the Net Asset Statement. It has no impact on either the Total Net Assets of the Fund or the Pension Fund Account.

To ensure comparability for our readers we have restated the comparative figures on the face of the Net Asset Statement and in the relevant Notes to the Accounts (specifically Notes 12(b) Current Assets, 13(b) Current Liabilities and Note 10 Investment Assets). The following table illustrates the adjustments made to comparative figures in the Balance Sheet:

2014/15 Heading	2014/15 £'000	Adjustment £'000	Description of adjustment	2014/15 recategorised £'000
Investment assets	2,005,852	10,858	Investment accruals (income, sales) moved to here	2,016,710
Investment liabilities	-1,068	-7,655	Investment accruals (purchases, creditors) moved to here	-8,723
Total Net Investments	2,004,784	3,203	Total Net Investment Assets	2,007,987
Current assets	31,187	-10,858	Investment accruals (income, sales) removed	20,329
Current liabilities	-10,000	7,665	Investment accruals (purchases, creditors) removed	-2,345
Net assets of the Fund available to fund benefits at the period end	2,027,316	0	No change	2,027,316

The following table illustrates what the 2015/16 figures would have been had the change not been made to Notes 12(b) and 13(b):

14/15 headings	2014/15 prior to recategorisation £'000	2015/16 figures prior to recategorisation £'000	Recategorisation in 15/16
Current Assets	14,384	8,326	
Cash balances:			
Current Debtors			
Securities sold awaiting settlement	4,871	1,881	Investment Assets
Investment income accrued	4,791	5,290	Investment Assets
Property debtors	1,196	1,073	Investment Assets
Contributions due	4,474	4,453	Current Assets
Employer exit from scheme due < 1 year	581	329	Current Assets
Miscellaneous	890	1,289	Current Assets
Total Current Debtors	16,803	14,315	
Total Current Assets	31,187	22,641	
Current Debtors relating to (per IFRS headings):			
Central Government bodies	699	776	Current Assets
Other local authorities	4,396	4,362	Current Assets
NHS bodies			
Public corporations and trading funds			
Other entities and individuals	11,708	9,177	Current Assets / Investment Assets
Total Current Debtors	16,803	14,315	
Current Liabilities			
Current Creditors:			
Securities purchased awaiting settlement	5,154	1,333	Investment Liabilities
Property creditors	2,501	3,022	Investment Liabilities
Investment Managers fees	1,028	1,032	Current Liabilities
Tax payable	626	636	Current Liabilities
Interest provision on long-term debt	52	61	Current Liabilities
Miscellaneous	639	998	Current Liabilities
Total Current Liabilities	10,000	7,082	
Current Creditors relating to (per IFRS headings):			
Central government bodies	626	636	Current Liabilities
Other local authorities	530	851	Current Liabilities
NHS bodies			
Public corporations and trading funds			
Other entities and individuals	8,844	5,595	Current Liabilities / Investment Liabilities
Total Current Liabilities	10,000	7,082	

For further details of investment assets see notes 10 and 10(a) to 10(e) to the Financial Statements.

Note 2: Summary of Significant Accounting Policies

There have been no significant changes to accounting policies in 2015/16.

Fund account – revenue recognition**2.1. Contribution Income**

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

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

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current debtor. Amounts not due until future years are classed as long-term debtors. Where an employer leaves the scheme, any contribution required on closure is accrued for in the year of departure. (See Note 3 for further details).

2.2. Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Scheme during the financial year. These are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 4 and 6).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see 2.15) to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (see Note 4).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

2.3. Investment income (Note 9)

a) **Interest income:** is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

b) **Dividend income:** is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement.

c) **Distributions from pooled funds:** are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement.

d) **Property-related income:** consists primarily of rental income. This is recognised on an accruals basis.

e) **Movements in the net market value of investments:** changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year. (See Note 10(d)).

Fund account – expense items**2.4. Benefits payable (Note 5)**

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

2.5. Taxation

The Scheme is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments is subject to withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises, and is shown on the Fund Account as 'Taxes on income'.

2.6. Administrative expenses (Note 7)

All administrative expenses are accounted for on an accruals basis. All staff costs of the County Council's Pensions Finance team are charged direct to the Fund, with management, accommodation and other overheads apportioned to the Fund in accordance with general Council practices. Staff and on-costs related to administration are apportioned to this heading.

2.7. Investment management expenses (Note 7)

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

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

2.8. Oversight and Governance costs (Note 7)

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

The cost of Elected Members expenses, training and travel relating to Pension Fund activities and obtaining investment advice from external investment consultants and advisors is included in oversight and governance costs, as are transition management costs, actuarial fees, legal fees and shareholder voting services.

Net assets statement

2.9. Financial Assets

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

Investment Assets

State Street Bank and Trust, as independent Custodian to the Fund, values the assets other than direct property and unquoted investments. This is done on a daily basis by a series of data quality verifications. All discrepancies outside a tolerance level (zero tolerance for equities and 5% tolerance for bonds) are researched with a secondary source and resolved. This additional scrutiny provides an extra level of independence. The values on investment assets as shown in the net assets statement have been determined as follows:

- a) Market-quoted investments: The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- b) Fixed interest securities: Fixed interest securities are recorded at net market value based on their current yields.
- c) Unquoted investments: The fair value of investments for which market quotations are not readily available is determined as follows:
 - Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs. There was one such investment at 31st March 2015 valued

at £0.434m, which was subsequently sold during 2015/16 (see Note 14 'Unquoted investments').

- Directly held investments include investment in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools of directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement. (See Note 14).
 - Investments in private equity funds and unquoted limited partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association. (See Note 14).
- d) Limited partnerships: Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
 - e) Pooled investment vehicles: Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31st March 2016. Unquoted investments are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers. For further information on Pooled investment vehicles see Note 10(a).
 - f) Freehold and leasehold properties: The properties are valued at fair value at 31st March 2016 by an independent valuer, CB Richard Ellis, Chartered Surveyors, 77 Grosvenor Street, London, in accordance with the Royal Institute of Chartered Surveyors' Valuation - Professional Standards.
 - The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.
 - Each valuation has been prepared on the basis of "Fair Value", which is defined as: "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" in International Financial Reporting Standard (IFRS) 13 (for financial reporting under International Financial Reporting Standards).

- "Fair Value", for the purpose of financial reporting under International Financial Reporting Standards and UK GAAP, is effectively the same as "Market Value", which is defined as: "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion."
- The valuation represents the figure that would appear in a hypothetical contract of sale at the valuation date.
 - i. No allowances have been made for any expenses of realisation nor for taxation which might arise in the event of a disposal.
 - ii. Acquisition costs have not been included in our valuation.
 - iii. No account has been taken of any inter-company leases or arrangements, nor of any mortgages, debentures or other charges.
 - iv. No account has been taken of the availability or otherwise of capital based Government or European Community grants.

For further detail on Investment Properties see Note 10(b).

- g) Loans and receivables: these are non-derivative financial assets which have fixed or determinable payments and are not quoted in an active market. Investment Assets represented by loans and receivables are carried in the Net Assets Statement at amortised cost basis i.e. principal amount adjusted for any interest payable / receivable at the year-end date.

Long-Term Assets

Revenue transactions are recorded on a system of receipts and payments. Income accruals (debtors) and expense accruals (creditors) have been introduced in respect of major items of income due but not received, and significant amounts owed, at 31st March. In accordance with IAS39, long-term debtors owed for a period of more than one year have been calculated using the effective interest method, discounting to present value, with a corresponding long-term creditor for the discount to be unwound.

2.10. Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. State Street Bank and Trust value all overseas securities and foreign currency balances outstanding at year end in local currency then convert to sterling using the WM Reuters 4pm exchange rates at 31st March 2016.

2.11. Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not currently hold derivatives for speculative purposes.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract. The contracts are valued using the WM/Reuters 4pm closing spot/forward foreign exchange rates.

Fair value of Exchange Traded Futures contracts is determined based on market quoted prices as at the reporting date. Fair value is the unrealised profit or loss at the market quoted price of the contract. Derivatives are covered in more detail in Note 10(c).

2.12. Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

2.13. Financial liabilities

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

2.14. Actuarial present value of promised retirement benefits

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

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

2.15. Additional voluntary contributions

Cumbria LGPS provides an additional voluntary contributions (AVC) scheme for its members. The Fund currently has three appointed AVC providers: Prudential, Standard Life and Scottish Widows. The previous AVC scheme on offer to employees was operated by Equitable Life Assurance Society but in December 2000 it closed to new business.

Employees / contributors AVCs are paid over to one of the three providers by the Fund employers. These contributions are specifically for the purpose of providing additional benefits for individual contributors. Each AVC contributor receives an annual statement (from their provider) showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (see Note 15).

2.16. Stock Lending

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

2.17. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct material errors.

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

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

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

Note 3: Contributions

Benefits (see Note 5) are funded by contributions and investment earnings. Contributions are received both from active members and employers of the Fund. Contributions from active members are made in accordance with the Local Government Pension Scheme Regulations 2013 (as amended) while individual employers' contribution rates are based on triennial actuarial funding valuations (see Note 23).

Contribution rates for 2015/16 are as follows:

- Employees - range from 5.5% to 12.5% of pensionable pay dependent on the full-time salary of the member.
- Employers - range from 3.6% to 27.4% of pensionable pay, plus a lump sum payment for deficit recovery. Individual employer rates are set by the actuary on a three-yearly cycle, taking into account the employer's own attributes and particular circumstances; this includes the maturity profile of the membership, if the Admission is open or closed to new members, and the maximum deficit recovery period as determined by the Fund Actuary in relation to the employer's covenant and membership profile.



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

By category	2014/15 £'000	2015/16 £'000
Employee contributions to the fund	16,430	16,509
Employer contributions to the fund:	37,396	38,321
Normal contributions	42,179	5,218
Deficit recovery contributions	79,575	43,539
	96,005	60,048
By category	2014/15 £'000	2015/16 £'000
Administering Authority	63,119	32,119
Other Scheduled bodies	29,221	24,901
Admitted bodies	3,665	3,028
	96,005	60,048

As shown in the above table the administering authority contributions (Cumbria County Council) were £32.119m (£63.119m 2014/15).

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

In addition to normal contributions and capital payments from employers, the contributions figure also includes the costs of pension strain arising from non-ill-health early retirements and, where applicable, ill-health early retirements:

Non ill-health early retirements: Employers can make lump sum contributions toward pension strain costs or pay an additional employer contribution rate (as calculated by the actuary). These contributions are recognised in line with the agreement with the employer, if there is no agreement, they are recognised when the Fund receives them.

Cumbria County Council is the only Fund employer who, in agreement with the Actuary, opted, from 1st April 2011, to make an additional employer contribution. The rate as determined by the Actuary includes an element to

compensate the Fund for delayed receipt of monies. The additional employer contribution from the County Council is to be used to offset the one-off costs of workforce restructuring to be undertaken in response to national reductions in Local Authority budgets. It is anticipated that this period of workforce reduction and restructuring will continue in the medium term. The additional contribution from Cumbria County Council will fund an allowance of up to £7.312m for non-ill-health early retirements. From 1st April 2014 to 31st March 2016, £6.980m of this amount has been allocated.

Ill-health early retirements: Cumbria County Council also has a voluntary arrangement whereby part of the actuarial strain of ill-health retirements is paid immediately. Details of this and all other Cumbria LGPS employer's policies are contained in the full Actuarial Valuation Report as at 31st March 2013, available on the County Council's website, at www.cumbria.gov.uk/finance

Note 4: Transfers in from Other Pensions

Transfers in to the scheme have been made by individual members, where they decide to bring pensions benefits accrued from previous employment into their LGPS pension.

	2014/15 £'000	2015/16 £'000
Individual transfers	2,294	4,883
	2,294	4,883

The increased value of Transfers in during 2015/16 is in part due to 2014/15 being a low value year together with the inward transfer of a number of staff for one Admitted Body where combined transfers in were £1.095m.

Note 5: Benefits

Pension benefits under the LGPS are based on final pensionable pay or career average, and length of pensionable service. Members have access to the schemes depending upon the period their active membership in the LGPS covers, i.e. whether their employment was previous to 1st April 2008, during the period 1st April 2008 to 31st March 2014, and employed post 1st April 2014. Details of the main benefits of membership of these schemes are summarised in the following table:

	Service Pre 1 April 2008	Service from 1 April 2008 to 31 March 2014	Service post 1 April 2014
Basis	Final salary	Final salary	Career Average Revalued Earnings (CARE)
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary	Each year worked is worth 1/49th x pensionable salary
Lump sum	<p>Each year worked is worth 3/80 x final pensionable salary</p> <p>In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.</p>	<p>No automatic lump sum</p> <p>Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.</p>	<p>No automatic lump sum</p> <p>Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.</p>



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

By category	2014/15 £'000	2015/16 £'000
Net pensions paid	60,612	62,478
Net lump sum on retirement	11,536	13,114
Net lump sum on death	1,599	1,615
	73,747	77,477
By employer type	2014/15 £'000	2015/16 £'000
Administering Authority	41,902	44,254
Scheduled bodies	26,518	27,163
Admitted bodies	5,327	6,060
	73,747	77,477

As shown in the above table the administering authority benefits (Cumbria County Council) were £44.254m (£41.902m 2014/15).

The increased benefits paid value reflects the amount of restructuring that has taken place in recent years, as most Fund employers within the LGPS seek to address reducing funding. Many employers within the Fund have chosen to offer voluntary redundancy programmes, which by their nature tend to appeal to individuals whom are aged over 55 and are therefore entitled to (at a cost to their employer) access their unreduced pension immediately. However, proposed changes to the regulations are being enacted currently which may affect this going forwards. The overall maturity of the fund and progression towards a negative cash flow position has been taken into account when reviewing the investment strategy.

Note 6: Payments to and on account of leavers / employer exit

	2014/15 £'000	2015/16 £'000
Refund of contributions	86	178
Individual transfers to other Schemes	2,617	3,335
Group transfer out to other Schemes	36,480	652
	39,183	4,185

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

Note 7: Management Expenses

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

Further details of management expenses are as follows:

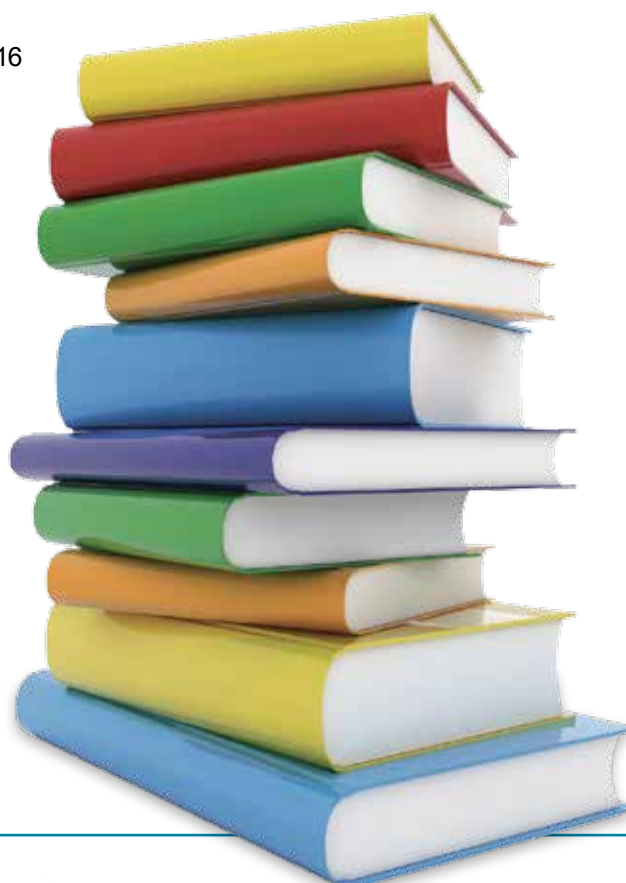
	2014/15 £'000	2015/16 £'000
Administrative costs	987	1,074
Investment management costs	7,333	7,121
Oversight and governance costs	445	484
	8,765	8,679

The Code of Practice does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Council discloses its pension fund management expenses for 2015/16 in accordance with the CIPFA guidance on LGPS management costs, in the three headings shown. To further aid comparison for future years using this new disclosure, a detailed breakdown for 2015/16 is provided for information in the next note.

Administration costs were £0.087m higher in 2015/16 than the previous year. This was largely due to benefits administration and employee costs.

Investment management costs were £0.212m lower in 2015/16 than the previous year, for further details refer to Note 8.

Oversight and governance costs were £0.039m higher in 2015/16 than the previous year due in part to the additional costs of establishing and operating the new local pension board. This was a new statutory requirement placed on all pension fund administering authorities with effect from 1 April 2015.



Note 8: Management Expenses Additional Information

The Code of Practice does not require any breakdown of pension fund management expenses. However for information only, to further aid comparison using the disclosure into the three headings suggested by CIPFA guidance, a detailed breakdown for 2015/16 is provided below.

	2014/15 £'000	2015/16 £'000
Administrative costs:		
Pensions Administration	869	897
Employee Costs	114	152
Legal Advice	4	25
	987	1,074
Investment management expenses		
Fund management fees	2,962	3,138
Custody fees	127	140
Pooled fund costs and entry fees	3,916	3,609
Transaction costs	328	234
	7,333	7,121
Oversight and governance costs		
Employee costs	176	213
Pension fund committee	43	26
Pension Board		15
Investment consultancy fees	55	73
Performance monitoring service	24	23
Shareholder voting service	13	16
Actuarial fees	7	37
Audit fees	24	25
Legal and tax advice	89	36
Other (including bank charges)	14	20
	445	484
	8,765	8,679

Variations on spend between years include:-

- Pensions Administration – the charge has increased in line with an inflation uplift and total membership numbers increasing.
- Employee costs (including staff training and travel) – an increase in the funding for internal staffing was agreed by the Pensions Committee in response to increasing Scheme complexity and regulatory oversight (including the introduction of the Pensions Board), to deliver the absorption of many of the activities previously undertaken by the segregated alternatives manager at reduced cost, and to appropriately service the increasing number of employers.
- Fund Management fees – the increase reflects increasing portfolio size, on which all of the fund management fees are based.
- Pooled fund costs and entry fees – the strategic selection of an in-house portfolio of alternative pooled funds has led to an increase in the management fees associated with these funds. The objective of this strategy being to seek growth assets to aid the generation of cash flow and increase diversification and stability. Returns are already indicating positive performances net of fees and this is anticipated to continue in the longer term. There were one-off costs of entry into the two pooled property funds in 2014/15 of £3.174m, mostly relating to stamp duty, which has not been repeated in 2015/16. The growth of the portfolio of alternative pooled funds is ongoing and the resulting increased portfolio size has led to increased management fees of £2.840m in 2015/16 (£0.513m 2014/15) and the result of the positive investment returns has required the accrual of performance fees of £0.769m in 2015/16 (£0.189m 2014/15).

- Transaction costs – these costs are variable depending on investment manager purchases and sales and are lower in 2015/16 in line with reduced volume of investment transactions.
- Legal costs – the need for professional legal advice on ad-hoc employer and pensioner/employee issues is variable year on year.
- Other – bank charges have increased due to European cash balances earning a negative rate of interest whilst the base rate in Europe is below zero.

Note 9: Net Investment Income

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £41.686m (2014/15 £30.451m), net of £0.177m (2014/15: £0.203m) irrecoverable tax on dividends, and including stock lending income of £0.056m (2014/15: 0.076m), can be analysed as follows:

	2014/15 £'000	2015/16 £'000
Interest from fixed interest securities	6,744	7,182
UK dividends	9,222	10,768
Overseas dividends	6,944	6,747
Distributions from pooled investment vehicles	75	8,639
Net rental income from investment properties (see note 10(b))	7,303	8,154
Interest on cash deposits	163	196
	30,451	41,686

Schroders, the Fund's UK equity manager, choose investments for the portfolio based on a number of reasons, including size and stability of dividend payment; the Fund benefitted in 2015/16 from companies paying some particularly high UK dividends, but benefitted less so in 2014/15.

The Fund is increasing its investment into infrastructure and other alternatives with the objective of both long term stable and inflation protected income streams. In 2015/16 income earned of £8.539m benefitted the Fund from the alternative investments being Infrastructure £4.361m, Pooled property funds £2.979m and other opportunistic investments £1.199m.



Note 10: Investment Assets

	Notes	31 March 2015			31 March 2016		
		UK	Overseas	Total	UK	Overseas	Total
		£'000	£'000	£'000	£'000	£'000	£'000
<u>Investment Assets</u>							
Equities							
Equities quoted		270,660	366,523	637,183	250,079	397,206	647,285
Equities unquoted		434	-	434	-	-	-
		271,094	366,523	637,617	250,079	397,206	647,285
Fixed interest securities							
Corporate bonds - quoted		140,914	7,347	148,261	140,751	7,960	148,711
		140,914	7,347	148,261	140,751	7,960	148,711
Pooled investment vehicles							
Public investments - quoted		9,580	13,706	23,286	4,734	4,069	8,803
Pooled investments - unquoted		551,857	461,340	1,013,197	521,993	497,138	1,019,131
	10(a)	561,437	475,046	1,036,483	526,727	501,207	1,027,934
Investment properties							
Freehold		113,960	-	113,960	126,525	-	126,525
Long leasehold		31,515	-	31,515	30,315	-	30,315
	10(b)	145,475	-	145,475	156,840	-	156,840
Derivative contracts	10(c)	2,131	-	2,131	365	-	365
Cash Deposits		18,626	17,259	35,885	20,198	30,628	50,826
Amounts receivable for sales *		4,871	-	4,871	1,881	-	1,881
Investment income accrued *		4,791	-	4,791	5,290	-	5,290
Property rental debtors *		1,196	-	1,196	1,073	-	1,073
		31,615	17,259	48,874	28,807	30,628	59,435
Subtotal investment assets		1,150,535	866,175	2,016,710	1,103,204	937,001	2,040,205
<u>Investment liabilities</u>							
Derivative contracts	10(c)	(1,068)	-	(1,068)	(1,788)	-	(1,788)
Amounts payable for purchases*		(5,154)	-	(5,154)	(1,333)	-	(1,333)
Property creditors*		(2,051)	-	(2,501)	(3,022)	-	(3,022)
Subtotal investment liabilities		(8,723)	-	(8,723)	(6,143)	-	(6,143)
Total Net Investments		1,141,812	866,175	2,007,987	1,097,061	937,001	2,034,062

*Amended layout of figures for comparative purposes as per Note 1(c).

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

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

Note 10(c) details the derivative contracts above; these are forward foreign exchange contracts and futures held at 31st March, shown as assets where there is a gain and liabilities where there is a loss on the individual contracts at 31st March 2016.

Note 10(a): Pooled Investment Vehicles

The Fund's largest holding is the unitised insurance policies with Legal and General totalling £765.1m, shown in the following table categorised into the underlying asset types. These unitised, index-tracking funds are used as an efficient low-risk method of investing in the asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity.

The investment managers may also choose to invest in managed funds such as unit trusts as a preferred method of investing in smaller asset classes or less easily accessed markets.

	2014/15 £'000	2015/16 £'000
Unitised insurance policies - unquoted		
UK equities	102,104	46,871
Overseas equities	321,513	337,477
UK index-linked securities	373,337	380,759
UK sterling liquidity fund	51	0
	797,005	765,107
Unit trusts		
UK quoted	9,580	4,734
Overseas - quoted	11,927	2,790
	21,507	7,524
Other Managed Funds		
Pooled property REIT's - quoted	1,779	1,279
Pooled property funds - unquoted	69,675	72,304
Other managed funds - unquoted	146,517	181,720
	217,971	255,303
Total	1,036,483	1,027,934

The Fund is increasing its investment into infrastructure and other alternatives with the objective of generating diversification and more stable and / or inflation protected income streams. As these new investments were deployed during 2015/16, funds were withdrawn from the passive UK equity holdings, and the resulting decrease in unitised insurance policies is seen above.

Note 10(b): Investment Properties

The Fund invests in direct property holdings for rental income and capital growth, and to maximise diversification thereby reducing the risk across the portfolio. At 31st March 2016 the portfolio valued at £156.840m included 27 properties ranging from £1.700m to £15.550m each. These properties cover a mix of sectors such as offices, industrial, high street retail units and retail warehouses, and are also geographically spread across England and Scotland; the intention of this spread is to mitigate risk by enhancing the diversification within this asset class.

Property holdings do not fall into the definition of a financial instrument, therefore are not covered in note 11(a) 'Valuation of Financial Instruments carried at fair value'. However as these assets are illiquid and prices are not readily quantifiable; in this regard they are similar to level 3 assets.

'Net rental income from investment property' has been accounted for in the Fund Account under 'Net Investment Income' and is analysed as follows:

	2014/15 £'000	2015/16 £'000
Rental income from investment property	7,730	8,508
Direct operating expenses arising from investment property	(427)	(354)
	7,303	8,154

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

There are no restrictions on the Fund's ability to realise the value inherent in its investment property or on the Fund's right to the remittance of income and the proceeds of disposal. The properties are held by a wholly-owned nominee company on behalf of the Fund and the Fund is entitled to all income and capital proceeds. The Fund has no contractual obligation to purchase, construct or develop, and the Fund has its normal obligations in respect of repairing and maintaining properties where the costs are generally passed onto the tenants where a lease is in place.

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

	2014/15 £'000	2015/16 £'000
Balance at the start of the year	123,168	145,475
Additions:		
Purchases	5,715	7,000
Subsequent expenditure	2,782	1,353
Disposals	(2,588)	(6,962)
Net gains (losses) from fair value adjustments	16,398	9,974
Balance at the end of the year	145,475	156,840

The Fund's property investments are commercial leased out properties, all of which are operating leases. The future minimum lease payments receivable under non-cancellable leases for these land and buildings in future years are shown as follows:

	2014/15 £'000	2015/16 £'000
Not later than one year	8,026	7,942
Later than one year and not later than five years	27,051	28,947
Later than five years	31,659	35,217
	66,736	72,106

Note 10(c): Derivatives

One way for pension schemes to reduce the volatility from their foreign currency exposures is to convert these exposures back to the domestic currency – this process is known as currency hedging. It is standard for investors in LGPS to hedge 50% of their foreign currency exposure to mitigate the effect any adverse currency movements would have at the time of the realisation of the investment.

Cumbria LGPS follows general practice in this regard and therefore has 50% of the investments denominated in overseas currencies hedged into sterling in accordance with the passive currency overlay program. The purpose is to reduce the Fund's exposure to the fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets. This is carried out using derivatives called forward foreign exchange contracts.

The corporate bond mandate managed by Standard Life also uses derivatives in the form of exchange traded futures contracts to hedge overseas duration risk, in particular US\$. Futures could also be used to manage the overall duration of the portfolio to ensure it stays within the limits set out in the Guidelines of the mandate. The economic exposure represents the notional value of stock purchased under future contracts and is therefore subject to market movements.

The derivatives can be summarised as follows:

Reconciliation to Note 10	31 March 2016		
	Investment Asset / Unrealised Gain £'000	Investment Liability / Unrealised Loss £'000	Net Market Value £'000
Total Derivatives			
Forward currency contracts	315	(1,788)	(1,473)
Futures	50	0	50
Derivative Contracts Gain / (Loss)	365	(1,788)	(1,423)

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

Currency Bought		Currency Sold		2015/16	
Currency	Local Value £'000	Currency	Local Value £'000	Unrealised Gain Sterling £'000	Unrealised Loss Sterling £'000
Settlement within one month					
None					
Settlement one to six months					
GBP	59,829	EUR	77,157	0	(1,475)
GBP	31,665	JPY	5,155,068	0	(313)
GBP	248,843	USD	357,304	315	0
				315	(1,788)
Net forward currency contracts at 31 March 2016				(1,473)	

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market Value as at 31 March 2015 £'000	Economic exposure	Market Value as at 31 March 2016 £'000
Assets					
UK Fixed Interest	Less than one year			3,606	23
Overseas Fixed Interest	Less than one year	6,641	134	8,849	27
			134		50
Liabilities					
Overseas Fixed Interest	Less than one year	(4,120)	(21)	0	0
			(21)		0
Net futures			113		50

Note 10(d): Profit and losses on Disposal of Investments and Changes in the Market Value of Investments

During the financial year the following purchases and sales of investments were made. Purchases and sales also include transfers of investments, and cash transfers from and to the Administering Authority.

The table below reconciles the movements in investments and derivatives ('Total net investments') for the current year: 2015/16:

Asset Class	Value at 1 April 2015 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Realised gains / (losses) £'000	Unrealised gains / (losses) £'000	Value at 31 March 2016 £'000
Fixed interest securities	148,261	15,010	(9,211)	(28)	(5,321)	148,711
Equities						
UK equities	271,094	39,426	(36,814)	648	(24,275)	250,079
Overseas equities	366,523	142,329	(126,940)	12,016	3,278	397,206
	637,617	181,755	(163,754)	12,664	(20,997)	647,285
Pooled investment vehicles	797,005	13,269	(50,998)	32,578	(26,747)	765,107
Unit Trusts	21,507	2	(14,076)	1,549	(1,458)	7,524
Managed Funds	217,971	39,556	(16,861)	7,527	7,110	255,303
Property (See Note 10b)	145,475	8,353	(6,962)	(3,097)	13,071	156,840
Derivatives (forward foreign exchange contracts, futures)	1,063	49,197	(36,441)	(12,756)	(2,486)	(1,423)
	1,968,899	307,142	(298,303)	38,437	(36,828)	1,979,347
Cash	35,885			(1,041)	2,649	50,826
Amounts receivable for sales	4,871					1,881
Investment income accrued	4,791					5,290
Property rental debtors	1,196					1,073
Amounts payable for purchases	(5,154)					(1,333)
Property creditors	(2,501)					(3,022)
Total Net Investments	2,007,987			37,396	(34,179)	2,034,062

Analysis of gains / (losses) for the year	2015/16 £'000
Realised - Profit and losses on disposal of investments	37,396
Unrealised - Changes in the market value of investments	(34,179)
	3,217

The following table reconciles the movements in investments and derivatives for the previous year:

2014/15 (restated figures for comparative purposes as per Note 1(c)):

Asset Class	Value at 1 April 2014	Purchases at Cost and Derivative Payments	Sales Proceeds and Derivative Receipts	Realised gains / (losses)	Unrealised gains / (losses)	Value at 31 March 2015
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed interest securities	130,882	25,644	(19,006)	(441)	11,182	148,261
Equities						
UK equities	249,539	59,462	(56,750)	8,972	9,871	271,094
Overseas equities	284,357	153,366	(135,577)	3,106	61,271	366,523
	533,896	212,828	(192,327)	12,078	71,142	637,617
Pooled investment vehicles	855,937	78,061	(270,011)	91,197	41,821	797,005
Unit Trusts	21,358	26,389	(27,856)	1,256	360	21,507
Managed Funds	47,248	167,653	(12,259)	731	14,598	217,971
Property (See Note 10b)	123,168	8,497	(2,588)	507	15,891	145,475
Derivatives (forward foreign exchange contracts, futures)	1,754	33,497	(18,213)	(15,284)	(691)	1,063
	1,714,243	552,569	(542,260)	90,044	154,303	1,968,899
Cash	47,518			2,312	(1,128)	35,885
Amounts receivable for sales	3,982					4,871
Investment income accrued	4,372					4,791
Property rental debtors	777					1,196
Amounts payable for purchases	(3,753)					(5,154)
Property creditors	(2,266)					(2,501)
Total Net Investments	1,764,873			92,356	153,175	2,007,987

Analysis of gains / (losses) for the year	2014/15 £'000
Realised - Profit and losses on disposal of investments	92,356
Unrealised - Changes in the market value of investments	153,175
	245,531

Note 10(e): Investments analysed by External Manager

Manager	Asset Class	31 March 2015		31 March 2016	
		£'000	%	£'000	%
Legal & General Policy No. 1	Equities, bonds, cash	354,313	17.6%	316,329	15.5%
Legal & General Policy No. 2	Index-linked bonds	303,460	15.1%	309,492	15.2%
Legal & General Policy No. 3	Global equities	139,232	6.9%	139,286	6.8%
Legal & General Passive Currency	Currency overlay	932	0.1%	(1,359)	-0.1%
Schroders Investment Management	UK equities	262,164	13.1%	248,796	12.2%
Nordea	Global equities	199,902	10.0%	217,010	10.7%
Loomis Sayles	Global equities	196,166	9.8%	200,772	9.9%
Aberdeen Asset Management	Direct property	147,140	7.3%	161,298	7.9%
Standard Life	UK corporate bonds	151,588	7.5%	153,156	7.5%
JP Morgan	Infrastructure	83,992	4.2%	84,449	4.2%
M&G	Property Fund	34,807	1.7%	36,449	1.8%
Aviva	Property Fund	33,555	1.7%	34,539	1.7%
Strategic cash allocation	Cash	21,895	1.1%	31,648	1.6%
Partners Group	Infrastructure	18,427	0.9%	31,593	1.6%
BlackRock	Alternatives	48,396	2.4%	29,841	1.5%
M&G	Real Estate Debt	8,003	0.4%	17,125	0.8%
Unigestion	Secondary Fund			10,370	0.5%
Babson	Private Loan Fund			6,250	0.3%
SL Capital	Secondary Fund	1,832	0.1%	5,551	0.3%
Aberdeen Asset Management	Indirect property	1,757	0.1%	1,316	0.1%
Healthcare Royalty Partners	Royalties Fund	334	0.0%	119	0.0%
Transition residual	Overseas equities	92	0.0%	32	0.0%
Total Net Investments		2,007,987	100.0%	2,034,062	100.0%

Recent actions to implement agreed changes to the Fund's strategic asset allocation have resulted in increasing its investment into infrastructure and other alternatives. The drivers for this change are intended to improve diversification and generate more stable and / or inflation protected income streams. To fund these investments during 2015/16, funds were withdrawn from the passive holdings, and the resulting decrease in unitised insurance policies is seen above.

As the Fund moves towards a more negative cash flow position, there has become an increased need for a strategic allocation to cash and along with providing funding for new assets and working capital, this also gives the Fund strategic downside protection.

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

It is a requirement of the Pensions SORP and the CIPFA Code of Practice on Local Authority Accounting to declare if an investment accounts for more than 5% of the Fund. The only occurrences of this within the Cumbria Fund are the three unitised insurance policies held with Legal and General. These unitised, index-tracking funds are used as an efficient low-risk method of investing in the underlying asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity and as such are easily and readily convertible if required.

Holding	31 March 2015 £'000	% of Total Net Investments	31 March 2016 £'000	% of Total Net Investments
Policy 1 Legal and General North America Index	119,850	6.0%	138,361	6.8%
Policy 1 Legal and General Over 5 Yr Index-Linked Gilts Index	69,878	3.5%	71,267	3.5%
Policy 1 Legal and General UK Equity Index	102,104	5.1%	46,871	2.3%
Policy 1 Legal and General Europe(Ex UK)Equity Index	30,269	1.5%	28,994	1.4%
Policy 1 Legal and General Japan Index	14,621	0.7%	16,998	0.8%
Policy 1 Legal and General Other Pacific Basin Index	17,540	0.9%	13,838	0.7%
Policy 1 Legal and General Sterling Liquidity Fund	51	0.0%	-	0.0%
Policy 1 Total	354,313	17.7%	316,329	15.5%
Policy 2 Legal and General Over 5 Yr Index-Linked Gilts Index	303,460	15.1%	309,492	15.2%
Policy 3 Legal and General FTSE World Equity Index	139,232	6.9%	139,286	6.8%
	797,005	39.7%	765,107	37.5%

Note 11: Financial Instruments

Accounting policies describe how the different asset classes of financial instruments are measured, and how income and expenses, including fair gains and losses, are recognised. Investment property is not a financial instrument and as such does not feature in any but the first of the following tables. The following table analyses the fair value amounts of financial assets and liabilities by category, and the net gains and losses. No financial assets were reclassified during the accounting period.

The Net Assets of the Fund can be classified as Financial Instruments and Investment Property as follows:

	31 March 2015 £'000	31 March 2016 £'000
Financial Instruments	1,875,785	1,884,401
Statutory debts / liabilities & provisions	6,056	5,568
Investment Property	145,475	156,840
Net Assets of the Fund	2,027,316	2,046,809

	31 March 2015				31 March 2016			
	Fair Value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total	Fair Value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Classification								
Financial Assets								
Investments								
Equities	637,617			637,617	647,285			647,285
Fixed interest securities	148,261	-	-	148,261	148,711	-	-	148,711
Pooled investment vehicles	1,036,483	-	-	1,036,483	1,027,934	-	-	1,027,934
Derivative contracts	2,131	-	-	2,131	365	-	-	365
Cash deposits	-	50,269	-	50,269	-	59,152	-	59,152
Investments receivable/debtors		10,859		10,859		8,244		8,244
Current & long term assets	-	555	-	555	-	883	-	883
	1,824,492	61,683	-	1,886,175	1,824,295	68,279	-	1,892,574
Financial Liabilities								
Derivative Contracts	(1,068)	-	-	(1,068)	(1,788)	-	-	(1,788)
Investments payable/debtors	-	-	(7,655)	(7,665)	-	-	(4,355)	(4,355)
Current/long-term liabilities			(1,667)	(1,667)			(2,030)	(2,030)
Total Financial Instruments	1,823,424	61,683	(9,322)	1,875,785	1,822,507	68,279	(6,385)	1,884,401
Analysis of Net Gains and Losses for Year ended 31 March								
Financial Assets	230,201	-	-	229,499	(4,969)	-	-	(4,969)
Financial Liabilities	(1,068)	-	-	(1,068)	(1,788)	-	-	(1,788)
Total Net Gains/(Losses)				228,431				(6,757)

Note 11(a): Valuation of Financial Instruments carried out at Fair Value

To show the liquidity of the assets the Fund holds, under IFRS the valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values. The aim being to show how much can be easily liquidated and thereby readily made available as cash if required with level 1 representing the most liquid and level 3 the most illiquid. This illiquidity assessment is subjective. As with any assessed additional investment risk investors should expect to be rewarded through expected higher investment returns.

As the Fund is in deficit it needs to generate excess returns at an acceptable level of risk. To do this the Fund diversifies across asset classes, managers and products, making use of its strong covenant as an open Public Sector Pension Scheme. As such it can take advantage of the potentially higher returns offered for investing in more illiquid asset classes such as private equity and infrastructure. Thus the liquidity or how easily a financial asset can be quantified at a point in time does not automatically equate to the value of it to the Fund, merely how readily it can be realised as cash if required.

Level 1: 46% of the Holding of Financial Instruments are 'Level 1' (2014/15: 46%)

These are considered the most reliably quantifiable and easily liquidated i.e. converted into cash, assets, carrying the lowest valuation and liquidity risk.

Fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities, valued using bid prices where available. These can be freely traded in active markets and are mainly quoted equity shares, fixed interest bonds, cash, and also include quoted unit trusts.

Level 2: 41% of the Holding of Financial Instruments are 'Level 2' (2014/15: 43%)

While these assets are not usually convertible into cash immediately they are still considered to be relatively liquid with easily verified and relatively certain asset pricing of the underlying stocks if not the pooled fund itself.

Quoted market prices are not available. Valuation techniques are used to determine fair value. The techniques use inputs that are based significantly on observable market data.

This includes pooled funds where the underlying assets are quoted assets such as equity and fixed interest bonds. Though the funds themselves are not traded on active markets, they have pre-set, often weekly trading dates, such that liquidation is relatively easy with a short lead-in time.

Level 3: 13% of the Holding of Financial Instruments are 'Level 3' (2014/15: 11%)

For many of these assets prices are not readily quantifiable and they often prove to be the most illiquid. As such they hold both the highest liquidity and valuation risk.

Quoted market prices are not available. Valuation techniques are used to determine fair value. At least one input that has a significant effect on the valuation is not based on observable market data.

Such instruments include unquoted equity investments, private equity and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. These estimation techniques are referred to in Note 2 paragraph 2.9(c). The investment may be tied in for some time (in particular with private equity) and withdrawal would take longer than levels 1 or 2. The values of hedge funds are based on the net asset value provided by the fund manager. Assurances are gained from the fact that valuations are audited for each investment manager by their respective auditors and reported to the Fund.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable. Cash deposits, current & long term assets/liabilities are not measured at 'fair value through profit and loss' per Note 11, but have been included in the table to illustrate a reconciliation to the financial instruments figure quoted in Note 11.



Valuation Classification Level	31 March 2015				31 March 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Financial Instrument Classification								
<u>Financial Assets</u>								
Investments								
Equities	637,183	-	434	637,617	647,285	-	-	647,285
Fixed interest securities	148,261	-	-	148,261	148,711	-	-	148,711
Pooled investment vehicles	23,286	797,005	216,192	1,036,483	8,803	765,107	254,024	1,027,934
Derivative contracts	-	2,131	-	2,131	-	365	-	365
Cash deposits *	50,269	-	-	50,269	59,152	-	-	59,152
Investment receivables/debtors *	-	10,859	-	10,859	-	8,244	-	8,244
Current & long term assets	-	555	-	555	-	883	-	883
	858,999	810,550	216,626	1,886,175	863,951	774,599	254,024	1,892,574
<u>Financial Liabilities</u>								
Derivative Contracts	-	(1,068)	-	(1,068)	-	(1,788)	-	(1,788)
Investment payables/creditors *	-	(7,655)	-	(7,655)	-	(4,355)	-	(4,355)
Current & long-term liabilities	-	(1,667)	-	(1,667)	-	(2,030)	-	(2,030)
Total Financial Instruments	858,999	800,160	216,626	1,875,785	863,951	766,426	254,024	1,884,401
* valued at amortised cost rather than fair value, included for completeness								
Percentage of Financial Instruments	45.8%	42.7%	11.5%	100.0%	45.8%	40.7%	13.5%	100.0%

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

The investments categorised as Level 3 in the above table (an unquoted equity investment sold in 2015/16, an ex-manager's pooled funds, and eleven directly invested pooled funds) are the most difficult to value using observable market transactions and are those most subject to estimation. For these investments, a change in fair value gain of £14.951m (£7.135m unrealised gain and £7.816m realised gain) was recognised in the analysis of net gains/losses for the year to 31 March 2016 (total £6.757m loss) in Note 11. Purchases of £38.115m and sales of £15.668m had also taken place for Level 3 investments.

Note 12(a): Long Term Assets

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

	31 March 2015 £'000	31 March 2016 £'000
Long Term Debtors		
Long term debtors - contributions	-	-
Long term debtors - employer exit	1,643	1,314
Total Long Term Assets	1,643	1,314
Long Term Debtors relating to (per IFRS headings):		
Central Government bodies	1,643	1,314
Other entities and individuals	-	-
Total Long Term Assets	1,643	1,314

'Long-term debtors – employer exit' is the debt due from the Ministry of Justice in transferring the Cumbria Magistrates Courts to central government, and as these payments will be received in ten annual instalments which began in April 2011, the next instalment of £0.329m is shown within 'Employer exit from the scheme due < 1 year' (see Note 12(b)) and the remainder of £1.314m shown above as 'Long Term Debtors – Employer exit'.

Note 12(b): Current Assets

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

	31 March 2015 £'000	31 March 2016 £'000
Cash Balances	14,384	8,326
Current Debtors		
Contributions due	4,474	4,453
Employer exit from scheme due <1 year	581	329
Miscellaneous	890	1,289
Total Current Debtors	5,945	6,071
Total Current Assets	20,329	14,397
Current Debtors relating to (per IFRS headings):		
Central government bodies	699	776
Other local authorities	4,396	4,362
Other entities and individuals	850	933
Total Current Debtors	5,945	6,071

Cash balances held by the Administering Authority are variable as the need arises to have cash available for deployment into new investments. Cash balances held at 31st March 2015 reflected large payments due out in April 2015.

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

Note 13(a): Long Term Liabilities

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

	31 March 2015 £'000	31 March 2016 £'000
Long Term Creditors		
Interest provision on long-term debt	298	237
Total Long Term Liabilities	298	237
Long Term Creditors relating to (per IFRS headings):		
Other entities and individuals	298	237
Total Long Term Liabilities	298	237

Note 13(b): Current Liabilities

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

	31 March 2015 £'000	31 March 2016 £'000
Current Creditors		
Investment managers fees	1,028	1,032
Tax payable	626	636
Interest provision on long-term debt	52	61
Miscellaneous	639	998
Total Current Liabilities	2,345	2,727
Current Creditors relating to (per IFRS headings):		
Central government bodies	626	636
Other local authorities	530	851
Other entities and individuals	1,189	1,240
Total Current Liabilities	2,345	2,727

Note 14: Nature and extent of risks arising from Financial Instruments

The Pension Fund maintains positions in a variety of financial instruments including bank deposits, equity instruments, fixed interest securities and derivatives. This exposes it to a variety of financial risks including credit and counterparty risk, liquidity risk, market risk and exchange rate risk. These risks are a function of investing and cannot be completely avoided. They are however closely monitored and where possible appropriate mitigation methods are used to limit the Fund's exposure.

Overall Procedures for Managing Risk

The principal powers under which an LGPS invests are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and require an Administering Authority to invest any pension scheme money that is not needed immediately to make payments from the Fund. These regulations require the Fund to formulate a policy for the investment of its Fund money. Cumbria LGPS practices are outlined in the Fund Policy Document and can be found on-line at <http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp>

With regards to investing, to minimise risks in this area the Administering Authority's risk management procedures focus on the unpredictability of financial markets; implementing operating restrictions on managers and diversification across the managers and asset classes within the portfolio.

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

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

The Fund keeps its Investment Strategy under continual review. Local Government Pension Schemes have a long term liability profile, and their investment strategy must be undertaken with a view to matching this. Switching asset allocations is expensive, resource intensive and time consuming. While annual review to keep abreast of trends in market conditions and liability profiles (e.g. discounted future pensions payments) is appropriate, a more detailed review, leading to material changes in asset classes should only be undertaken every 3-7 years. Completion and implementation of the outcomes of this review have been taking place since 2012 and are expected to be finalised during 2016/17. The SIP has been constructed to show both the transitional and final asset allocations expected throughout this period of change.

The Pensions Committee review the total Fund investment performance against its bespoke total benchmark return; individual managers' performance is reported to the Pensions Committee from the Investment Sub Group quarterly, thus freeing up Committee time to focus on more strategic issues such as risk and wider governance. Performance of the external Investment Managers is compared to both benchmark and target returns, and against a wider set of metrics. The Investment Sub Group and associated governance processes have been developed and strengthened over the 2 years it has been in place. The process continues to evolve from its positive start and allows the Fund to enhance its governance and monitoring while nimbly taking investment decisions facilitating the continued move towards new asset classes.

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

Liquidity Risk

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

The main liquidity risk for the Fund is not having monies available to meet commitments to make pension payments to members as they fall due. The Administering Authority, with the Actuary, frequently reviews the overall cash flow position of the Fund to ensure its obligations can be covered.

As part of both the Triennial Valuation and the investment reviews, Fund membership and projected maturity profiles are reviewed. Currently the Fund is cash positive (i.e. it collects more in annual income than it requires to fulfil all obligations). However, on contributions alone before management costs and investment income, the Fund experienced a cash deficit of £16.731m in 2015/16 (£14.631m in 2014/15). This amount was anticipated due to the volume of workforce restructuring across the Fund's major employers. There was no requirement to liquidate assets ahead of previous plans as the value was anticipated and therefore easily accommodated within the Fund's cash reserves.

On advice from the Fund's Actuary it is projected that the Fund will remain cash positive for the medium term. However in the medium term, in light of further anticipated reductions in local government budgets and the resultant workforce reductions, coupled with possible reductions in active membership (due to proposed increases in employee contributions through the introduction of the 2014 Scheme), this will be kept under active review.

Note 11(a) explains how the Fund holds a large value of very liquid securities which could be promptly realised if required. As at 31st March 2016 the value of assets which could be converted to cash within three months, without significant loss to the Fund, is £1,621.250m, i.e. 79% of net assets (31st March 2015 £1,647.745m 81%). The value of the illiquid assets was £425.559m which represented 21% of net assets (31st March 2015 £379.571m, 19%).

External Investment Managers have substantial discretionary powers regarding their individual portfolios and the management of their cash positions. The Fund's investments are largely made up of listed securities on major stock exchanges and are therefore considered readily realisable.

A maturity analysis for investment liabilities (all of which are derivatives) is shown in Note 10(c). The current liabilities of the Fund (see Note 13(b)) are all due within 12 months from the Net Assets Statement date. The long term liabilities of the Fund (see Note 13(a)) consist of the interest provision on the long term debtor – employer exit. This is being unwound as follows:

Maturity Risk - Long term liabilities	31 March 2015 £'000	31 March 2016 £'000
Due 1 to 2 years	61	70
Due 2 to 5 years	237	167
Due 5 to 10 years		
Total Long term liabilities	298	237

Market Risk

Market value risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price. Market risk reflects interest rate risk, currency risk and other price risks.

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

To mitigate against market value risk, the Fund has set restrictions on the type of investment it can hold. These restrictions are subject to investment limits, in accordance with the LGPS (Management and Investment of Funds) Regulations 2009. Details can be found in the Fund's Statement of Investment Principles. The Fund has adopted a specific benchmark and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. This allocation is designed to diversify the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of investments across both the main asset classes (quoted equities, bonds, private equity and property) and geographic / political regions within each asset class.

Mitigation against market risk is also achieved by diversifying across multiple Investment Managers and regularly reviewing the Investment Strategy and performance of the Fund. On a daily basis, Investment Managers will manage risk in line with policies and procedures put in place in the Investment Manager Mandates and ensure that the agreed limit on maximum exposure to any issuer or class is not breached.

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

Market Risk – Sensitivity Analysis

The Fund's funding position is sensitive to changes in equities (which affect the net assets available to pay benefits) and bond yields (which affect the value placed on the Fund's liabilities). Potential price changes are determined based on the observed historical volatility of asset class returns. Historical evidence suggests that 'riskier' assets such as equities are expected to display greater potential volatility than bonds as an example. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This volatility can be applied to the investment assets of the Fund at the period end in the following table to show the potential increase and decrease of value.

Market Risk - Sensitivity Analysis	2015/16 £'000	% Change	Value on Increase	Value on Decrease
UK Equities	301,684	10.8%	334,296	269,072
Overseas Equities	735,962	9.8%	808,307	663,617
Bonds	148,711	6.6%	158,585	138,837
Index Linked Gilts	380,759	9.5%	417,045	344,473
Alternatives	254,024	7.4%	272,873	235,175
Cash	61,942	0.0%	61,942	61,942
	1,883,082		2,053,048	1,713,116

Foreign Exchange Risk

The Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31st March 2016, the Fund had overseas investments (excluding forward foreign exchange contract) of £906.373m and £30.628m cash denominated in currencies other than sterling. The impact of a 5% movement in the value of foreign currencies against sterling would be to increase (or decrease) the fund value by approximately £46.850m, or 2.3% of the Fund's total value. The Fund holds many different currencies. To assess the risk the Fund is exposed to as a result of holding these currencies Officers have estimated, taking into account information provided by the Fund's performance monitoring advisor (State Street Investment Analytics), that a 5% movement is a reasonable measure to apply across the basket of currencies.

Foreign Exchange – Derivative Contracts

One way for pension schemes to reduce the volatility from their foreign currency exposures is to convert these exposures back to the domestic currency – this process is known as currency hedging. It is common for LGPS's to hedge 50% of their foreign currency exposure to minimise potential losses due to adverse currency movements between the purchase and sale of an asset.

The Cumbria Fund, in line with common practice across the LGPS, has 50% of the investments denominated in overseas currencies hedged into sterling in accordance with the passive currency overlay program. The purpose is to reduce the Fund's exposure to the fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets. This is carried out using derivatives called forward foreign exchange contracts.

As at 31st March 2016, the Fund had both open over-the-counter forward foreign exchange contracts, and exchange traded futures contracts. See Note 10(c) for an analysis of these contracts.

Credit Risk

Credit Risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into. In essence the Fund's entire investment portfolio is exposed to some form of credit risk. The market values of investments generally reflect an assessment of credit in their pricing. Consequently the risk of loss is implicitly provided for in the carrying values of the Fund's financial assets and liabilities. In addition to this, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. The Fund has had no experience of default or uncollectable deposits over recent years.

Through review of the Fund's external Investment Managers annual internal control reports the Fund monitors its exposure to credit and counterparty risk. This review is aimed at ensuring that Managers exercise reasonable care and due diligence in its activities on behalf of the Fund.

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

The Fund's cash and cash-like holdings as at 31st March 2016 were £8.326m (2014/15: £14.384m) within current assets (see Note 12(b)), £50.826m (2014/15: £35.885m) shown as cash within investments (see Note 10), and a further £2.790m shown as unit trusts in Note 10a (2014/15: £15.608m) where BlackRock invest in their in-house Money Market Fund as part of their portfolio. In addition to this, in 2014/15 £0.051m of the Funds holding in unitised insurance policies shown in Note 10 under pooled investments, was ultimately held in the passive manager's money market fund (Legal and General) and as such is included below. The credit ratings of the accounts and funds were as follows:

Summary	Rating at 31 March 2016	Balances as at 31 March 2015 £'000	Balances as at 31 March 2016 £'000
Money Market Funds			
SSGA GBP Liquidity Fund	AAA	13,629	12,023
SSGA EUR Liquidity Fund	AAA	10,715	3,044
SSGA USD Liquidity Fund	AAA	2,556	26,204
Legal & General Sterling Liquidity Fund	AAA	51	-
BlackRock Institutional Cash USD	AAA	11,927	2,790
Schroder Offshore Cash Guernsey	AAA	3,681	-
Ignis Sterling Liquidity Fund	AAA	8,000	5,403
Goldman Sachs Sterling Reserves Fund	AAA	5,000	1,801
Bank deposit accounts			
National Westminster Bank	BBB+	1,384	1,122
Bank current accounts			
State Street Bank & Trust	AA-	4,102	1,572
Barclays Bank	A-	2,969	6,407
Short Term Deposit			
Citibank Cash Collateral	A		150
Bank of New York call account	AA-	1,914	1,426
Total		65,928	61,942

Counterparty risk

The principal mitigation of the counterparty risk on a foreign currency trade is the rigour of the counterparty selection and monitoring process. Trades are only executed with approved counterparties, who have satisfied requirements in terms of market capability and credit standing. The list of potential counterparties is subject to approval and monitoring by the managers' as part of their oversight of risks. Subject to overriding requirements as our fiduciary agent to demonstrate best execution, they will assess and choose the preferred counterparty from the list for any particular trade against the following criteria:

- previous dealing experience of the counterparty,
- level of confidence in the counterparty's ability to absorb a trade of that size, based on ongoing research into the capabilities of the main counterparty banks,
- the bank's position in the market for sourcing PFI, corporate, utility and other non-government sources of inflation-linked debt.

Neither the investment manager nor any of its related companies would act as counterparty.

As part of the managers credit and counterparty risk framework, the creditworthiness of all counterparties is reviewed on a regular basis. In addition, more formal review takes place via quarterly meetings which can be convened at very short notice to meet any particular demands (as was the case, for example, in the Lehman crisis, when it met daily).

Settlement risk

If the counterparty fails on the settlement date itself, and more specifically if it fails after the Fund has delivered payment but before the counterparty has delivered its payment then there would be a small time-limited risk of payment versus non-payment. This occurs when a party faces possible loss between the time a settlement payment is made and a payment is received on the same business day. This risk is more frequent in exchange of different currencies. The manager applies operational settlement netting, thus allowing clients to reduce their settlement exposures by having smaller amounts due to or from them.

There is no movement of principal capital, the credit exposure to either party is represented by the profit or loss on the positions at that point in time i.e. £1.423m gain at 31st March 2016.

As currency movements can be quite volatile positions can change from day to day quite significantly. It is difficult to approximate the size of the risk using historical currency movements, as these cannot be relied upon as a guide to future movements.

Interest rate risk

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

The Fund's direct exposure to interest rate movements as at 31st March 2016 and 31st March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

	2014/15 £'000	2015/16 £'000
Fixed interest securities (including pooled investments)	521,598	529,470
Cash and cash equivalents	10,369	10,677
Money market funds and pooled cash vehicles	55,559	51,265
	587,526	591,412

Unquoted Investments

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

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



The unquoted investments held at 31st March 2016 are as follows:

Asset Class	2014/15 £'000	2015/16 £'000	Manager	Holding Details
Equities				
Equity unquoted - UK	434	0	Schroders	Northern Investors, a holding in a venture capital fund (remnants of investments made in 1984-1990) held on a care and maintenance basis until wind-up was completed in March 2016.
Pooled investment vehicles				
Utilised insurance policies	797,005	765,107	Legal and General	Index tracking funds.
Other managed funds	83,992	84,450	JP Morgan	Infrastructure fund.
	34,807	36,449	M&G	Long-lease property fund.
	33,555	34,539	Aviva	Long-lease property fund.
	18,427	31,593	Partners Grp	Infrastructure fund.
	33,929	26,263	Black Rock	Alternative funds - hedge funds, private equity. BlackRock in-house funds.
	8,003	17,125	M&G	Real estate debt funds.
	0	10,370	Unigestion	Secondary private equity fund.
	0	6,250	Babson	Global private loan fund.
	1,832	5,551	SL Capital	Secondary private equity fund.
	1,313	1,316	Aberdeen	Overseas property funds (ex-BlackRock).
	334	118	HRP	Healthcare Royalties Partners Fund.
	1,013,631	1,019,131		

Note 15: Additional Voluntary Contributions

The Fund operates an additional voluntary contribution scheme. Employees are allowed to pay voluntary contributions to one of three independent AVC scheme providers. To comply with regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 the transactions are treated separately to the Fund's accounts and therefore do not form part of these accounts.

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

	2014/15 £'000	2015/16 £'000
Standard Life	1,075	958
Scottish Widows	1,176	1,085
Equitable Life	920	817
Prudential	1	176
Total AVCs	3,152	3,036

AVC contributions of £0.293m were paid directly from employees pay to the providers during the year (2014/15: £0.202m).

Members have the option of contributing to the various Schemes offered by their chosen provider. The purpose of contributions paid by a member is the securing of a pension at retirement, usually by buying an annuity or transferring the investment into the main Scheme assets under Regulation 66 of the Local Government Pension Scheme Regulations 1997. The investment could be realisable earlier in the event of a member's death before retirement.

Note 16: Related Party Transactions

In day-to-day operations the Fund has many transactions with Cumbria County Council as the Administering Authority of the Fund, including the pension contributions as an employer, payments on the Fund's behalf for manager fees and administration, and recharges for services provided. There are no material transactions in respect of related parties requiring separate reporting. The Fund has not for example invested in schemes of economic regeneration sponsored by any of the employing bodies including Cumbria County Council.

There are normal transactions with all the employers who have members in the Fund, who may be regarded as related parties, predominantly relating to employee and employer contributions. These transactions are reported as part of the income and expenditure statements.

Executive Board Members and senior employees of the main Employer organisations within the Cumbria Local Government Pension Scheme (LGPS) were asked to complete a declaration on related parties, in addition to all members of the Cumbria Pensions Committee, and relevant senior officers. An examination of the returns for 2015/16 reveals that there were no material transactions between the members/officers and their families affecting involvement with the Pension Scheme. Each member of the Pension Committee formally considers conflicts of interest at each meeting and the outcome is declared in the public minutes. Any transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

Related parties returns are sent to the main employer organisations, and the aim is for receipt of returns to cover 85% of the active membership. This target has been exceeded in 2015/16.

Key Management Personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel requirements of IAS 24, on the basis that the disclosure requirements for

officer remuneration and members' allowances detailed in Section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit (England) Regulations 2015) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies equally to the accounts of Cumbria Local Government Pension Scheme.

The Fund does not employ any staff directly. Cumbria County Council employs the staff involved in providing the duties of the Administering Authority (excluding the pensions administration service which is provided by 'YPS') for the Fund. Disclosures of the remuneration awarded to key management personnel is therefore included in the officers' remuneration disclosure in the notes to the Cumbria County Council Annual Financial Report 2015/16 (see Note 13 to those statements).

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

Notes on overleaf table

- Salary - includes salary in respect of the post and other payments received by the officer, for example, allowances for special duties.
- Benefits in Kind – includes expense allowances liable for taxation including for example, travel and mileage expenses. For 2015/16 the Council's mileage rate was at or below the HMRC rate so there is deemed to be no benefit received. There were no benefits in kind in 2015/16.
- Employer's Current Service Pension Contribution – LGPS 13% (current service cost).
- Time spent on LGPS – as noted above no officers are employed by Cumbria LGPS. The Fund is therefore charged by Cumbria County Council for the time spent by officers undertaking Scheme work. These percentages are the time spent by Senior Officers during 2015/16 on Cumbria LGPS specific work.
- During 2015/16, in addition to the Remuneration of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS, one officer (2014/15:1) received remuneration in the £50,000 - £54,999 range however the remuneration of the Officer in respect of work undertaken on behalf of the Fund was less than £50,000 during the year.

2015/16 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:

Post Title	Salary recharged to Cumbria LGPS £	Total Remuneration excluding pension contributions recharged to Cumbria LGPS £	Employer's Pension contributions recharged to Cumbria LGPS £	Total Remuneration including pension contributions recharged to Cumbria LGPS £
Assistant Director – Finance (s.151 Officer)	11,475	11,475	1,492	12,967
Senior Manager – Pensions & Financial Services (Deputy s.151 Officer - LGPS)	46,973	46,973	6,106	53,079
	58,448	58,448	7,598	66,046

2014/15 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:

Post Title	Salary recharged to Cumbria LGPS £	Total Remuneration excluding pension contributions recharged to Cumbria LGPS £	Employer's Pension contributions recharged to Cumbria LGPS £	Total Remuneration including pension contributions recharged to Cumbria LGPS £
Assistant Director – Finance (s.151 Officer)	11,306	11,306	1,470	12,776
Senior Manager – Pensions & Financial Services (Deputy s.151 Officer - LGPS)	46,214	46,214	6,008	52,222
	57,520	57,520	7,478	64,998

Note 17: Contingent Liabilities and Contractual Commitments

There are no outstanding capital commitments at 31st March 2016.

Note 18: Contingent Assets**Tax Reclaims**

Cumbria Pension Fund has potential claims against HM Revenue and Customs and some European countries for tax withheld on foreign income dividends. A leading professional services firm, acting on behalf of the Cumbria Fund, has continued to pursue these claims during 2015/16. The estimated value of claims still outstanding is £3.938m (value in GBP at 31st March 2016, including MOD claim of £0.914m as mentioned below).

These claims are made on the basis that within the European Union all member states should enjoy the same status. In respect of tax, resident investors should not be treated differently from non-residents. There have been some notable court cases such as Manninen and Fokus, EU Commission v Germany, Santander, and EU Commission v Portugal that have added to the strength of the argument. There were no repayments during 2015/16 and progress has slowed for both Fokus Bank (withholding tax) claims in France and for Foreign Income (FID) and Tax Credit (Manninen) Group Litigation whilst the application of and appeal against time limit decisions are debated. Whilst it is prudent for the Cumbria Fund not to make any assumptions, the Netherland settlement received in 2009, the Norwegian settlement received in 2010 and 2015, the Austrian settlement received in 2012 and the repayments received from the Spanish Tax Authorities in 2013 and 2014 lend some optimism as to the success of recovering additional income for the Fund in the near future.

Claims have also been registered in the High Court for potential tax recovery from HMRC in respect of manufactured overseas dividends (MOD's) on equity stock lent out through the stock lending programme. A final MOD claim for £0.144m was submitted in March 2015, taking the total claim value in excess of £0.914m, although no accrual was put in the accounts as the outcome is uncertain.

The fees incurred to date for all the above tax claims regardless of the outcome total £0.442m, and have been charged as expenditure to the fund account in the appropriate accounting period.

Class actions

Where shareholder value has been eroded by wrongful action by company directors, sometimes it is possible for monies to be recovered via the courts by a shareholder

class action against the company or its directors. The Fund uses Institutional Protection Services Ltd to monitor these class actions. The Fund will seek to recover any significant monies due where professional advice has been received detailing that the probability of success is believed to outweigh the additional cost of doing so.

Note 19: Impairment Losses

All outstanding debts for non-recovery of pension overpayments and all other debts raised during 2015/16 are considered to be recoverable with no further impairment beyond the existing provision for bad and doubtful debts.

There were no impairments of investments during 2015/16.

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

The Fund generally allows a payment period of 30 days. Included within current debtors (see Note 12(b)) are £0.009m of debtors aged between two and six months (£0.092m 2014/15). Debtors aged greater than six months totalled £0.040m as at 31st March 2016 (£0.049m 2014/15).

Note 20: Stock Lending

Stock lending is the loan of specific securities from one investor to another that entitles the lender to continue receiving income generated by the stock plus an additional payment by the borrower. Exposure to risk is reduced by the borrower providing high quality collateral (cash, securities or gilts). A programme is in place through the custodian, State Street Bank and Trust, to earn additional income for the Fund from stock lending. The limit on amounts to be loaned was increased from 25% to 33% from January 2015.

Securities on loan at the 31st March 2016 of £46.428m (2014/15: £54.167m) are included in the net assets statement to reflect the Fund's continuing economic interest in the securities, and consist of £45.791m UK equities and £0.637m overseas equities (2014/15: £51.146m UK equities and £3.021m overseas equities). The related collateral totalled £49.060m (2014/15: £57.476m), consisting £23.181m overseas bonds and £25.879m UK equities (2014/15: £21.922m overseas bonds and £35.554m UK equities).

For the year to 31st March 2016, the Fund earned income of £0.056m (2014/15 £0.076m) through stock lending of the various assets (as detailed in Note 9).

Note 21: Post Balance Sheet Events

Following the EU referendum on 23rd June 2016, the UK has voted to leave the EU. At the time of writing, it is unclear how this will affect the valuations in the longer-term of both the Fund's investment assets and its liabilities. The initial response by the markets was to seek "safe haven assets" which caused volatility in the stock markets. Coupled with this there was a significant fall in value of sterling. While it is anticipated there will be increased volatility in the financial markets (equity, gilts, bonds, and foreign exchange rates) in the short to medium term, this may yield opportunities as well as challenges for the Fund.

The Fund's Investment Strategy is more defensive than the average in the LGPS and is positioned to absorb downside risk as well as being targeted at achieving long-term stability and asset growth. This is achieved by diversification across the portfolio (e.g. between asset classes, sectors, risk appetite and geographic regions). The Fund will continue to monitor the situation closely in the coming months.

Note 22: Critical Judgements in Applying Accounting Policies and the use of estimates and uncertainties

In applying the policies, the Fund has had to make certain judgements about complex transactions, or those involving uncertainty. Those with most significant effect are:

- the wider Local Government Pensions Scheme and specifically the Cumbria Fund will continue in operational existence for the foreseeable future as a going concern;
- No investments are impaired (further detail on the investment strategy and approach to managing risk in Note 14).

Any judgements made in relation to specific assets and liabilities, in addition to information stated in the relevant notes, can also be found in Note 2: Summary of Significant Accounting Policies.

Compliance with IFRS requires the assumptions and uncertainties contained within figures in the accounts and the use of estimates to be explained. Pension Fund Accounts contain estimated figures, taking into account historical experience, current trends and other relevant factors, as detailed in the following table:

Item	Uncertainties	Effect if actual differs from assumptions
Market Value of Investments	<p>Investments at Level 1 & 2 - Valuations depend on market forces impacting the current price of stocks, shares and other investment instruments. Investments have been valued at the IFRS accepted method of 'Fair Value' since 2008/09, this being the 'bid price' where possible.</p> <p>Investments Level 3 – the hardest to value holdings often do not depend on market forces, but are subject to uncertainties unique to each holding. Valuations are mostly based on future cash flow so will depend on the expectations of the specific income streams and inflation linkage.</p> <p>Property – Fair Value (IFRS 13) valuations use the expected cashflow streams from current leases with reference also to the value of the property on the open market.</p>	<p>For every 1% increase in market value, the value of the Fund will increase by approx. £20.3m, with a decrease having the opposite effect.</p> <p>Level 3 investments – often income will be inflation linked e.g. RPI uplifts, based on throughput e.g. power production or infrastructure usage, or underlying company performance in the case of private equity. If actual outcomes for these variables differ greatly from expectations, valuations can be lower than expected and also higher too. Manager skill and experience is essential in predicting the variables, planning and controlling the outcomes.</p> <p>Property – when properties are marketed for sale, the bids received from interested buyers can be above or below valuation due to market reasons; for each case the underlying factors would be considered before acceptance or otherwise of the sale.</p>

Pensions Liability	Assumptions such as mortality expectations, future inflation, returns on investments, and rate of pay increases.	The effects on the funding level of changes in the individual assumptions can be measured, but interact in complex ways. For instance, a 1 year increase in life expectancy would result in a £50m increase in deficit shortfall (ie £457m to £507m). The Actuarial Valuation at March 2013 contains further information.
Long-term Debt	Income received in instalments over many years is time discounted to reflect the time value of money.	A discount rate of 3.5% was used, with every 1% reduction reducing the income recognised.
Bad Debt Provision	Assumptions about ability of debtor to pay and likelihood of debt recovery.	Less income is recovered than predicted. Alternatively, debt can be recovered after being written off.

Note 23: Actuarial Position of the Fund

Below is shown a statement from the Scheme Actuary as required by the Local Government Pension Scheme (Administration) Regulations 2013 (as amended). This statement shows both the actuarial valuation result and the actuarial value of the Fund's past service liabilities calculated in a manner consistent with International Accounting Standard 19 (IAS 19). The statement also complies with the requirements of IAS 26. The full Actuarial Valuation Report as at 31st March 2013 is available on the County Council's website, at www.cumbria.gov.uk/finance. Once published the new Actuarial Valuation Report for 2016 will also be made available on the Council's website.

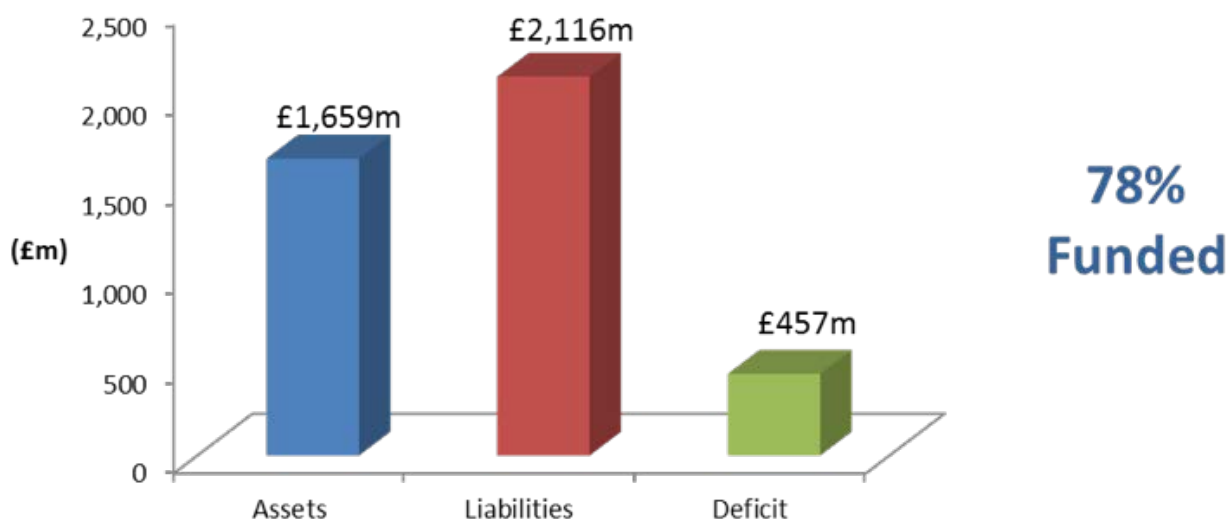
Cumbria Local Government Pension Scheme

Accounts for the year ended 31st March 2016 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2013.

An actuarial valuation of the Cumbria Local Government Pension Scheme was carried out as at 31 March 2013 to determine the contribution rates for the period 1 April 2014 to 31 March 2017.

On the basis of the assumptions adopted, the Scheme's assets of £1,659 million represented 78% of the Fund's past service liabilities of £2,116 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £457 million.



The valuation also showed that a common rate of contribution of 14.2% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient in the long term, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allowed for the new LGPS benefit structure which became effective from 1 April 2014.

After the valuation date, there were significant changes in financial markets. In particular there was an increase in gilt yields, which underpin the liability assessment. This improved the funding position materially to 83% with a resulting deficit of £343 million. This improvement was taken into account when setting the deficit contribution requirements for employers where required to stabilise contribution rates. On average across the Scheme, the updated deficit would be eliminated by a contribution addition of £20m per annum increasing at 4.1% per annum (equivalent to approximately 8.0% of projected Pensionable Pay at the valuation date) for 19 years if all assumptions are borne out in practice.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Scheme by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.6% per annum	5.6% per annum
Rate of pay increases	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Scheme is due as at 31 March 2016. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2017.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Scheme's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2016 (the 31 March 2015 assumptions are included for comparison):

	31 March 2015	31 March 2016
Rate of return on investments (discount rate)	3.3% per annum	3.6% per annum
Rate of pay increases	3.5% per annum	3.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.0% per annum

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

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2014.

During the year, corporate bond yields rose, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (3.6% p.a. versus 3.3% p.a.). There was no change in the expected long-term rate of CPI inflation during the year, resulting in the same assumption for pension increases at the year-end as at the beginning of the year (2.0% p.a.).

The value of the Scheme's promised retirement benefits for the purposes of IAS26 as at 31 March 2015 was estimated as £2,618 million.

The effect of the changes in actuarial assumptions between 31 March 2015 and 31 March 2016 as described above is to decrease the liabilities by circa £131 million. Adding interest over the year increases the liabilities by circa £86 million, and allowing for net benefits accrued/paid over the period increases the liabilities by a further £11 million (including any increase in liabilities arising as a result of early retirements/augmentations).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2016 is therefore £2,584 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
June 2016

Note 24: Accounting Standards issued not yet adopted

The Fund is required to disclose information relating to the impact of Accounting Standards that have been issued but have not yet been adopted. There has been no such change in accounting standards issued which impact on 2015/16.

Note 25: Participating Employers of the Scheme

As at 31st March 2016 the scheduled and admitted bodies within the Cumbria Local Government Pension Scheme were:

Employers of the Scheme as at 31 March 2016 (total 126)

Scheme Employers	Scheduled Bodies - Academies (cont)	Admitted Bodies (33)
Cumbria County Council	Inspired Learning MAT (one employer)	Barrow & District Soc for Blind
District Councils (6)	Parkside GGI Academy (New)	Blue Support Services Ltd (New)
Allerdale Borough Council	Victoria Primary Academy (New)	Carlisle Leisure Allerdale
Barrow Borough Council	Yarlsdale Primary Academy (New)	Carlisle Leisure Ltd
Carlisle City Council	The Good Shepherd MAT (one employer)	Commission for Social Care Inspection
Copeland Borough Council	Ambleside Primary Academy (New)	Creative Management Support
Eden District Council	Braithwaite Primary Academy (New)	Cumbria Cerebral Palsy
South Lakeland District Council	Heversham St Peter's Academy (New)	Cumbria Deaf Vision
Scheduled Bodies - Academies (48)	Lazonby Academy	Cumbria Tourism
(number of employers 40)	William Howard MAT (one employer)	Eden Housing Association
Appleby Grammar Academy	The Workington Academy (New)	FCC Environment
Arnsdale National CofE Academy	William Howard Academy	Glenmore Trust
Broughton Primary Academy	Yewdale Academy (New)	Harraby Community Centre
Burton Morewood Primary Academy	Scheduled Bodies - Other (20)	Higham Hall
Caldew Academy	Aspatia Town Council (New)	Home Group (Copeland)
Cartmel Priory Academy	Barrow Sixth Form College	Kendal Brewery Arts Centre Trust Ltd
Castle Carrock Academy	Carlisle College	Knowledge Network Ltd (New)
Chetwynd School Academy	Cleator Moor Town Council	Longtown Memorial Hall Community Centre
Cockermouth Academy (New)	Cockermouth Town Council	Mellors Catering Services - Police
Crosby on Eden Academy	Cumbria Chief Constable	Mellors Catering Services - Rockcliffe
Dallam Academy	Cumbria Police & Crime Commissioner	Morton Community Centre
Dearham Primary Academy	Cumbria Waste Management	North Country Leisure (Copeland)
Eaglesfield Paddle Academy	Furness College	North Country Leisure (South Lakes)
Energy Coast UTC	Kendal College Further Educ	Oaklea Trust
Fairfield Primary Academy (New)	Kendal Town Council	People First
Furness Academy	Keswick Town Council	Riverside Housing
George Hastwell School Academy (New)	Lake District National Park Authority	SLS (Cumbria) Ltd - QK (New)
Ghyllside Academy	Lakes College (West Cumbria)	SLS (Cumbria) Ltd - StH (New)
Gilsland Academy	Maryport Town Council	Soundwave
Great Corby Academy	Orian Solutions	South Lakes Housing
Keswick Academy	Penrith Town Council (New)	Tullie House Trust
Kirkbie Kendal Academy	Ulverston Town Council	West House
Kirkby Stephen Academy	Wigton Town Council	Wigton Joint Burial Committee
Penny Bridge Academy	Workington Town Council	Admitted Bodies - No Actives (14)
Queen Elizabeth Academy	Scheduled Bodies No Actives (12)	Cumbria Training Partnership
Queen Elizabeth Grammar Academy	Brampton Parish Council	Direct Training Services
Richard Rose Academies	Charlotte Mason College	Egremont & District Pool Trust (Leaving)
Seaton Academy	Cumbria Institute of the Arts	Henry Lonsdale Trust
Settlebeck High Academy	Cumbria Primary Teacher Training	Kendal Citizens Advice
Stanwix School Academy	Cumbria Sea Fisheries	Lake District Cheshire Homes
Stramongate Academy	Dept Constit Affairs (Cumbria Magistrates)	Lakeland Arts Trust
The Queen Katherine School Academy	Health Authority	Mellors Catering - Southfield (Leaving)
Trinity Academy	Millom Town Council	Mellors Catering - Whitehaven (Leaving)
Walney Academy	Port of Workington	NCRS Ltd (Neighbourhood Revitalisation)
West Lakes Academy	Practical Alternatives to Custody (Ltd)	People First 2 (Leaving)
Whitehaven Academy	Seaton Parish Council (New)	Project Homeless
Building Futures MAT (one employer)	Water Authority	South Lakes Services (Leaving)
Tebay Primary Academy		Troutbeck Bridge Swim Pool Ltd
Yanwath Primary Academy		

9/ Funding Strategy Statement

In line with CIPFA guidance the below Funding Strategy Statement (FSS) is as it stood at the end of the reporting period (31st March 2016). In conjunction with the completion of the triennial valuation in 2013 the FSS was last updated and approved by the Pensions Committee in March 2014 therefore this version of the FSS was in force throughout the reporting period.

9.1 Funding Strategy Statement

This Statement has been prepared by Cumbria County Council (the Administering Authority) to set out the Scheme strategy for the Cumbria Local Government Pension Scheme (“the Fund”), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended) and the guidance papers issued in October 2012 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

9.1.1 Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) (“the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund, the Administering Authority will prepare and publish their funding strategy;

In preparing the FSS, the administering authority must have regard to:-

- the guidance issued by CIPFA for this purpose; and
- the Statement of Investment Principles (SIP) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);

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

Benefits payable under the Scheme are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit final salary scheme under which the benefits are specified in the governing legislation (the Local Government Pension Scheme (Benefits, membership and contributions) Regulations 2007 (as amended)). Updated regulations (The Local Government Pension Scheme Regulations 2013) covering a new Local Government Pension Scheme (LGPS) were laid before Parliament in September 2013. The new Scheme has replaced the existing Scheme with effect from 1st April

2014 and will provide for members to accrue pension on a career average revalued earnings basis rather than final salary. There is also the introduction of a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution. The actuary has taken this into account in determining employer contribution rates in the 2013 actuarial valuation. The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (principally Administration Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Scheme should be set so as to “secure its solvency”, whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

9.2 Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the desirability of maintaining as nearly constant a common contribution rate as possible; and
- to take a prudent longer-term view of funding those liabilities.

This framework is designed to ensure the funding strategy is both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the funding strategy applicable to individual employers or categories of employers must be reflected in the FSS, its focus should at all times be on those actions which are in the best long-term interests of the Fund. Consequently the FSS should remain a single all-employer-encompassing strategy for the Administering Authority to implement and maintain, for it is to the Administering Authority that the obligation to pay pension benefits ultimately falls. It is the strength of the relationship between the interested parties which will support the long-term sustainability of each pension fund and the appropriate funding of its liabilities.

9.3 Aims and purpose of the Cumbria Local Government Pension Scheme

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and (subject to the Administering Authority not taking undue risks) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency, which should be assessed in light of the risk profile of the fund and the risk appetite of the Administering Authority and employers alike;
- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due; and
- seek returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme Regulations 2008 (as amended) and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended).

9.4 Responsibilities of the key parties

The Administering Authority should:

- operate a pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in LGPS Regulations;
- pay from the pension fund the relevant entitlements as stipulated in LGPS Regulations;
- invest surplus monies in accordance with the Regulations;
- take measures as set out in the regulations to safeguard the fund against the consequences of employer default;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the Fund's Actuary;
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties;
- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP as and when appropriate; and
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer.

The Individual Employer should:

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- develop a policy on certain discretions and exercise those discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, such as pension strain costs, ill health retirement costs, compensatory added years costs, etc.;
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds or other forms of security against the financial effect on the fund of employer default;

- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the regulations;
- ensure that the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the fund; and
- advise on funding strategy, the preparation of the FSS, and the interrelationship between the FSS and the SIP.

9.5 Solvency Issues and Target Funding Levels

9.5.1 The funding objective

To meet the requirements of the Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing basis including allowance for projected final pay.

9.5.2 Determination of the funding target and recovery period

The principal method and assumptions to be used in the calculation of the funding target are set out in sections 9.9 and 9.10 below.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- some allowance for interest rates and bond yields to revert to higher levels over the medium to long term; and
- whether some allowance for increased investment return can be built into the funding plan over the agreed recovery period.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

As part of each valuation separate employer contribution rates are assessed by the Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and

circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the Fund. In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates:

- The Fund will operate a default deficit recovery period of 19 years. However, in order to allow some flexibility for employers to maintain their current contribution rates, employers will normally have some limited options to extend the deficit recovery period. Nevertheless, in current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply where substantial deficits apply. As a result, all employers in deficit will be required to adopt a deficit recovery period in line with the default period (or shorter) before any reduction in overall contributions will be allowed.
- Where an employer is closed to new members the Fund will look to recover the deficit over the employer's average future working lifetime (AFWL) although, in exceptional circumstances and subject to considerations of risk including the strength of the employer covenant, there may be some scope to extend this period.
- For fixed term contracts with an outstanding period (where known) of less than 19 years (open contracts) / AFWL (closed contracts) the Fund will look to use the lower period for deficit recovery.
- For academies the Fund applies a deficit recovery period of 19 years (with no option for extension).
- A maximum deficit recovery period of 25 years will apply in any event.
- Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted.
- Where increases in employer contribution rates are required from 1 April 2014, following completion of the 2013 actuarial valuation, the increase from the rates of contribution payable in the year 2014/15 may be implemented in steps, over a maximum period of 3 years.

- Where agreed by the Administering Authority, an employer may allocate a specific reserve to cover estimated early retirement costs over the three years commencing 1 April 2014. In such cases the amount of that reserve will be taken into account in determining the employer's contribution rate from 1 April 2014. The payment of additional contributions in respect of early retirements will be required once the specific reserve has been used up.
- On the cessation of an employer's participation in the Fund, the actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer. Details of the approach to be adopted for such an assessment on termination are set out in the separate Admission and Termination Policy document.

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

- the responses made to the consultation with employers on the FSS principles;
- relevant guidance issued by the CIPFA Pensions Panel;
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose,
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

Employer covenant - as part of the 2013 valuation the Fund in consultation with the Actuary has undertaken a review of the financial covenants of employers participating in the Fund. This risk based approach includes assessment of their pension liabilities, this includes assessment of the employers liabilities under the Scheme and contingent security available such as a guarantor or bond arrangement, charges over assets, etc.

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

9.5.3 Deficit recovery plan

If the assets of the fund relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as lump sum £ amounts.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the employer;
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

9.5.4 The normal cost of the scheme (future service contribution rate)

In addition to any contributions required to rectify a shortfall of assets below the funding target contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in section 10.

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

The results of the 2013 valuation show the accrued liabilities to be 78% covered by the current assets, with the funding deficit of 22% being covered by future deficit contributions due from participating employers.

In assessing the value of the Fund's liabilities above, allowance has been made for asset out-performance as described in Section 5, taking into account the investment strategy adopted by the Fund, as set out in the Statement of Investment Principles (SIP).

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

Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for outperformance of the Fund investments. On this basis of assessment, the assessed value of the Fund's liabilities at the 2013 valuation would have been significantly higher, by approximately 35% and the declared funding level would be correspondingly reduced to approximately 58%.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

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

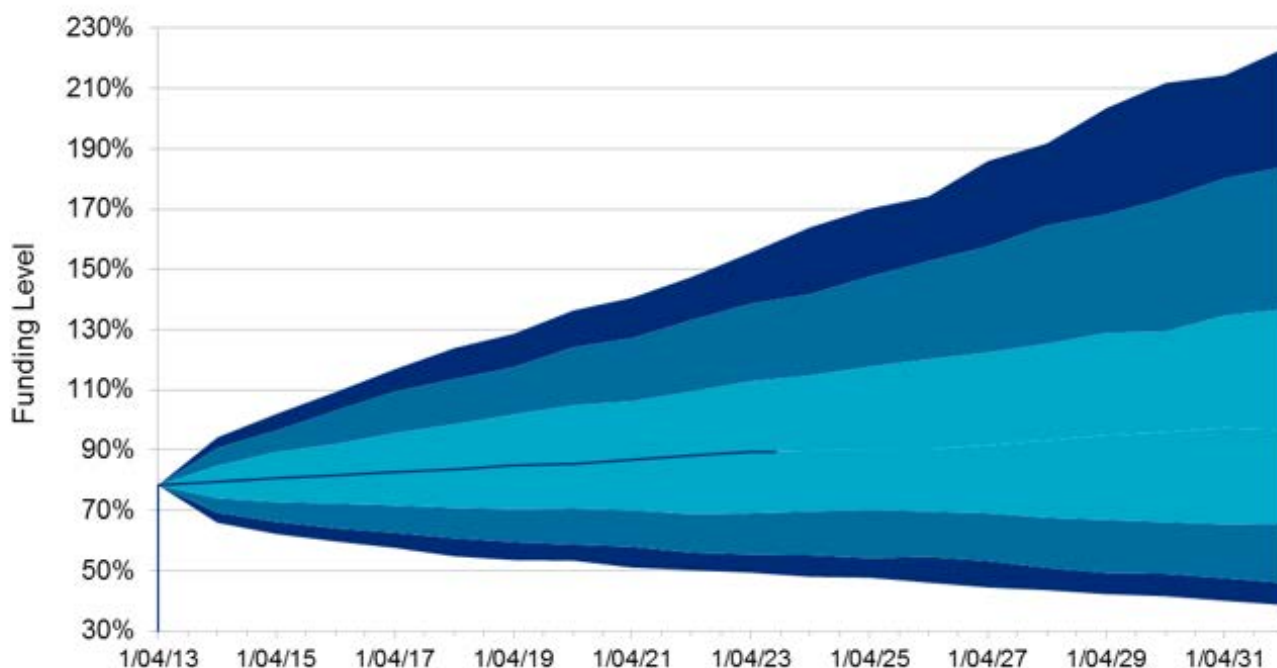
The funding strategy adopted for the 2013 valuation is based on an assumed asset out-performance of 1.4% per annum in respect of liabilities pre and post-retirement. The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the investment strategy adopted as set out in the SIP.

9.7 Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Scheme is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the Scheme's funding is the investment risk inherent in the predominantly equity-based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall 1.4% per annum currently required on the basis of the 2013 valuation assumptions.

The chart below shows a “funnel of doubt” funding level graph, which illustrates the range and uncertainty in the future progression of the funding level, relative to the funding target adopted at the valuation. Using a simplified model, the chart shows the probability of exceeding a certain funding level over a 20 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the funding level at each point in time being better than the funding level shown, and a 95% chance of the funding level being lower).



The CIPFA October 2012 guidance identifies the following key risks:

- **Investment risk** – the risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:
 - assets not delivering the required return (for whatever reason, including manager underperformance).
 - systemic risk with the possibility of interlinked and simultaneous financial market volatility.
 - insufficient funds to meet liabilities as they fall due.
 - inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon.
 - counterparty failure.

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks.
 - fixed income – yield curve, credit risks, duration risk and market risks.
 - alternative assets – liquidity risk, property risk, alpha risk.
 - money market – credit risk and liquidity risk.
 - currency risks.
 - macroeconomic risks.
- **Employer risk** – those risks that arise from the ever-changing mix of employers; from short-term and ceasing employers; and the potential for a shortfall in payments and/or orphaned liabilities.
 - **Liquidity/maturity risk** – the LGPS is going through a series of changes, each of which will impact upon the maturity profile of the LGPS and have potential cash flow implications. The increased emphasis on outsourcing and other alternative models for service delivery, which result in active members leaving the LGPS; transfers of responsibility between different public sector bodies; scheme changes which might lead to increased opt-outs; the implications of spending cuts (the ONS recently reported that 204,000 jobs were cut in local government during 2011/12) – all of these will result in workforce reductions that will reduce membership, reduce contributions and prematurely increase retirements in ways that may not have been taken account of fully in previous forecasts.
 - **Liability risk** – inflation, life expectancy and other demographic changes, interest rate and wage and salary inflation will all impact upon future liabilities.
 - **Regulatory and compliance risk** – occupational pensions in the UK are heavily regulated, with thousands of pages of both general and LGPS-specific legislation that must be complied with.

The LGPS is also going through major structural changes as administering authorities assess the implications of, and prepare for, LGPS 2014.

Further details concerning the governance of the Fund (including risk management) can be found in the Fund's Governance Policy Statement, which is included in the Cumbria LGPS Annual Report and Accounts, and is available on-line at www.cumbria.gov.uk/Finance

9.8 Monitoring and Review

The Administering Authority has taken advice from the Actuary in preparing this Statement, and has also consulted with the Fund's participating employers.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy,
- if there have been significant changes to the Fund membership, and/or funding maturity profile, and/or LGPS benefits,
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy,
- if there have been any significant special contributions paid into the Fund.

9.9 Method used in calculating the funding target and recovery plan

The actuarial method to be used in the calculation of the funding target and recovery plan is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

9.10 Financial assumptions used in calculating the funding target and recovery plan

9.10.1 Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflect a market consistent discount rate for the profile and duration of the Fund's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 1.4% p.a. for the period pre and post-retirement.

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

9.10.2 Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, subject to the following adjustments:

- An allowance for supply/demand distortions in the bond markets at the valuation date, and
- An allowance for long term CPI to be less than long term RPI.
- The overall reduction to RPI inflation at the valuation date is 1.0% p.a.

9.10.3 Salary increases

The long term assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. A short term pay growth adjustment will also apply at 1% p.a. for 3 years.

9.10.4 Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

9.10.5 Mortality

The mortality assumptions have been updated since the 2010 actuarial valuation in the light of an investigation carried out by the Fund's actuaries. For the 2013 actuarial valuation the mortality assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the characteristics of the scheme's membership. Future improvements are assumed to be in line with the CMI 2012 projections model, with longer term improvements being set at 1.5% p.a.

Members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older (for existing pensioners) / 4 years older (for current active members).

9.10.6 Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1p.a. of pension given up.

9.10.7 Other demographics

Following an analysis of fund experience carried out by the Actuary, the retirement age, ill health and proportions married assumptions have been modified from the 2010 valuation. Other assumptions are as per the 2010 valuation. In addition, allowing for take-up of the 50:50 option will be made up to a maximum of 10% of current and future members for certain employers (on agreement with the Administering Authority).

9.10.8 Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of CPI price inflation) of 3.0% per annum. This gives rise to an overall discount rate of 5.6% p.a.

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In market conditions at the effective date of the 2013 valuation this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

9.11 Summary of key whole Fund assumptions used for calculating funding target, recovery plan and cost of future accrual (the “normal cost”) for the 2013 actuarial valuation

Financial assumptions

Long-term gilt yields	
Fixed interest	3.2% p.a.
Index linked	-0.4% p.a.
Market implied RPI inflation	3.6% p.a.
Inflation adjustment	-1.0% p.a.
Past service Funding Target financial assumptions	
Investment return	4.6 % p.a.
CPI price inflation	2.6% p.a.
Salary increases	4.1% p.a.*
Pension increases	2.6 % p.a.
Future service accrual financial assumptions	
Investment return	5.6% p.a.
CPI price inflation	2.6% p.a.
Salary increases	4.1% p.a.
Pension increases	2.6 % p.a.

* For past service funding target calculations only, in the short term salaries are assumed to increase at 1% per annum for three years.

Demographic assumptions

The mortality tables adopted for this valuation are as follows:

	Table	Adjustment
Active members:		
Male normal health	S1PMA CMI_2012_M [1.5%]	92%
Female normal health	S1PFA CMI_2012_F [1.5%]	87%
Males ill health	As for male normal health pensioners +4 years	
Female ill health	As for female normal health pensioners +4 years	
Male future dependants	S1PMA CMI_2012_M [1.5%]	106%
Female future dependants	S1DFA CMI_2012_F [1.5%]	98%
Deferred members:		
Male	S1PMA CMI_2012_M [1.5%]	112%
Female	S1PFA CMI_2012_F [1.5%]	101%
Male future dependants	S1PMA CMI_2012_M [1.5%]	106%
Female future dependants	S1DFA CMI_2012_F [1.5%]	98%
Current pensioner members:		
Males normal health	S1PMA CMI_2012_M [1.5%]	98%
Female normal health	S1PFA CMI_2012_F [1.5%]	96%
Males ill health	As for male normal health pensioners +3 years	
Female ill health	As for female normal health pensioners +3 years	
Male current dependants	S1PMA CMI_2012_M [1.5%]	162%
Female current dependants	S1DFA CMI_2012_F [1.5%]	111%
Male future dependants	S1PMA CMI_2012_M [1.5%]	110%
Female future dependants	S1DFA CMI_2012_F [1.5%]	101%

Other demographic assumptions have been based on LG scheme specific experience.

9.12 Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the two exceptions:

● Changes in Financial Conditions after the Valuation Date

Subsequent to the valuation date, market conditions moved such that the funding position improved, most notably due to an increase in long-dated real yields. It has been agreed that these funding level improvements, as measured approximately up to the end of August 2013, will be taken into account in determining the recovery plans for employers.

● Further Future Yield Reversion

In addition to the above, for certain employers which are considered by the Administering Authority to provide a high level of financial covenant and are required to increase contributions (compared to the 2014/15 levels that would have been payable under the previous funding plan), an allowance may be made as part of the recovery plan for interest rates and bond yields to revert to higher levels over a period of 10 years.

In isolation, the effect of this increase in yields is to reduce the funding deficit by primarily lowering the value of the fund's liabilities over time, thus reducing the level of deficit contributions required by the employer during the recovery period. The effective further increase in fixed and index linked gilt yields, as measured as at 31 August 2013, is 0.4% p.a. reflecting assumed increases in gilt yields over a 10 year period.

As indicated above, this variation to the assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of increased gilt yields over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the impact of the anticipated increases in gilt yields will be limited so that the total employer contributions emerging from the valuation will be no less the 2014/15 levels that would have been payable under the previous funding plan.

10/ Statement of Investment Principles

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

Draft regulations are currently being consulted which, if implemented in the current form, will require the production of an Investment Strategy Statement rather than a SIP. Current information is that this change will be required prior to April 2017.

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

10.1 Introduction

Administering Authorities have to prepare, maintain and publish Statements of Investment Principles under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Under the Local Government Pension Scheme Regulations 2013 Administering Authorities are required to include in their Annual Report the current version of this Statement.

The Statement of Investment Principles (SIP) outlines the Fund's investment strategy, and how the risk and return issues have been managed relative to the Fund's investment objectives. It should be read in conjunction with the Funding Strategy Statement (FSS) which sets out how solvency and risks will be managed with regard to the underlying pension liabilities. The SIP will be reviewed at least annually.

The SIP covers the following:

- Background
- Types of investments
- Balance between investments
- Assets managed by investment fund managers
- The strategic benchmark
- Items outside the strategic benchmark
- Limits on investments
- Risk
- Investment objectives
- Realisation of investments
- Corporate Governance and Ethical Investment
- Compliance of Cumbria Fund with the Updated Myners Principles.

10.2 Background

The Cumbria Pensions Committee exercises Cumbria County Council's responsibility as Administering Authority for the management of Cumbria Local Government Pension Scheme. The Terms of Reference are set out in the Fund's Governance Policy, and include approving the investment policy for the Pension Fund.

Cumbria Pensions Investment Sub Group

During 2013/14 the Investment Sub Group was established. Through 2015/16 this group has operated effectively working to support the Committee. Operating protocols between the two groups are now in place incorporating detailed monitoring and reporting structures. The Investment Sub Group consider, and continually review the investment management structure for the Pension Fund and are responsible for advising the Section 151 Officer on the appointment and termination of non-SIP investment managers and the establishment and review of performance benchmarks and targets for investment. The group will also consider the detail of any regulatory changes to investment limits or national policy changes that are made in this area, reporting to the Pensions Committee on their findings and recommendations.

Strategy Review

A Strategic Investment Review was carried out during 2012 leading to alterations to the investment structure of the Fund. Standard Life were appointed in October 2012 to manage a 'buy and maintain' bond mandate, and two new global equity managers were appointed in December 2013, Nordea and Loomis Sayles. During 2013 to 2014 two complimentary Infrastructure managers were appointed (JP Morgan and Partners Group). More recently a number of smaller commitments have been made to pooled funds within the alternatives space and work on increasing the commitments within the infrastructure and opportunistic elements of the alternatives portfolio continued during 2015/16 and is ongoing into 2016/17.

The latest SIP was approved by the Pensions Committee held on 8th March 2016. Where appropriate the figures included have been updated to reflect the position as at 31st March 2016.

10.3 Statement of Investment Principles

The investment objectives of the fund

- The very long-term objective is to achieve an investment return in the order of 6.5% per annum (to match the actuary's long term assumptions for future service) over a nineteen year period from April 2013. This target is reviewed after periodic actuarial valuations and consultation with Fund employers and may undergo a partial or full review at other times should circumstances warrant it.

- The funding level of the Fund to move towards 100% over a maximum fund recovery period of nineteen years from April 2013. This target may be reviewed after periodic actuarial valuations and consultation with Fund employers.
- The target investment return for the Fund as a whole is to be 0.6% per annum ahead of the Fund's customised benchmark return over rolling five-year periods.
- As the Fund has adopted a Scheme specific benchmark, it is not appropriate to compare the Fund directly with the WM Local Authority Universe return. Nevertheless, regard will be paid to this Universe over the longer term.

Types of investments to be held

The Fund will hold UK equities, overseas equities, index-linked securities, fixed interest securities, managed funds (in particular unit and investment trusts), alternatives (e.g. venture capital, hedge funds, infrastructure, commodities, forestry, debt funds (e.g. real estate/infrastructure)), certain derivatives, direct property, cash and other assets as determined from time to time by the Pensions Committee.

Balance between different types of investments

The Fund currently holds assets across a range of products and managers to diversify risk. At March 2016 the Fund employed fifteen managers to diversify the investment manager risk. The allocations to both manager and asset classes are reviewed on an ongoing basis by the Fund's Investment Sub Group. The Pensions Committee additionally undertake further oversight and monitoring by quarterly review of the Fund monitoring report. The Fund is currently undergoing a transitional period, while it changes both asset allocations and managers due to the conclusions agreed by the Committee in the Investment Strategy Review completed in June 2012. As such, included below are transition target asset allocations for 2014/15 and 2015/16, and the final which the Fund hopes to achieve following 2015/16.

The actual asset split of the Fund overall as at 31st March 2016 is shown below along with the benchmark allocation.

Asset/Manager	Allocation at Dec 2014	Transitional SIP aim March 2015	Allocation at March 2016	Transitional SIP aim 2015/16	Final SIP
	%	%	%	%	%
Equity					
- UK	22.3%	20.0%	14.8%	14.0%	10%
- Global Other	23.2%	23.0%	25.7%	23.0%	20%
- Global Low Volatility	8.7%	9.0%	10.7%	10.0%	10%
Alternatives					
- Infrastructure	4.8%	5.0%	5.7%	6.0%	9%
- Opportunistic	3.2%	4.0%	3.2%	7.0%	9%
Property	8.9%	9.0%	7.8%	9.0%	9%
Growth total	71.1%	70.0%	67.9%	69.0%	67.0%
UK Gilts	0%	0%	0%	0%	0%
Corp Bonds	7.3%	7.5%	7.3%	7.5%	7%
IL Bonds	18.0%	18.0%	18.7%	18.0%	17%
Other Defensive	1.5%	1.5%	3.5%	3.5%	7%
Strategic Cash	2.1%	3.0%	2.6%	2.0%	2%
Defensive total	28.9%	30.0%	32.1%	31.0%	33.0%
	100%	100.0%	100.0%	100.0%	100.0%

Throughout the period of change, an appropriate weighted benchmark will be used. A new benchmark asset allocation will be implemented once the Strategic Investment Review has been completed.

Assets managed by pension fund investment managers

Manager	Percentage of total fund 31/12/14	Percentage of total fund 31/03/16	Mandate
Schroder (UK Equities)	12.8%	12.2%	To outperform the FTSE All Share Index by 1% after fees over rolling three year periods.
Nordea (Global Equity – Low Volatility)	9.4%	10.7%	To outperform by 2% after fees the MSCI All Country World index (net dividends reinvested) over rolling five year periods, with volatility of less than 75%.
Loomis Sayles (Global Equity – High Conviction)	9.1%	9.9%	To outperform by 3% after fees the MSCI All Country World index (net dividends reinvested) over rolling five year periods.
Legal and General Passive (Multi Asset) excluding property and alternatives	42.4%	37.4%	To keep tracking error within set limits per annum to the appropriate index, two years in three. (UK equities 2.0%, overseas equity 2.0%, gilts 1.0%, corporate bonds 1.0%, index-linked bonds 1.5%) Excludes property and alternatives.
Aberdeen (UK Property)	7.2%	7.9%	To 31st March 2015: To outperform the IPD Quarterly Universe after fees over rolling three-year periods. From 1st April 2015: To outperform RPI + 3.65% after fees over a 3 year period.
Standard Life	7.5%	7.5%	Buy and then hold a diversified portfolio of corporate bonds, avoiding those with downgrades and defaults, maintaining a low turnover.
Infrastructure, opportunistic and other alternatives pooled funds	11.6%	14.4%	N/A
TOTAL	100.0%	100.0%	

Investment managers are paid fees and are expected to achieve an investment target. As fees are based on the value of funds under management, growth in the portfolio would lead to an increase in fee, providing an element of performance incentive. Where performance is unsatisfactory and targets are not met, fees may be renegotiated and where performance remains unsatisfactory, managers can be removed and the mandates awarded to other managers. The above allocation will be reviewed at least annually and kept under ongoing review by the Investment Sub Group.

The strategic benchmark

The Fund operates a fund-specific benchmark for the investments, with long-term allocations to the various traditional asset classes, excluding property and alternatives, which reflect the circumstances of the Fund. A new fund-specific benchmark will be put in place once the implementation of the Strategic Investment Review changes has been completed.

Limits on investments

The powers and duties of the Fund to invest monies are set out in the Local Government Pension Scheme

(Management and Investment of Funds) Regulations 2009 (as amended). The amended regulations provide the opportunity to increase exposure to certain types of investments specified in Schedule 1 of the regulations where proper advice has been obtained.

The Pension Committee of the Cumbria Local Government Pension Scheme has decided, having taken proper advice, to adopt increased limits as follows:

1. Effective from 20 November 2007 and in accordance with Regulation 11(2A) and item 10 of Part 1 of Schedule 1 of the regulations, the limit on the amount invested in any single insurance contract is 35%. This allows increased flexibility to the fund in respect of passive investments.
2. Effective from 1 April 2013 and in accordance with Regulation 11(2A) and item 3 of Part 1 of Schedule 1 of the Regulations, the limit on all contributions to partnerships has increased from 15% to 30% (LGPS (Management and Investment of Funds) (Amendment) Regulations 2013). The increased limits enable the Fund to implement its management structure.

3. The limit on a contribution to any single partnership is unchanged at 5% (of total assets of the Cumbria Fund).

These decisions comply with the requirements of the Regulations and are subject to periodic review.

Risk

The return of the Fund is to be achieved by the investment managers without exposing the Fund to excessive risk and with regard to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Risk is managed through diversification by:

- The appointment of more than one manager, and managers with different investment styles.
- The use of different asset classes including alternatives.
- For each manager, where appropriate, reviewing the achieved variation in investment return from the benchmark, and also the forecast range of return for each future quarter.

Managers' performance targets are set to avoid undue exposure to risk and investment performance is measured over a three to five year period, but it is monitored quarterly with managers attending the Pensions Committee regularly and normally at least once in a twelve month period. The benchmark asset allocation, as revised in light of the Strategic Investment Review, is a key indicator of the level of risk that is acceptable.

Mercer have estimated the Value at Risk of the Fund. The One-year Value at Risk of the Fund (95th percentile) is the potential worst-case scenario (with a 5% probability) increase in the deficit over a one-year period. The Value at Risk is estimated at £342 million as at 31 March 2013. (Actuarial Valuation)

Realisation of investments

Investment managers are free to realise investments to maximise the benefit to the Fund. Transactions have, however, to be reported quarterly to the Pensions Committee.

The property manager is instructed to notify the Senior Investment Officer to the Fund before they make any sales or purchases.

Corporate Governance

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

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

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

For the global active portfolio responsibility is currently delegated to the investment managers. Investment managers are expected to approach the subject of voting with the same care and attention as other matters which influence investment decisions. Voting should be undertaken where it is believed to be in the best interests of the Fund.

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

The investment managers and PIRC are required to report quarterly on their voting actions for every appropriate investment. Any responses received from companies concerned should also be reported. A full voting audit trail must be available. The outcome of voting actions should also be shown if possible.

In endeavouring to invest in the best financial interests of the beneficiaries, the Members have also elected to invest in pooled indexed funds and cannot therefore directly influence the social, environmental and ethical policies and practices of the companies in which the pooled funds invest. The Members are satisfied that the Fund Managers Corporate Governance policy reflects the key principles of Socially Responsible Investment.

Social, Environmental and Ethical Investment

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

Note (1) CIPFA Pensions Panel: Management and Investment of Funds Shareholder Responsibilities.

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

Compliance of Cumbria Fund with the Updated Myners Principles

Principle	Compliance	
Principle 1 : Effective Decision Making	Not Compliant	Fully Compliant
<p>Administering Authorities should ensure that</p> <ul style="list-style-type: none"> ● decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and ● those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest. 		<p>✓</p> <p>✓</p>
<p>The fund has a clear scheme of delegation and arrangements for provision of management and advice. Investment funds are managed by a number of national or international organisations with offices in London.</p> <p>The members of the Pensions Committee perform duties similar to private trustees and are elected councillors of the County Council and District Councils. The Members' Allowance Scheme operates for the remuneration of the Pension Committee. Two independent Investment Advisers normally attend Pension Committee meetings.</p> <p>The formation of a dedicated Investment Sub Group allows delegation of some investment manager monitoring and appointments, thus speeding up decision making. This will free-up limited Committee agenda time and allow Members to focus on the issues that add most value to the Fund. The Investment Sub Group will also consider the detail of any regulatory changes to investment limits or national policy changes that are made in this area, reporting to the Pensions Committee on their findings and recommendations. The Group comprises three Members of the Pensions Committee (including the Chair of the Committee), Senior Officers of the Council with responsibilities for the management of the Fund including the Section 151 Officer and the Senior Investment Officer to the Fund, Independent Advisors, and Investment Consultants to the Fund at the invitation of the Sub Group.</p> <p>A smaller dedicated Investment Sub Group not only enables more nimble decision making but also that the members of the group can receive more intensive training in the relevant areas.</p> <p>The Pension Committee have their skills and experience developed through training events, external seminars and fund manager visits on a regular basis.</p> <p>A small team of professional investment and support staff is provided. Officers of the Council provide advice on a day-to-day basis. The Chairman and Members can contact officers and independent advisers on an ad hoc basis as and when required.</p> <p>Expert consultants and Actuaries are also used by the fund as required.</p> <p>There is a forward looking business plan and progress is regularly evaluated. This includes a three-yearly strategic investment review, following the Actuarial Valuation.</p>		
Principle 2 : Clear Objectives	Not Compliant	Fully Compliant
<ul style="list-style-type: none"> ● An overall investment objective(s) should be set out for the fund that takes account of the Fund's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the Administering Authority and Fund employers, and these should be clearly communicated to advisers and investment managers. 		<p>✓</p>

The investment objectives are detailed in the Statement of Investment Principles, and the Funding Strategy Statement details the funding objectives. Both are updated as required.

The Fund has its own investment benchmark although regard is paid to the Local Authority Universe allocation to comply with Best Value methodology. The Fund's liability profile will normally be considered in relation to its benchmark every three years, with annual interim reviews.

All Fund managers have clear written mandates, governed by the Fund's strategic objectives and Pension Investment Regulations, and are reviewed regularly by officers and the Pension Committee.

All significant investment opportunities are considered and taken where appropriate. Stock Lending was approved during 2004.

Principle 3 : Risk and Liabilities	Not Compliant	Fully Compliant
<ul style="list-style-type: none"> In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk. 		<p>✓</p> <p>✓</p>
<p>Strategic asset allocation receives a high level of attention and a full strategy review is undertaken every three years following the Actuarial Valuation.</p> <p>The Actuarial Valuation considers longevity risk and the affordability of contribution rates for the County Council, District Councils and other employers of the Fund, taking a prudent longer-term view of funding the liabilities.</p>		
Principle 4 : Performance Assessment	Not Compliant	Fully Compliant
<ul style="list-style-type: none"> Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to fund members. 		<p>✓</p> <p>✓</p>
<p>The fund carries this out through the performance measurement service supplied by SSIA/WM Company. Investment performance is reported to the Pension Committee each quarter, and one of these meetings includes an Annual Performance Review with SSIA/WM Company.</p> <p>Performance contribution is reviewed quarterly and at one of the meetings annual and longer-term investment performance is reviewed in detail. The Fund operates on a tiered performance monitoring framework, the three tiers being officers and advisers, the Investment Sub Group, and the Pensions Committee.</p> <p>Investment Managers are constantly under review, with Officers and Advisers informing the ISG monitoring report and escalating any issues immediately. They will also meet with managers (holding greater than £50m) formally at least annually.</p> <p>The Investment Sub-Group is responsible for continual review of the investment management structure for the Pension Fund and for overseeing the appointment and termination of investment managers. It is responsible for the establishment and review of performance benchmarks and targets for investment. The Group will receive a quarterly report on every manager covering performance results and a broad range of metrics, and may escalate matters to the full Committee.</p> <p>The Pension Committee is responsible for strategic decision making and oversight, and will make 'hire/fire' decisions or see managers due to escalation from the Sub Group.</p> <p>The Pensions Committee members are surveyed for their views on quality of advice given by the Investment Advisers.</p> <p>Effectiveness of Pension Committee decisions, such as strategy and manager selection, is discussed in the Annual Report and Accounts.</p>		

Principle 5 : Responsible Ownership	Not Compliant	Fully Compliant
<p>Administering authorities should ensure that</p> <ul style="list-style-type: none"> ● adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents. ● include a statement of their policy on responsible ownership in the Statement of Investment Principles; and ● report periodically to fund members on the discharge of such responsibilities. 		<p>✓</p> <p>✓</p> <p>✓</p>
<p>Voting at Company meetings is delegated to PIRC for the active UK equity portfolio, and to investment managers for the global equity portfolio. Reporting is on a quarterly basis, being incorporated into the quarterly monitoring of the Fund by the Pension Committee.</p> <p>The Corporate Governance policy of the Fund is an area currently under review.</p> <p>All investment managers are required to adhere to the Stewardship Code.</p>		
Principle 6 : Transparency and Reporting	Not Compliant	Fully Compliant
<p>Administering authorities should</p> <ul style="list-style-type: none"> ● act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and ● provide regular communication to members in the form they consider most appropriate. 		<p>✓</p> <p>✓</p>
<p>The Statement of Investment Principles (SIP) sets out</p> <ul style="list-style-type: none"> ● The Fund's investment objective, ● The Fund's planned asset allocation strategy, ● Mandates given to advisors and managers. <p>The SIP is included in the Fund's Annual Report; this is available on the County Council's website.</p> <p>All members of the Fund also receive a summary of the financial position with their Annual Benefit Statement. This also gives details of how they can access more detailed information, which includes the full Annual Report and Accounts.</p> <p>Investment performance is included in the Annual Report. Adviser performance measurement will be included.</p> <p>The Cumbria Pensions Forum meets to inform and consult on wider pensions issues; the members receive the Annual Report, and have access to the public Pension Committee papers.</p> <p>The Pension Committee Minutes and Agenda are available on the County Council website.</p> <p>The Annual Report and Accounts are also placed on the Council's website.</p>		

11/ Communications

11.1 Introduction

During 2015/16 engagement with employers and stakeholders, keeping members informed about their pensions and engaging with the industry and government on wider pension and investment issues continued to be core objectives of the Fund.

In order to deliver this core objective and in accordance with regulation 61 of the Local Government Pension Scheme Regulations 2013 the Fund prepares, maintains and publishes a written statement of its policy concerning communication with members, representatives of members and employing authorities ('the Policy').

The Policy forms part of the Administration Policy set out in section 5.5 of this report. The Policy referenced contains details of how information is provided to members, their representatives and employers and in what format. In addition to this further information on the Fund's methods of communication is set out in the following section (11.2).

11.2 Methods of Communication

11.2.1 Electronic media:

To make information more easily accessible to members and to provide value for money the principal method of communication is via electronic media (although where requested paper copies of all documentation are available). Through the Your Pension Service website (www.yourpensionservice.org.uk/local_government) Cumbria LGPS enables Fund members, their representatives and employers to access detailed documents and information for example:

- A summary of the benefits of the Scheme and how to join the Fund;
- The Fund's Policy document;
- The Actuary's triennial valuation at March 2007, March 2010 and March 2013;
- Annual Reports for 2013/14 and 2014/15 (the 2015/16 Annual Report will also be available once published);
- A range of guides, factsheets and forms;
- Online copies of the various forms members may wish to use in connection with their Scheme membership;
- Updates on latest developments affecting the Scheme & Fund newsletters;
- Information for Employers including:
 - employer guides;
 - details of communications and conferences;
 - a range of other guides and factsheets; and
 - a useful links page.

- Employer Self Service – this enables employers to view pension database records for their employees and to calculate estimated benefits for their employees.
- Member Self Service – this allows members to go online at the YPS website (<http://www.yourpensionservice.org.uk/>) and, once logged in, to view documents and to access and amend information, including:
 - Do their own pension forecasts;
 - Check and amend their contact details and address details;
 - Check their pension fund membership and their records;
 - View their nomination(s) and download forms to amend their nominations;
 - View their annual pension benefit statement; and
 - View and download Fund documents, guides, factsheets and leaflets.

In addition to this key documentation relating to Cumbria LGPS is also available on Cumbria County Council's website at: www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp

11.2.2 Non-electronic media:

The Fund recognises that not everyone has access to the internet and this information can also be obtained by calling YPS on 0300 123 6717 or by writing to Your Pension Service, PO Box 100, County Hall, Preston, Lancashire, PR1 0LD.

11.2.3 Other methods of communication:

Additions to online services and communications during 2015/16 with members and employers included:

- Ad hoc mailshots to employers: these are sent throughout the year to inform employers of key issues such as up and coming events and changes to the Scheme.
- Practitioner's Conference (November 2015): the conference provided practitioners with a presentation on 'Pension wise', an LGPS update, a session on pension relief tax changes, a training session on Employer Discretions, and a presentation on electronic progression and communication.
- Employer training sessions (January 2016): covering issues such as Calculation of Final Pay, CARE pay and Assumed Pensionable Pay, completing leaver forms, processes surrounding unpaid leave and APC's and adjustments to the pension pot form.
- Annual one to one visits for Fund employers with over 100 members: the aim of these visits is to discuss any changes in processes and regulations, offer small training sessions and gather feedback.

- 2015 Scheme Talk publication sent to members and employers: this included information about further changes to the LGPS, details of how to obtain annual benefit statements and how to access member self-service online, details of the forthcoming pensions surgeries, an overview of annual allowances, information about changes to rules for members who opt out then later re-join, information about additional pension contributions and additional voluntary contributions (AVCs) and 'Freedom and Choice'.
- Member surgeries (November 2015 – January 2016): a series of sessions were held across Cumbria to provide members with the opportunity to speak to officers about their annual benefit statement or other LGPS related queries. Additionally Prudential, one of the AVC providers for Cumbria LGPS were also available at most of the sessions to answer queries about AVCs.



12/ Other Statements and Information

12.1 Training Policy (training plan updated March 2016)

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- 3.5 External Events Members and Officers)
- 3.6 Training Plan 2016/17 (per the Business Plan Agreed at Committee March 2016)

1.0 **Cumbria LGPS Training Policy**

1.1 **Introduction**

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

This the Training Policy of Cumbria Local Government Pension Scheme sets out the policy agreed by the Pension Committee concerning the training and development of -

- the members of the Pension Committee and any future Investment Sub-Committees and
- officers of Cumbria CC responsible for the management of the Local Government Pension Scheme (LGPS).

The Training Policy is established to aid members of the Pension Committee in performing and developing personally in their individual role in achievement of the collective responsibility of the Committee. The requirement of the Committee is to ensure that Members be able to demonstrate that collectively they have the required knowledge and skills to make appropriate decisions and offer challenge, and that Officers are adequately trained and experienced to undertake the day to day operation and management of the Fund.

The code of practice no. 14 – Governance and administration of public service pension schemes issued by the Pension Regulator in April 2015 contains practical guidance for fund managers and pension board members. The code sets out standards of conduct and practice expected of those who carry out functions for public service pension schemes in relation to legal requirements. The legislative requirements about knowledge and understanding outlined in the code only apply to pension board members. It is their individual responsibility to ensure that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the pension board. However, fund managers are expected to take account of the guidance as it offers them support in understanding the legal framework and enables them to help pension board members meet their legal obligations.

1.2 **Policy objectives**

The Scheme's objectives relating to knowledge and skills are:

- The Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise, and that the knowledge and expertise is maintained in a changing environment

- Those persons responsible for governing the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage conflicts of interest
- The Pension Fund and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund.

To assist in achieving these objectives, the Fund will aim for compliance with the CIPFA Knowledge and Skills Framework and Code of Practice and the public service code of practice issued by the Pensions Regulator (as detailed above).

1.3 **Application of the Training Policy**

The Training Policy will apply to all elected Members and representatives with a role on the Pension Committee and the Investment Sub-Committee, and Officers equal to and above the level of Technical Finance Officer of the Fund regardless of experience. (Officers below this level will have their own sectional and personal training plans and career development objectives).

The Pension Board will be responsible for establishing their own training plan and identifying their individual training needs. Board members of a funded scheme e.g. the LGPS are required to have a working knowledge of documented policies about investment governance, therefore board members will be invited to attend the Member and officer training and development sessions outlined in the 2016-17 training plan.

1.4 **Purpose of training**

Investment in training harnesses an individual's potential, focuses on what is to be achieved and provides personal development. As such the purpose of training to both Members and Officers of the Cumbria LGPS is to:

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

1.5 **Review and maintenance**

This Training Policy is expected to be appropriate for the long-term but to ensure good governance it will be formally reviewed at least annually by the Committee to ensure it remains accurate and relevant.

The Fund's Training Plans will be updated annually, taking account of the results from the Training Needs Evaluations, and on emerging issues. It will be updated with events and training opportunities as and when they become available or relevant to ongoing business or emerging issues.

Key themes for training in 2016/17 will be:-

- Developing a viable proposal on asset pooling with other “like-minded” Funds.
- Review of governance arrangements in response to financial, regulatory and structural changes resulting from the outcome of the pooling consultation.
- Investment Strategy Statement (ISS) development.
- Development of the Fund’s stewardship and corporate engagement framework.
- Training of new Officers to ensure they meet the high level of knowledge required to ensure the Fund continues to be well governed and managed.
- Keep Members abreast of developments in methodology changes during the 2016 triennial actuarial valuation.

2.0 **CIPFA Requirements**

2.1 **CIPFA Knowledge and Skills Framework**

In January 2010 CIPFA launched technical guidance for Representatives on Pension Committees and non-executives in the public sector within a knowledge and skills framework. The framework sets the skill set for those responsible for pension scheme financial management and decision making.

The Framework covers six areas of knowledge identified as the core requirements -

- Pensions legislative and governance context
- Pension Accounting and auditing standards
- Financial services procurement and relationship development
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practice

2.2 **CIPFA’s Code of Practice on Public Sector Pensions Finance, Knowledge and Skills (the “Code of Practice”)**

CIPFA’s Code of Practice recommends (amongst other things) that LGPS administering authorities -

- formally adopt the CIPFA Knowledge and Skills Framework (or an alternative training programme)
- ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

The Cumbria Pension Committee fully supports the CIPFA Code of Practice and adopts its principles.

In the context of LGPS reform, the Code and Framework are seen as meeting the requirements of the Public Sector Pensions Act 2013 and the reform agenda.

3.0 **Measurement, Assessment and Training Provision**

In order to identify training needs and assess whether we are meeting the CIPFA Framework requirements we will –

3.1 **Members:-**

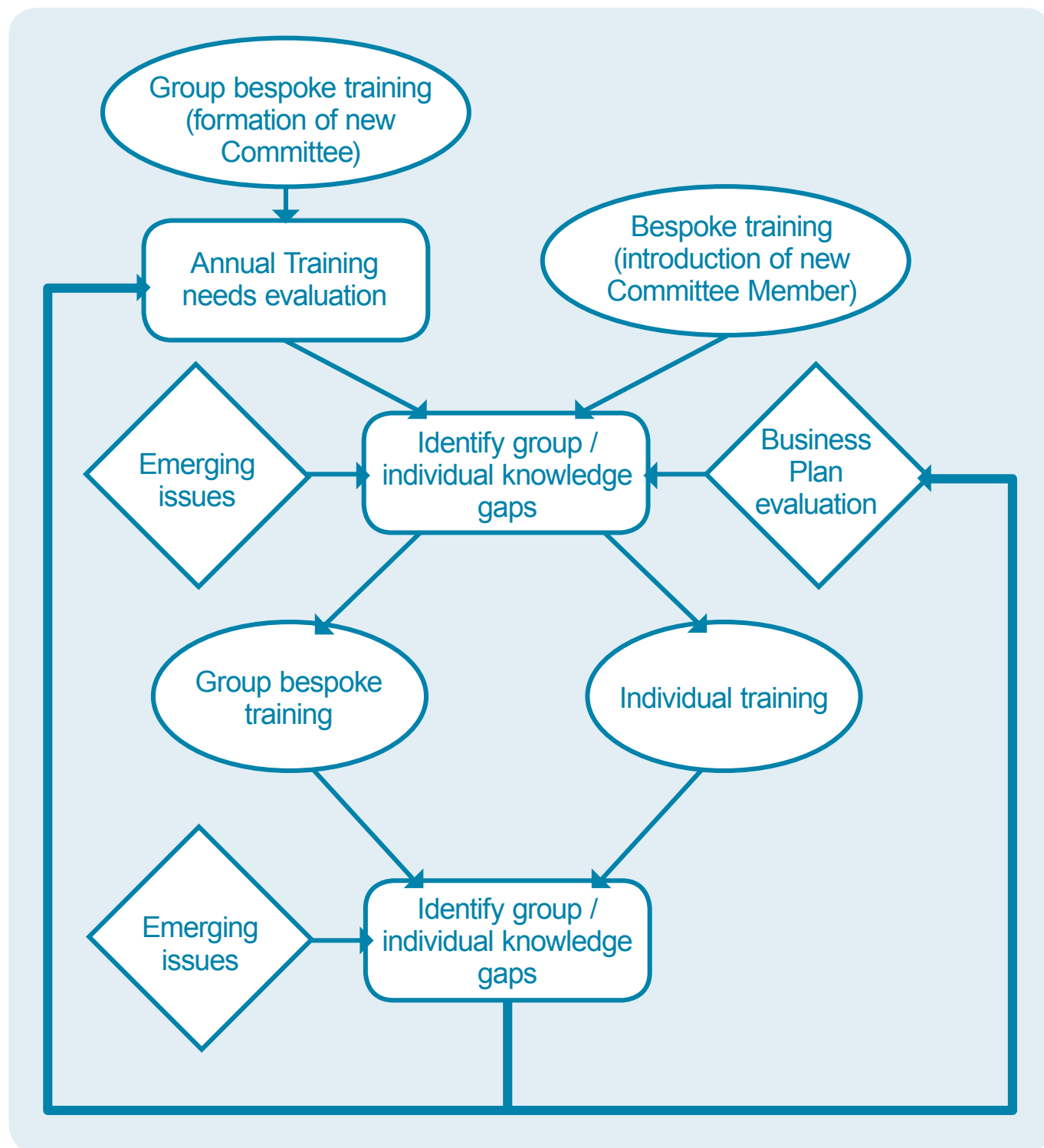
- Undertake as a Committee an annual Training Needs Evaluation exercise. This evaluation will be used to identify both individual and group training gaps.
- Substitute Members will be invited to attend this annual evaluation and training session so that they have a base grounding in the LGPS and the requirements placed on themselves as Committee members.
- Where the evaluation highlights that there is a knowledge gap the Committee will undertake either additional internal group be-spoke training or individual external training as appropriate.
- The Committee will as part of the annual Business Plan commit to an outline of internal be-spoke training. This will be focused around either up and coming national changes or internal workloads (e.g. introduction of a new asset class)
- Investment Sub-Committee Members – will be expected to obtain an individual level of knowledge and skills in relation to the investment modules of the CIPFA Framework. Support from Officers and the Fund’s Independent Advisors will be available as and when required, but always in advance of any decision being taken.
- Report as appropriate in external documentation compliance with knowledge and skills requirements e.g. progress in the Fund’s Annual Report and Accounts, and Governance Statement compliance with the CIPFA knowledge and Skills Framework and the Myners Principles.

3.2 **Officers:-**

All Cumbria LGPS officers with responsibility for administering / managing the LGPS at Principal Finance Officer level or above will be expected to aim to achieve a minimum score in the CIPFA Training Needs Assessment for LGPS Practitioners taking account of the requirements of their roles. These targets will be determined and updated as necessary from time to time in joint agreement by the Senior Manager – Pensions and Financial Services (Deputy Section 151 of the LGPS) and the Section 151 Officer, in liaison with the Chair of the Pensions Committee.

3.3 Training Provision and Evaluation Cycle

To illustrate the above mentioned process see below diagram of the annual training evaluation and programme scheduling:-



3.4 Delivery of Training

Consideration will be given to various training resources available in delivering training to Members of the Pension Committee, Investment Sub-Committee or Officers.

Evaluation will be given to the mode and content of training in order to ensure it is both targeted to needs (based on annual evaluation per paragraph 3.1 to 3.3) and ongoing requirements (per the Annual Business Plan) and emerging events. It is to be delivered in a manner that balances both demands on Members time and costs. These may include but are not restricted to –

For Pension Committee and Investment Sub-Committee Members	For Officers
<ul style="list-style-type: none"> ● In-house ● Using an Online Knowledge Library or other e-training facilities ● Attending courses, seminars and external events ● Internally developed training days and pre/post Committee sessions ● Shared training with other Fund's or Frameworks ● Regular updates from officers and/or advisers 	<ul style="list-style-type: none"> ● Desktop / work base training ● Using an Online Knowledge Library or other e-training facilities ● Attending courses, seminars and external events ● Training for qualifications from recognised professional bodies (e.g. IMC, CIPP, CIPFA, PMI) ● Internally developed sessions ● Shared training with other Fund's or Frameworks

3.5 External Events

Members All relevant external events will be e-mailed to Members as and when they become available. Officers will maintain a log of all events attended for compliance with reporting and monitoring requirements.

After attendance at an external event, Committee Members will be asked to provide verbal feedback at the next Committee covering the following points –

- Their view on the value of the event and the merit, if any, of attendance
- A summary of the key learning points gained from attending the event, and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to all Committee Members or Investment Sub-Committee Members.

Officers attending external events will be expected to report to their direct line manager with feedback covering the following points –

- Their view on value of the event and the merit, if any, of attendance
- A summary of the key learning points gained from attending the event, and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to other officers.

Officers attending events will also be expected to provide knowledge sharing with the wider Pensions team at the team meeting following event attendance.

3.6 Training Plan (per the Business Plan agreed at Committee March 2016)

The draft timetable overleaf provides a proposed training programme. It has been prepared by taking account of up and coming national legislative / policy changes such as the Consultation on Pooling, ongoing work specific to LGPS and knowledge gaps identified from the training needs assessment questionnaires which Members returned in January 2016. In addition other items on topical or emerging issues may be debated as appropriate, and the draft will change depending upon emerging issues.

Date	Planned Training
14th & 15th June 2016 – Quarterly Pension Committee in Edinburgh	Training & Development 2016 Actuarial Valuation DCLG session on Pooling Review of Governance Structures post pooling Custody arrangements & Structured Vehicles post pooling Considerations of passive management post pooling Property & pooling considerations
16th September 2016 – Quarterly Pension Committee in Carlisle	Training & Development Pooling Administration Review SIP to ISS Update Corporate Governance Review
TBC November 2016 – Annual Pension Forum in Penrith	Training & Development 2016 Actuarial Valuation Pooling
8th December 2016 – Quarterly Pension Committee in Carlisle	Training & Development Pooling Budget & Business Plan 2016/17 Review Training Policy & Plan 2016/17 Review 2016 Actuarial Valuation & cash flow
Dec 2016 to Jan 2017	Annual Training Needs Evaluation Compile Training Needs Evaluation Questionnaires, evaluate training needs and update the Annual Training Plan focusing on areas where any identified knowledge gaps are emerging.
7th March 2017 – Quarterly Pension Committee	Training & Development To be finalised following review of emerging issues and results following 2016/17 training needs evaluation.



12.2 Discretions

All employers within the Fund are required by regulations to formulate, publish and keep under review a policy statement in relation to the exercise of a number of discretionary functions under the LGPS Regulations 2013 (as amended). These discretionary functions relate to:

- funding of additional pension (16(2)(e)) & (16(4)(d));
- flexible retirement (30(6));
- waiving of actuarial reduction (30(8)); and
- award of additional pension (31).

Following the introduction of the 2014 Scheme, CLGPS updated the Administration Authority discretions policy. Additionally each employer within the LGPS was required to review and update their individual employer discretions policy and submit these to the Administration Authority. As at March 2016 the Fund was awaiting policies from 44 employers, (including 24 academies) which it is actively chasing.

For details of Cumbria LGPS's Discretions Policy see section 12.2.1 of this report.

12.2.1 Discretions Policy

Cumbria County Council as administering authority of Cumbria Local Government Pension Scheme has the power to make certain discretions to assist in the management of the fund. These will be applied

across the whole Cumbria Fund for all employers and members. The Discretions Policy was approved by the Cumbria Pensions Committee held on 13/14 March 2014 and amendments approved by the Cumbria Pension Committee held on 6 June 2014.

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

Discretions from 01.04.14 in relation to post 31.03.14 active members (excluding councillor members) and post 31.03.14 leavers (excluding councillor members), being discretions under:

- the Local Government Pension Scheme Regulations 2013 [prefix R]
- the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [prefix TP]
- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
Whether to issue actuarial guidance to administering authorities	R2(3)	Exercised by the Secretary of State
Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or Care Quality Commission	R4(2)(b)	Depending on circumstances, and only in accordance with the published Fund Admission Policy
Whether to agree to an admission agreement with a body applying to be an admission body	R5(5) & RSch 2, Part 3, para 1	Depending on circumstances, and only in accordance with the published Fund Admission Policy
Whether to approve / withdraw approval of an admission body providing a public service in the UK and the conditions for such approval / withdrawal	RSch 2, Part 3, paras 1(e) and 2	Exercised by the Secretary of State
Whether to terminate a transferee admission agreement in the event of <ul style="list-style-type: none"> - insolvency, winding up or liquidation of the body - breach by that body of its obligations under the admission agreement - failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so 	RSch 2, Part 3, para 9(d)	Yes as stated in termination policy. However in exceptional circumstances this may be varied
Define what is meant by "employed in connection with"	RSch 2, Part 3, para 12(a)	After taking guidance from the transferor employer, and in accordance with the Fund Admission Policy

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment)	R16(1)	To turn down request where the monthly payment is below £20, or in the absence of a satisfactory medical report
Whether to require a satisfactory medical before agreeing to an application to pay an APC / SCAPC and whether to turn down an application to pay an APC/ SCAPC if not satisfied that the member is in reasonably good health	R16(10)	Application from an employee wishing to spread the cost will only be accepted if accompanied by a medical report provided by a registered medical practitioner stating that the employee is in reasonably good health. The employee must meet the cost of obtaining such a report
Whether to charge member for provision of estimate of additional pension that would be provided by the Fund in return for transfer of in house AVC/SCAVC funds (where AVC/SCAVC arrangement was entered into before 01/04/14)	TP15(1)(d) & A28(2)	Not to charge for work performed associated with the calculation of the membership credit for Additional Voluntary Contributions transfer into the Fund
Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member	R17(12)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances
Pension account may be kept in such form as is considered appropriate	R22(3)(c)	To maintain pension accounts in accordance with the approved administration policy
Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment)	TP10(9)	In the absence of an election from the member the Administering Authority will make the final decision
Whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement	R30(8)*	Not to waive actuarial reductions on flexible retirement
Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age	R30(8)*	Not to waive actuarial reductions on benefits drawn voluntarily
Whether to require any strain on Fund costs to be paid "up front" by employing authority following payment of benefits under R30(6) (flexible retirement), R30(7) (redundancy / business efficiency), or the waiver (in whole or in part) under R30(8) of any actuarial reduction that would otherwise have been applied to benefits which a member voluntarily draws before normal pension age or to benefits drawn on flexible retirement	R68(2)	The strain on Fund costs to be paid up front following redundancy, flexible retirement, or waiver of any actuarial reduction on flexible retirement unless the Fund Actuary advises otherwise
Whether, in respect of benefits from pre 01/04/14 membership, to "switch on" the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60 (subject to a minimum actuarial reduction to the date the member meets the 85 year rule or to age 60, whichever is the later)	TPSch 2, para 2(2)*	Not to waive actuarial reductions or "switch on" the 85 year rule on benefits drawn voluntarily

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
Whether to waive, on compassionate grounds, the actuarial reduction applied to benefits from pre 01/04/14 membership where the employer has “switched-on” the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60	TPSch 2, para 2(3)*	Not to waive actuarial reduction on compassionate grounds
Whether to require any strain on Fund costs to be paid “up front” by employing authority following waiver of actuarial reduction under TPSch 2, para 2(3)	TPSch 2, para 2(5)	The strain on Fund costs to be paid up front following redundancy, flexible retirement, or waiver of any actuarial reduction on flexible retirement unless the Fund Actuary advises otherwise
Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement	R32(7)	Not to extend the time limit unless there are exceptional circumstances
Decide whether to commute small pension	R34(1)	Do this at the members request
Approve medical advisors used by employers (for ill health benefits)	R36(3)	Delegated to Employer
Whether to use a certificate produced by an IRMP under the 2008 Scheme for the purposes of making an ill health determination under the 2014 Scheme	TP12(6)	To adopt this discretion
Decide whether deferred beneficiary meets criteria of being permanently incapable of former job because of ill health and is unlikely to be capable of undertaking gainful employment before normal pension age or for at least three years, whichever is the sooner	R38(3)	To take the advice of the Fund IRMP, before any decision is made
Decide whether a suspended ill health tier 3 member is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health	R38(6)	To take the advice of the Fund IRMP, before any decision is made
Decide to whom death grant is paid	TP17(5) to (8) & R40(2), R43(2) & R46(2)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances
Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	R49(1)(c)	Always pay the highest benefit to a member of the fund
Whether to set up a separate admission agreement fund	R54(1)	Not to set up a separate admission agreement fund
Determine assets to be transferred from main fund to admission agreement fund	R54(4)(b)	Not applicable

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
<p>Governance policy must state whether the admin authority delegates their function or part of their function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the admin authority and, if they do so delegate, state</p> <ul style="list-style-type: none"> - the frequency of any committee or sub-committee meetings - the terms, structure and operational procedures appertaining to the delegation - whether representatives of employing authorities or members are included and, if so, whether they have voting rights <p>The policy must also state</p> <ul style="list-style-type: none"> - the extent to which a delegation, or the absence of a delegation, complies with Sec of State guidance and, to the extent it does not so comply, state the reasons for not complying, and - the terms, structure and operational procedures appertaining to the local Pensions Board 		
Decide on Funding Strategy for inclusion in funding strategy statement	R58*	This was approved by the Pensions Committee at the meeting held on the 13/14 March 2014
Whether to have a written pensions administration strategy and, if so, the matters it should include	R59(1) & (2)	An administration strategy has been set out in the Governance Policy Statement
Communication policy must set out the policy on provision of information and publicity to, and communicating with, members, representatives of members, prospective members and Fund employers; the format, frequency and method of communications; and the promotion of the Scheme to prospective members and their employers	R61*	A communications policy has been set out in the Governance Policy Statement
Whether to extend valuation report and certificate deadline	R62(2)	Exercised by the Secretary of State
Decide assumptions to be used in making a "cost sharing" valuation under R63	R63(5)	Exercised by the Secretary of State
Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Fund employer will become an exiting employer	R64(4)	Only do this if advised to do so by the fund actuary
Decide whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Benefits Regulations as part of the "cost sharing" under R63	R65	Only do this if advised to do so by the fund actuary
Decide frequency of payments to be made over to Fund by employers and whether to make an admin charge	R69(1)	The due date for employer contributions is the 19th of the month following the month to which they refer. Where invoices are issued for any payments the due date is one month from date of invoice. Administration charges are covered by the employer contribution rates
Decide form and frequency of information to accompany payments to the Fund	R69(4)	Remittance advices required for all payments to the Fund

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance	R70 & TP22(2)	Issue such a notice following advice by the fund actuary
Whether to charge interest on payments by employers which are overdue	R71(1)	The interest charge will be calculated in accordance with statutory requirements i.e. Base rate plus 1%
Whether to extend six month period to lodge a stage one IDRPs appeal	R74(4)	Adjudicator making stage one IDRPs decision
Decide procedure to be followed by adjudicator when exercising stage one IDRPs functions and decide the manner in which those functions are to be exercised	R74(6)	Procedure laid down
Decide procedure to be followed by admin authority when exercising its stage two IDRPs functions and decide the manner in which those functions are to be exercised	R76(4)	Procedure laid down
Whether admin. authority should appeal against employer decision (or lack of a decision)	R79(2)	Will decide this depending on the particular circumstances
Whether to extend six month period for admin. authority to lodge an appeal against an employer decision	R79(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable admin. authority to discharge its functions	R80(1)(b) & TP22(1)	Employers to supply information in accordance with the approved administration policy
Whether to pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less than amount specified in s6 of the Administration of Estates (Small Payments) Act 1965	R82(2)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances
Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit	R83	Would normally require power of attorney, but each case will be individually determined.
Date to which benefits shown on annual benefit statement are calculated	R89(5)	Benefits to be based as at 31 March
Whether to issue a forfeiture certificate	R91(1)	Exercised by the Secretary of State
Agree to bulk transfer payment	R98(1)(b)	Take the advice of the Fund Actuary
Agree set aside of bulk transfer assets / cash and acquisition of rights in new scheme	R98(4)(a)	Fund actuary / new Fund Actuary
Determine amount of, and adjustments to, bulk transfer payment	R99(1) & (2)	On the advice of the Fund Actuary
Determine who should bear bulk transfer actuarial costs (where more than one employing authority is involved in the transfer)	R99(5)	On the advice of the Fund Actuary
Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS	R100(68)	Not to extend the normal time limit unless there are exceptional circumstances
Allow transfer of pension rights into the Fund	R100(7)	Allow following advice from the Fund Actuary
Agree bulk inter fund adjustment terms (where 10 or more members affected by a single event)	R103(3)	As determined by the Actuaries for both Funds

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
Where member to whom B10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member	TP3(6), TP4(6)(c), TP8(4), TP10(2)(a), TP17(2)(b) & B10(2)	Always pay the highest benefit to a member of the Fund
Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 01.04.08.)	TP3(6), TP4(6)(c), TP8(4), TP10(2)(a), TP17(2)(b) & TSch 1 & L23(9)	Always pay the highest benefit to or on behalf of a member of the Fund
Decide to treat child as being in continuous education or vocational training despite a break	RSch 1 & TP17(9)	Adopt this discretion
Decide evidence required to determine financial dependence of cohabiting partner on fund member or financial interdependence of cohabiting partner and fund member	RSch 1 & TP17(9)(b)	Rely on the nomination form, or require evidence of co-habitation and financial interdependence
Decide appropriate Fund if employer applies to be moved to a different Fund	RSch 3, Part 2, para 3	Exercised by the Secretary of State
Decide policy on abatement of pre 1 April 2014 element of pensions in payment following re-employment	TP3(13) & A70(1)* & A71(4)(c)	To abate pensions following re-employment in accordance with the abatement policy approved by Pensions committee on 24 September 2012
Extend time period for capitalisation of added years contract	TP15(1)(c) & TSch1 & L83(5)	Not to extend time period

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

Discretions in relation to scheme members (excluding councillor members) who ceased active membership on or after 01.04.08 and before 01.04.14, being discretions under:

- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [prefix TP]
- the Local Government Pension Scheme Regulations 2013 [prefix R]
- the Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
Whether to charge member for provision of estimate of additional pension that would be provided by the Fund in return for transfer of in house AVC/SCAVC funds	A28(2)	Not to charge for work performed associated with the calculation of the membership credit for Additional Voluntary Contributions transfer into the Fund
Extend time period for capitalisation of added years contract	TSch1 & L83(5)	Not to extend time period
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	A45(3)	To adopt this
Can pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration	A52(2)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances
Approve medical advisors used by employers (for early payment, on grounds of ill health, of a deferred benefit or a suspended Tier 3 ill health pension)	A56(2)	Delegated to employer
Whether to extend six month period to lodge a stage one IDRPs appeal	A58(7)(b)	Person making stage one IDRPs decision
Decide procedure to be followed by admin authority when exercising its stage two IDRPs functions and decide the manner in which those functions are to be exercised	A60(8)	Procedure laid down
Whether admin. authority should appeal against employer decision (or lack of a decision)	A63(2)	Will decide this depending on the particular circumstances
Whether to extend six month period for admin. authority to lodge an appeal against an employer decision	A63(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable admin. authority to discharge its functions	A64(1)(b)	Information to be supplied in accordance with the approved administration policy
Decide policy on abatement of pensions following re-employment	TP3(13) & A70(1)* & A71(4)(c) & T12	To abate pensions following re-employment in accordance with the abatement policy approved by Pensions committee on 24 September 2012
Whether to issue a forfeiture certificate	A72(1)	Exercised by the Secretary of State
Where member to whom B10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member	B10(2)	Always pay the highest benefit to a member of the fund
Whether to pay the whole or part of a child's pension to another person for the benefit of that child	B27(5)	Yes, depending on individual circumstances
Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit	A52A	Would normally require power of attorney, but each case will be individually determined
Whether to grant application for early payment of deferred benefits on or after age 55 and before age 60	B30(2)*	Only to grant application where there is no cost to the Fund

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
Whether to waive, on compassionate grounds, the actuarial reduction applied to deferred benefits paid early under B30	B30(5)*	Not to waive actuarial reduction on compassionate grounds
Whether to grant an application for early payment of a suspended tier 3 ill health pension on or after age 55 and before age 60	B30A(3)*	To take the advice of the Fund IRMP, before any decision is made
Whether to waive, on compassionate grounds, the actuarial reduction applied to benefits paid early under B30A	B30A(5)*	Not to waive actuarial reduction on compassionate grounds
Decide whether deferred beneficiary meets permanent ill health and reduced likelihood of gainful employment criteria	B31(4)	To take the advice of the Fund IRMP, before any decision is made
Decide whether a suspended ill health tier 3 member is permanently incapable of undertaking any gainful employment	B31(7)	To take the advice of the Fund IRMP, before any decision is made
Decide to whom death grant is paid	B23(2) & B32(2) & B35(2) & TSch1 & L155(4)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances
Decide evidence required to determine financial dependence of co-habitee on fund member or financial interdependence of co-habitee and fund member	B25	Rely on the nomination form, or require evidence of co-habitation and financial interdependence
Decide to treat child as being in continuous education or vocational training despite a break	RSch1 & TP 17(9)	Adopt this discretion
Decide whether to commute small pension	B39 & T14(3)	To do so at the member's request
Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	B42(1)(c)	Always pay the highest benefit to a member of the fund
Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 01.04.08.)	TSch 1 & L23(9)	Always pay the highest benefit to or on behalf of a member of the fund

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

Discretions under the Local Government Pension Scheme Regulations 1997 (as amended) in relation to:

- a) active councillor members, and
- b) councillor members who ceased active membership on or after 01.04.98, and
- c) any other fund members who ceased active membership on or after 01.04.98 and before 01.04.08.

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
Frequency of payment of councillors' contributions	12(5)	Determined that councillors are not eligible for membership of the CLGPS
Make election on behalf of deceased non-councillor member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 01.04.08.)	23(9)	Always pay the highest benefit to or on behalf of a member of the fund
Decide to whom death grant is paid in respect of post 31.03.98. / pre 01.04.08. leavers	38(1) & 155(4)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances.
Decide to treat child as being in continuous education or vocational training despite a break (children of post 31.03.98. / pre 01.04.08. leavers)	Reg 17(9) of the LGPS (Transitional Provisions and Savings) Regs 2014 and definition in Sch 1 of the LGPS Regulations 2013	Adopt this discretion
Apportionment of children's pension amongst eligible children (children of post 31.03.98. / pre 01.04.08. leavers)	47(1)	Adopt this discretion
Pay child's pension to another person for the benefit of the child (children of post 31.03.98. / pre 01.04.08. leavers)	47(2)	Yes, depending on individual circumstances
Agree to commutation of small pension (pre 01.04.08. leavers or pre 01.04.08. Pension Credit members)	49 & 156	To do this at member's request
Commute benefits due to exceptional ill-health (pre 01.04.08. leavers and pre 01.04.08. Pension Credit members)	50 and 157	Adopt this discretion
Whether to require any strain on Fund costs to be paid "up front" by employing authority following early payment of a deferred benefit on health grounds or from age 50 with employer consent (pre 01.04.08. leavers) – (see Note below)	80(5)	The strain on Fund costs to be paid up front following redundancy, flexible retirement, or waiver of any actuarial reduction on flexible retirement unless the Fund Actuary advises otherwise.
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits (pre 01.04.08. leavers)	89(3)	Adopt this discretion
Timing of pension increase payments by employers to fund (pre 01.04.08. leavers).	91(6)	Pension increase payments will be invoiced quarterly or annually dependant on circumstances.
Pay death grant due to personal representatives without need for grant of probate / letters of administration (death of pre 01.04.08. leaver)	95	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances.
Approve medical advisors used by employers (re ill health benefits for pre 01.04.08. preserved benefits payable on health grounds)	97(10)	Delegated to the employer

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
Decide procedure to be followed by admin authority when exercising its IDRPs functions and decide the manner in which those functions are to be exercised (pre 01.04.08. leavers)	99	Procedure laid down
Appeal against employer decision, or lack of a decision (pre 01.04.08. leavers)	105(1)	Will decide this depending on the particular circumstances
Extend appeal period under reg 105	105(2)	Exercised by the Secretary of State
Date to which benefits shown on annual deferred benefit statement are calculated	106A(5)	Benefits to be based as at 31 March.
Abatement of pensions following re-employment (pre 01.04.08. leavers)	109* & 110(4)(b)	To abate pensions following re-employment in accordance with the abatement policy approved by Pensions committee on 24 September 2012.
Discharge Pension Credit liability (in respect of Pension Sharing Orders for pre 01.04.08. Pension Sharing Orders for non-councillor members)	147	Depending on individual circumstances

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

Discretions under the Local Government Pension Scheme Regulations 1995 (as amended) in relation to fund members who ceased active membership before 01.04.98

Discretion	Regulation	Discretion made by Cumbria County Council as administering authority
Decide to whom death grant is paid in respect of pre 01.04.98 retirees / pre 01.04.98 deferreds	E8	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances.
Whether to pay spouse's pensions for life for pre 01.04.98 retirees / pre 01.04.98 deferreds who die on or after 01.04.98 (rather than ceasing during any period of remarriage or co-habitation)	F7	To adopt this discretion
Decide to treat child as being in continuous education or vocational training despite a break (children of pre 01.04.98 retirees / pre 01.04.98 deferreds)	Reg 17(9) of the LGPS (Transitional Provisions and Savings) Regs 2014 and definition in Sch 1 of the LGPS Regulations 2013	Adopt this discretion
Apportionment of children's pension amongst eligible children (children of pre 01.04.98 retirees / pre 01.04.98 deferreds)	G11(1)	Adopt this discretion
Pay child's pension to another person for the benefit of the child (children of pre 01.04.98 retirees / pre 01.04.98 deferreds)	G11(2)	Yes, depending on individual circumstances

12.3 Admission & Termination Policy

This document details the Scheme's policy on:

- Admissions into the Fund;
- The methodology for assessment of a termination payment on the cessation of an Admission Body's participation in the Fund; and
- Considerations for current admission bodies.

The Admissions and Termination Policy was approved by the Cumbria Pensions Committee held on 27 November 2012 and has been updated to reflect the Local Government Pension Scheme Regulations 2013.

Where this document refers to Cumbria County Council ("Cumbria"), then this shall mean Cumbria in carrying out its function as the Administering Authority of the Scheme.

Where this document refers to a Participating Employer, it shall mean a Fund employer under either Part 1 or Part 2 of Schedule 2 of the Local Government Pension Scheme Regulations 2013 ("Regulations"), a transferee admission body, or a community admission body.

A – Admissions Policy

1 Background

1.1 Admission bodies

Admission bodies are a specific type of employer under the Regulations that govern the Scheme. They do not automatically qualify for admission and must instead satisfy certain criteria as set out in the Regulations. They also need a written Admission Agreement to be admitted and participate in the Scheme.

Cumbria may enter into an Admission Agreement with any Admission Body that satisfies the criteria under the Regulations. An Admission Agreement will enable all (or any specified class) of the Admission Body's employees to be members of the Fund and participate in the Scheme.

Any application for admitted body status must be submitted to Cumbria in good time to enable actuarial information to be obtained and the legalities associated with admission to be dealt with. Applications should preferably be submitted at least six months before the proposed transfer or admission date.

Admission Bodies are divided into two basic types under the Regulations:-

- (a) community admission bodies; and
- (b) transferee admission bodies.

1.1.1 Community Admission Bodies

These are the traditional type of admission bodies. They are bodies that usually operate in and/or are connected to local government.

The following are community admission bodies:

- (a) a body which provides a public service in the United Kingdom otherwise than for the purposes of gain and which:
 - has sufficient links with a Fund employer for the body and the Fund employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Fund employer or otherwise), or
- (b) a body, other than the governors or managers of a voluntary school, to the funds of which a Fund employer contributes;
- (c) a body representative of:
 - (i) Any Fund employers; or
 - (ii) local authorities or officers of local authorities;
- (d) a company for the time being subject to the influence of a local authority (within the meaning of section 69 of the Local Government and Housing Act 1989 (companies subject to local authority influence)); and
- (e) a company for the time being subject to the influence of a body listed in Part 1 of Schedule 2 of the Regulations (other than a local authority). For the purpose of determining whether a company is subject to the influence of a body as mentioned in this paragraph, section 69 of the Local Government and Housing Act 1989 shall have effect as if references in that section to a local authority were references to the body.

1.1.2 Transferee Admission Bodies

The Regulations also allow private contractors to be admitted into the Scheme subject to them meeting certain criteria. This type of Admission Body is known as a transferee admission body.

The following are transferee admission bodies:

- (a) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Fund employer as a result of:
 - (a) the transfer of the service or assets by means of a contract or other arrangement;
 - (b) a direction made under section 15 of the Local Government Act 1999 (20) (Secretary of State's powers); or
 - (c) directions made under section 497A of the Education Act 1996 (21) (directions imposed on a failing LEA); and
- (b) a body which provides a public service in the UK and which is approved in writing by the Secretary of State for the purpose of admission to the Scheme. Approval may be subject to such conditions as the Secretary of State thinks fit and he may withdraw approval at any time if such conditions are not met.

1.2 Fund Employers

Scheme Employers can be divided into two types under the Regulations:

- (a) those employers listed in Part 1 of Schedule 2 of the Regulations; and
- (b) those employers listed in Part 2 of Schedule 2 of the Regulations.

1.2.1. Fund Employers listed under Part 1 of Schedule 2 of the Regulations include (but are not limited to):

- county councils;
- district councils;
- London borough councils;
- a fire and rescue authority within the meaning of the Fire and Rescue Services Act 2004;
- a police and Crime Commissioner;
- a Chief Constable within the meaning of Section 2 of the Police Reform and Social Responsibility Act 2011;
- the Environment Agency;
- a National Park Authority established under Part 3 of the Environment Act 1995
- an academy;
- a further education corporation, a sixth form college corporation or higher education corporation within the meaning of section 90 of the Further and Higher Education Act 1992.

Employees of the above Fund employers will automatically be admitted into the Scheme, provided that they are not prevented from eligibility by virtue of Regulation 4.

1.2.2. Fund employers listed under Part 2 of Schedule 2 of the Regulations include (but are not limited to):

- a passenger transport executive;
- a company “under the control” of a body listed in Part 1 of Schedule 2 (which would include a subsidiary); and
- an urban development corporation.

Employees of the above Fund employers will only be admitted to the Scheme if he, or a class of employee to which he belongs is designated by the body as being eligible for membership of the Scheme.

2 Policy Statement

2.1 Admission Bodies

2.1.1 Community Admission Bodies

In addition to the requirements under the Regulations, the following principles will be adopted in relation to community admission bodies:

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

(a) applications will be considered if all the conditions of participation set out in the appendix are met and:

- (i) the body exists as a result of being specifically set up by a local authority(s); and
- (ii) the body falls into the category of “community” admission highlighted within section 1 and does not have any of the disqualifying criteria set out below.

(b) applications will not be approved if:

- (i) the application falls into the “community” admission category and the body has one or more of the following disqualifying criteria attached to it:
 - the body does not meet the conditions of participation detailed at the appendix; or
 - the provisions in respect of risk assessments as set out at paragraph 2.1.3 are not complied with; or
 - there is a known limited lifespan or fixed contract term of admission to the Fund; or
 - there is uncertainty over the security of the organisations funding sources e.g. the body is reliant on voluntary or charitable sources of income or has no external funding guarantee/ reserves.

2.1.2 Transferee Admission Bodies

In addition to the requirements under the Regulations, the following principles will be adopted in relation to transferee admission bodies:

(a) applications will be approved if:

- (i) all the conditions of participation set out in the appendix are met; and
- (ii) the body falls into the category of “transferee admission body” highlighted in section 1 and does not have any of the disqualifying criteria set out below;

(b) applications will not be approved if:

- (i) the application falls into the “transferee” admission category; and
- (ii) the body has one or more of the following disqualifying criteria attached to it:
 - the body does not meet the conditions of participation detailed at the appendix; or
 - the provisions in respect of risk assessments as set out in paragraph 2.1.3 have not been complied with; or
 - the transferring Fund employer is a participating employer within another LGPS Fund;

- (c) the deficit recovery periods for all Admission Bodies will normally be determined against the policy set out in the Funding Strategy Statement. However, Cumbria reserves the right to determine that an employer specific deficit recovery period will apply and that arrangements for admission agreement funds may be introduced, if deemed appropriate; and
- (d) the transferee admission body will need to enter into a separate Admission Agreement in respect of each contract.

2.1.3 Risk Assessments

Cumbria will expect each community admission body and transferee admission body (together “Admission Body”) to carry out an assessment of risk arising on premature termination of the provision of assets and services by the Admission Body to the satisfaction of Cumbria. In determining whether the assessment is satisfactory, Cumbria will take advice from its own actuary.

Where the level of risk is, in the opinion of Cumbria, such as to require it, then Cumbria will require the Admission Body to enter into an indemnity or bond. In certain circumstances Cumbria may determine that the level of risk is such that it is not desirable for the Admission Body to enter into an indemnity or bond, and instead a guarantee would be acceptable. In these circumstances, the Admission Body must secure a guarantee which is acceptable to Cumbria from either:

- (a) a person who funds the Admission Body in whole or part;
- (b) a person who owns or controls the exercise of the functions of the Admission Body; or
- (c) the Secretary of State in the case of an Admission Body which is established under any enactment providing that enactment enables the Secretary of State to make financial provision for that Admission Body.

The factors Cumbria will use to establish whether a guarantee would be an acceptable alternative are:

- (a) the likelihood of premature termination occurring in respect of that Admission Body;
- (b) the accountability of any Fund employer in respect of that Admission Body;
- (c) whether if premature termination did occur the liabilities of the Admission Body would be assumed by other employers in the Fund, or would be contained by other employers in that Admission Body's group;
- (d) any assessment commissioned by the Admission Body on which Cumbria can rely to determine whether the guarantor is suitable; and
- (e) advice from its solicitors as to whether the wording of the guarantee is acceptable.

In determining the acceptability as to the level of risk, Cumbria will be mindful of its core principle which is that each Admission Body is accountable for its own costs on premature termination and any costs associated with that should not become the liability of third party bodies who participate in the Fund.

2.1.4 Decisions Regarding Admissions

Decisions regarding transferee and community admissions will be delegated to the Section 151 Officer.

2.2 Fund Employers

The principle that Cumbria wishes to pursue is that of responsibility by each employer under the Fund for the liabilities of its employees or former employees who have liabilities under the Fund.

In this regard, Cumbria may:

- make an initial assessment of the financial standing of the new Fund employer, to determine its ability to support the funding requirements under the Fund;
- taking into account any such assessment, Cumbria may seek any one or more of the following:
 - terms of agreement with the new Fund, including:
 - a guarantee/indemnity from another Fund employer;
 - agreement that another Fund employer will assume the orphan liabilities relating to the new Fund employer; either in whole or in part;
 - further information on the employees transferring to them, financial standing/plans and relationship with previous Fund employer;
 - a revised rates and adjustment certificate for the new Fund employer to take into account the financial risk of failure.

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

B – Termination Policy

1. Background

When an Admission Agreement comes to its end (including where the body ceases to have any active members), or is prematurely terminated for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members.

In the event that unfunded liabilities arise that cannot be recovered from the Admission Body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a bond/indemnity, guarantor or successor body within the Fund.

2. Policy Statement

2.1. Admission Bodies

A termination assessment will always be carried out for “outgoing” Participating Employers in accordance with Regulation 64 of the Regulations. The actuarial cost of this will be charged to the outgoing Participating Employer, together with any other related costs of the termination.

Treatment of assets and liabilities at termination will be as follows:

(a) Community Admission Bodies

If potential liabilities are covered by an indemnity or bond, then the amount of those liabilities will be recovered from the indemnity or bond and/or the outgoing Admission Body.

Where a guarantor/indemnity is in place all assets, liabilities and any funding deficit (not recovered from the outgoing Admission Body) will either be paid by the guarantor or subsumed by that guarantor assuming that they are also a Fund employer within the Fund.

If there are surpluses at termination which cannot be refunded to the outgoing body then these will be subsumed by the Fund.

(b) Transferee Admission Bodies

If potential liabilities are covered by an indemnity or bond, then the amount of those liabilities will be recovered from the indemnity or bond and/or the outgoing Admission Body.

Where a guarantor/indemnity is in place all assets, liabilities and any funding deficit (not recovered from the outgoing Admission Body) will either be paid by the guarantor or subsumed by that guarantor assuming that they are also a Fund employer within the Fund.

On termination of a transferee admission body, any orphan liabilities and the related assets in the Fund will be subsumed by the relevant Fund employer.

(c) Older Admissions prior to 31 August 2010

In the case of older admissions not covered under transferee or community arrangements above, where there is no guarantor or bond in place, following the termination assessment any outstanding liabilities will be recovered from the outgoing body. Where this is not possible then this liability will be subsumed by the Fund as a whole, unless the Regulations permit Cumbria to pursue recovery from the previous Fund employer, in which Cumbria will have discretion to follow these options.

Any surplus identified will likewise be subsumed by the Fund.

(d) Funding basis for termination calculations

The Fund policy is that a termination assessment will be made based on a least risk funding basis, unless a successor body exists which takes over the Admission Body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the admitted body's liabilities may become “orphan liabilities” within the Fund, and there will be no recourse to the Admission Body if a shortfall emerges in the future (after the admission has terminated).

If, instead, the Admission Body has a guarantor within the Fund or a successor body exists to take over the Admission Body's liabilities the Fund policy is that the valuation funding basis will be used for the termination assessment. In the case of admissions prior to 31 August 2010 where the employer is in danger of insolvency the Section 151 Officer may use their discretion to use the valuation basis and/or allow the deficit to be paid by instalments.

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

(e) Notification of Termination

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

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

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

2.2. **Scheme Employers**

As has been mentioned, the principle that Cumbria wishes to pursue is that of responsibility by each employer under the Fund for the liabilities of its employees or former employees who have liabilities under the Fund.

A termination assessment will always be carried out for “outgoing” Fund employers in accordance with Regulation 64 of the Regulations. The actuarial cost of this will be charged to the outgoing Fund employer, together with any other related costs of the termination.

Cumbria recognises that on admission a guarantee and/or indemnity may not have been provided and therefore different approaches will be needed depending on this issue.

Where contractual comfort has been obtained on entry in to the Fund, Cumbria can adopt a more relaxed approach in that:

- if a previous Fund employer has agreed to subsume any orphan liabilities in relation to the outgoing Fund employers, arrangements can be agreed in relation to the rates and adjustment certificate applicable to the Fund employer and/or any deficit on termination; or
- if a previous Fund employer has agreed to pay any deficit payment on exit, the terms upon which the deficit has to be paid.

Where contractual comfort has not been obtained on entry into the Fund, Cumbria will be required to:

- monitor carefully the financial standing of the Fund employer and seek where considered necessary an alteration to the rates and adjustment certificate to take this assessment into account; and
- seek recovery of any deficit calculated on exit from the Fund, and if unsuccessful apply pressure to former Fund employers.

Admission & Termination Policy

Appendix

Conditions of Participation

1 Payments

1.1 The Admission Body shall pay to Cumbria for credit to the Scheme such contributions and payments as are due under the Regulations in respect of those employees who are eligible to participate in the Scheme.

1.2 The Admission Body shall pay to Cumbria for credit to the Scheme the employee and employer pension contributions on a monthly basis in arrears. The payment must be paid to Cumbria within 19 calendar days of the end of each month in which the pension contributions have been deducted.

1.3 The employer contribution rate required to be paid by the Admission Body will be assessed by an actuary appointed by Cumbria.

1.4 The Admission Body shall pay to Cumbria for credit to the Scheme any additional or revised contributions due as result of additional membership or pension being awarded or as a result of outstanding liabilities due should the admission agreement terminate. Payment will be due within 30 calendar days of receipt of a written request from Cumbria.

1.5 Any employees' Additional Voluntary Contributions (“**AVC's**”) or Shared Cost Additional Voluntary Contributions (“**SCAVC's**”) are to be paid direct to such AVC body and/or AVC insurance company selected by Cumbria. Contributions shall be paid within 19 calendar days of the end of each month in which the contributions have been deducted.

1.6 Where the Admission Body certifies that:

- 1.6.1 an eligible employee is retiring by reason of redundancy or in the interests of efficiency; or
- 1.6.2 an eligible employee is voluntarily retiring with the Admission Body's consent before age 60; or
- 1.6.3 the deferred benefit of an eligible employee is brought into payment with the Admission Body's consent either (i) on or after age 55 and before age 60 where they were a member of the LGPS on or before 31st March 2008; or (ii) on or after age 55 and before age 65 where they became a member on or after 1st April 2008; and immediate benefits are payable under the Regulations the Admission Body shall pay to Cumbria for credit to the Scheme the sum notified to them in writing by Cumbria as representing the actuarial strain on the Scheme resulting from the immediate payment of benefits. Such sum to be paid within 30 calendar days of receipt of the written notification.

1.7 The Admission Body shall indemnify Cumbria against any financial penalty and associated costs and expenses incurred by Cumbria or by the

Scheme arising from any failure by the Admission Body to comply with the terms of the Admission Agreement entered into by it, the Regulations or any overriding legislation. Such payment is to be paid within 30 calendar days of receipt of a written request from Cumbria.

- 1.8 If any sum payable under this Agreement or the Regulations by the Admission Body to Cumbria or to the Scheme has not been paid (in whole or in part) within the payment period specified (or otherwise in accordance with the Regulations) Cumbria may require the Admission Body to pay interest calculated in accordance with Regulations on the amount remaining unpaid.

2 Admission Body's Undertakings

The Admission Body undertakes:

- 2.1 to provide or procure to be provided such information as is reasonably required by Cumbria relating to the Admission Body's participation in the Fund including (but not limited to) details of the pay and final pay of each eligible employee;
- 2.2 to comply with the reasonable requests of Cumbria to enable it to comply with the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (as amended);
- 2.3 to adopt the practices and procedures relating to the operation of the Fund as set out in the Regulations and in any employer's guide published by Cumbria and provided by Cumbria to the Admission Body;
- 2.4 to formulate and publish within 3 calendar months of commencement a statement concerning the Admission Body's policy on the exercise of its functions or discretions in accordance with the requirements of the Regulations and to keep such policy under review;
- 2.5 to notify Cumbria of each occasion on which it exercises a discretion under the Regulations and the manner in which it exercises that discretion;
- 2.6 to notify promptly Cumbria in writing of any material change in the terms and conditions of employment of any of the eligible employees which affects entitlement to benefits under the LGPS and of any termination of employment;
- 2.7 to immediately notify Cumbria and the Fund employer in writing of any matter which may affect or is likely to affect its participation in the LGPS and of any actual or proposed change in
- its status which may give rise to a termination of the admission agreement or in the case of a transferee admission body which may give rise to a termination of the Contract between the Admission Body and the Fund employer including but not limited to take-over, reconstruction, amalgamation, liquidation, receivership or a change in the nature of its business or constitution;
- 2.8 not to do anything which would prejudice the LGPS' status as a registered pension scheme; and
- 2.9 to make available for public inspection at Cumbria and the Fund employer's office a copy of the Admission Agreement.

3 Actuarial Valuations

- 3.1 Cumbria may periodically and shall at least on a triennial basis obtain from an actuary a certificate specifying in the case of the Admission Body the percentage or amount by which in the actuary's opinion the employer's contribution rate should be increased or reduced. This is with a view to ensuring that as far as is reasonably possible the value of assets of the Fund in respect of current and former eligible employees is neither materially more nor materially less than the anticipated liabilities of the Fund.
- 3.2 Upon termination of this Agreement Cumbria must obtain:
- 3.2.1 an actuarial valuation of the liabilities of the Fund in respect of current and former Eligible Employees as at the date of termination; and
- 3.2.2 a revision of any rates and adjustments certificate within the meaning of the Regulations showing the revised contributions due from the Admission Body.

The costs of obtaining the actuarial valuation and certificates (or revisions to them) as required by Cumbria in respect of current and former eligible employees (other than the triennial valuation) shall be paid by the Admission Body within 30 calendar days of receipt of written notification of such costs from Cumbria.

4 Risk Assessment

- 4.1 The Admission Body shall carry out to the satisfaction of Cumbria, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of services or assets by reason of insolvency, winding up or liquidation of the Admission Body.
- 4.2 Where the level of risk identified by the assessment is such as to require it, the Admission Body shall enter into an indemnity or bond in an approved form.
- 4.3 Where it is not desirable for the Admission Body to enter into an indemnity or bond, the Admission Agreement shall provide that the Admission Body secures a guarantee in a form satisfactory to Cumbria from:
- 4.3.1 a person who funds the Admission Body in whole or part;
- 4.3.2 a person who owns or controls the exercise of the functions of the Admission Body; and
- 4.3.3 the Secretary of State in the case of an Admission Body which is established under any enactment, and whether that enactment enables the Secretary of State to make financial provision for that Admission Body.

5 Termination

- 5.1 The Agreement shall terminate at the end of the notice period upon Cumbria or the Admission Body giving a minimum of three calendar months' notice in writing to terminate this Agreement to the other party or parties to this Agreement.
- 5.2 The Agreement shall terminate automatically on the earlier of:
- 5.2.1 the date of the expiry or earlier termination of the Contract (if the admission is of a fixed term); or
- 5.2.2 the date the Admission Body ceases to be an Admission Body for the purposes of the Regulations; or
- 5.3 The Agreement may be terminated by Cumbria by notice in writing to the Admission Body taking immediate effect in the event of:
- 5.3.1 the insolvency, winding up or liquidation of the Admission Body;

- 5.3.2 any breach by the Admission Body of any of its obligations under this Agreement provided that Cumbria shall if the breach is capable of remedy first afford to the Admission Body the opportunity of remedying that breach within such reasonable period as Cumbria may specify;
- 5.3.3 the failure by the Admission Body to pay any sums due to Cumbria or to the Fund within the periods specified in this Agreement or in the Regulations or in any other case within 30 calendar days of receipt of a written notice from Cumbria requiring the Admission Body to do so; or
- 5.3.4 the failure by the Admission Body to renew or adjust the level of any bond/indemnity which is required to be in place.



12.4 Cash Investment Policy

12.4.1 Introduction & Regulations

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

12.4.2 Management of Pension Fund Cash

The Administering Authority will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which were implemented on 1st Jan 2010, and from 1st April 2010 will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with the Administering Authority after 1st April 2010 will comply with the requirements of SI 2009 No 3093. This will be updated in line with the revised Investment Regulations when they come into force later in the year.

12.4.3 Cash Investment Priorities

The Cumbria Pension Fund's cash investment priorities are: -

- a) the security of capital,
- b) the availability of cash to meet payroll, investment commitments, and other payments, and
- c) the liquidity of its investments.

The Statement of Investment Principles sets the level i.e. percentage of the Fund's total allocation that can be held in cash and/or cash-like investments. Where cash is included in the Fund's benchmark as an asset, the Administering Authority will use investment managers' pooled funds where most efficient to do so. The Administering Authority should aim to keep the cash balance held outside of investment managers (for day to day working cash requirements) to a minimum, recognising that cash must be available when required to fund commitments to certain of the Fund's investments, such as infrastructure and opportunistic investments.

The Fund will also aim to achieve a modest return on its cash investments commensurate with proper levels of security and liquidity. The risk appetite of this Fund is low in order to give priority to security of its cash investments.

12.4.4 Investment and Counterparty Choice

The Cumbria LGPS will seek advice on its Investment Policy from the officers and advisers of Cumbria County Council. Investment instruments identified for pension cash must be allowable within the Council's own Investment Strategy from the 'Specified Investment' category. Counterparty choice for pension cash will be restricted to those with creditworthiness satisfying the Council's own Treasury Management criteria.

All credit ratings will be monitored through the Council's use of the Treasury Advisers' creditworthiness service. The Council will also use market data and information, information on government support for banks and the credit ratings of that government support.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its use for pension fund cash will be withdrawn immediately.

12.4.5 Investment Strategy for Pension Fund Cash

Subject to the availability priorities as stated in 12.4.3 above, the investment of any fund money that is not needed immediately must be invested using the following strategy:

- Set a cash holding limit at 2.5% of the Fund's total investments for the NatWest Liquidity account and Money Market Funds in total, and allow officers discretion to invest appropriately between them. At 31st December 2014 (the then current figure at the time of approval of the policy) 2.5% was £49.5 million. At 31st March 2016 2.5% was £50.8 million.

It is recognised that on occasion, due to specific circumstances, an extension could be necessary to this cash balance limit, for example due to asset or manager restructuring. However, any such instances would require prior approval, in consultation with the Chair and Vice Chair, from the section 151 Officer. Additionally, every reasonable action should be taken to ensure the period of the extension is kept to a minimum and at most would be no greater than seven days (this being the timing of weekly unit fund dealing dates). Members are to be formally notified of any such limit extensions at the next Committee date after such an extension has occurred.

12.4.6 Role of the Section 151 Officer

The treasury management role of the Section 151 officer with respect to pension fund cash will be -

- recommending the Cash Investment Policy for approval, reviewing the policy regularly, and monitoring compliance;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function, and reporting activities to the Pension Committee as appropriate;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.

12.4.7 Review of Policy

The Cash Investment Policy will be kept under regular review to accommodate any necessary changes due to regulations, changes in the UK banking support package, to bank creditworthiness, and any other necessary amendments, to maintain the security of capital and the liquidity of the pension fund cash invested.



12.5 Cumbria LGPS Policy and Procedure on Reporting Breaches of the Law

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1 Introduction

2 Requirements

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3.7 Timescales for reporting

3.8 Recording all breaches even if not reported

3.9 Reporting a breach

3.10 Confidentiality

3.11 Reporting to the Pensions Committee and Pensions Board

4 Review and maintenance of the policy

1. **Introduction**

- 1.1 This document sets out the procedures to be followed by persons involved with the Cumbria LGPS ('the Fund'), the Local Government Pension Scheme managed and administered by Cumbria County Council (also known as the 'Scheme Manager' or 'Administering Authority'), in relation to reporting breaches of the law.
- 1.2 Under the Pensions Act 2004 certain persons have a duty to report breaches of the law when there is reasonable cause to believe that:
- A legal duty relevant to the administration of the scheme has not been, or is not being, complied with; and
 - The failure to comply is likely to be of material significance to the regulator.
- 1.3 Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.
- 1.4 The duty to report overrides any other duties however it does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.
- 1.5 This document applies, in the main, to:
- all Members of the Cumbria Local Pension Board;
 - all Members of the Cumbria Pension Committee;
 - all officers involved in the management of the Fund;
 - personnel of the shared service pensions administrator providing day to day administration services to the Fund;
 - any professional advisers including independent advisers, auditors, actuaries, legal advisers and fund investment managers of the Fund;
 - officers of employers participating in the Fund who are responsible for pension matters; and
 - any other person involved in the administration of the Fund and/or in advising the Administering authority in relation to the Fund.

2. **Requirements**

- 2.1. This section clarifies the full extent of the legal requirements and to whom they apply.
- 2.2. **Pensions Act 2004**
- 2.2.1. Section 70 of the Pensions Act 2004 requires that certain people must report breaches of the law in writing to The Pensions' Regulator as soon as reasonably practicable and where they have reasonable cause to believe that:
- a) a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with: this could relate for instance to keeping records, internal controls, calculating benefits and investment governance and administration matters; and
 - b) the failure to comply is likely to be of material significance to The Pensions' Regulator (TPR).
- 2.2.2. The Act states that a person can be subject to a civil penalty, imposed by The Pensions Regulator, if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.
- 2.2.3. The requirement applies to the following persons:
- a trustee or manager of an occupational or personal pension scheme;
 - a member of the pension board of a public service pension scheme;
 - a person who is otherwise involved in the administration of such a scheme an occupational or personal pension scheme;
 - the employer in relation to an occupational pension scheme;
 - a professional adviser in relation to such a scheme; and
 - a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.

2.3. The Pensions Regulator's Code of Practice

- 2.3.1. Practical guidance in relation to this legal requirement is included in The Pensions Regulator's Code of Practice⁶ including in the following areas:
- implementing adequate procedures;
 - judging whether a breach must be reported;
 - submitting a report to The Pensions Regulator; and
 - whistleblowing protection and confidentiality.

2.4. Application to Cumbria LGPS ('the Fund')

- 2.4.1. This policy and procedure has been developed to reflect the guidance contained in The Pensions Regulator's Code of Practice in relation to the Fund and this document sets out how the Fund will strive to achieve best practice through use of a formal reporting breaches procedure.

3. The Fund Reporting Breaches Procedure

3.1. Introduction

- 3.1.1. The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the Fund. It aims to ensure individuals responsible are able to meet their legal obligations, avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

3.2. Clarification of the law

- 3.2.1. Individuals may need to refer to regulations and guidance when considering whether or not to report a possible breach. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004:
www.legislation.gov.uk/ukpga/2004/35/contents
- Employment Rights Act 1996:
www.legislation.gov.uk/ukpga/1996/18/contents
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations):
www.legislation.gov.uk/uksi/2013/2734/contents/made

- Public Service Pension Schemes Act 2013:
www.legislation.gov.uk/ukpga/2013/25/contents

- Local Government Pension Scheme Regulations (various):
<http://www.lgpsregs.org/timelineregs/Default.html> (pre 2014 schemes)
<http://www.lgpsregs.org/index.php/regs-legislation> (2014 scheme)

- The Pensions Regulator's Code of Practice:
<http://www.thepensionsregulator.gov.uk/doc-library/codes.aspx>

In particular, individuals should refer to the section on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the code on 'Maintaining contributions'.

- 3.2.2. Further guidance and assistance can be provided by the Assistant Director – Finance (s151 Officer); Senior Manager: Pensions & Financial Services and the Assistant Director – Corporate Governance (Monitoring Officer) (see 3.3.3 for further details), provided that requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence).

3.3. Clarification when a breach is suspected

- 3.3.1. Individuals need to have reasonable cause to believe that a breach has occurred, not just a suspicion. Having 'reasonable cause' to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated. In establishing whether there is reasonable cause to believe that a breach has occurred, it is not necessary for a reporter to gather all the evidence which the Administering authority or the Pension Regulator may require before taking legal action.
- 3.3.2. It is also important that a reporter is aware that any delay in reporting any potential breach may exacerbate or increase the risk of the breach causing further and more significant issues.

6. www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx#s16855

3.3.3. Subject to paragraph 3.5.3 where a breach is suspected it will usually be appropriate for the individual to report reasonable suspicions to one of the following who will undertake appropriate checks to determine whether a breach has occurred:

- Assistant Director - Finance (s.151 Officer);
- Senior Manager: Pensions & Financial Services (Deputy s.151 LGPS);
- Assistant Director – Corporate Governance (Monitoring Officer);
- Senior Manager – Legal & Democratic Services;
- a member of the Pensions Committee or Pension Board (details of the members of the Committee and Board can be found at <http://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=150> & <http://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=1164> respectively); or
- a member of the Pensions Team (pensions@cumbria.gov.uk)

3.3.4. There are some instances where it would not be appropriate to report reasonable suspicions to the above individuals or to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases The Pensions Regulator should be contacted without delay.

3.4. **Determining whether the breach is likely to be of material significance**

3.4.1. To decide whether a breach is likely to be of material significance an individual should consider the following, both separately and collectively:

- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

3.4.2. Further details on the above four considerations are provided in Annex A to this procedure.

3.4.3. The individual should use the traffic light framework described in Annex B to help assess the material significance of each breach and to formally support and document their decision.

3.5. **Referral to a level of seniority for a decision to be made on whether to report**

3.5.1. Subject to paragraph 3.5.3 before you submit a report to The Pensions Regulator you should refer the suspected breach to the appropriate level of authority to assist in determining whether a report needs to be made. Cumbria County Council has determined that the appropriate persons are the Assistant Director - Finance (s.151 Officer) (or in their absence the Senior Manager – Pensions & Financial Services (Deputy s.151 LGPS)) and/or the Assistant Director – Corporate Governance (Monitoring Officer) (or in their absence the Senior Manager – Legal & Democratic Services) and/or External Audit. They are considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to TPR, where appropriate.

3.5.2. Information may also be available from national resources such as the Scheme Advisory Board or the LGPC Secretariat (part of the LG Group - <http://www.lgpsregs.org/>). If timescales allow, legal advice or other professional advice can be sought.

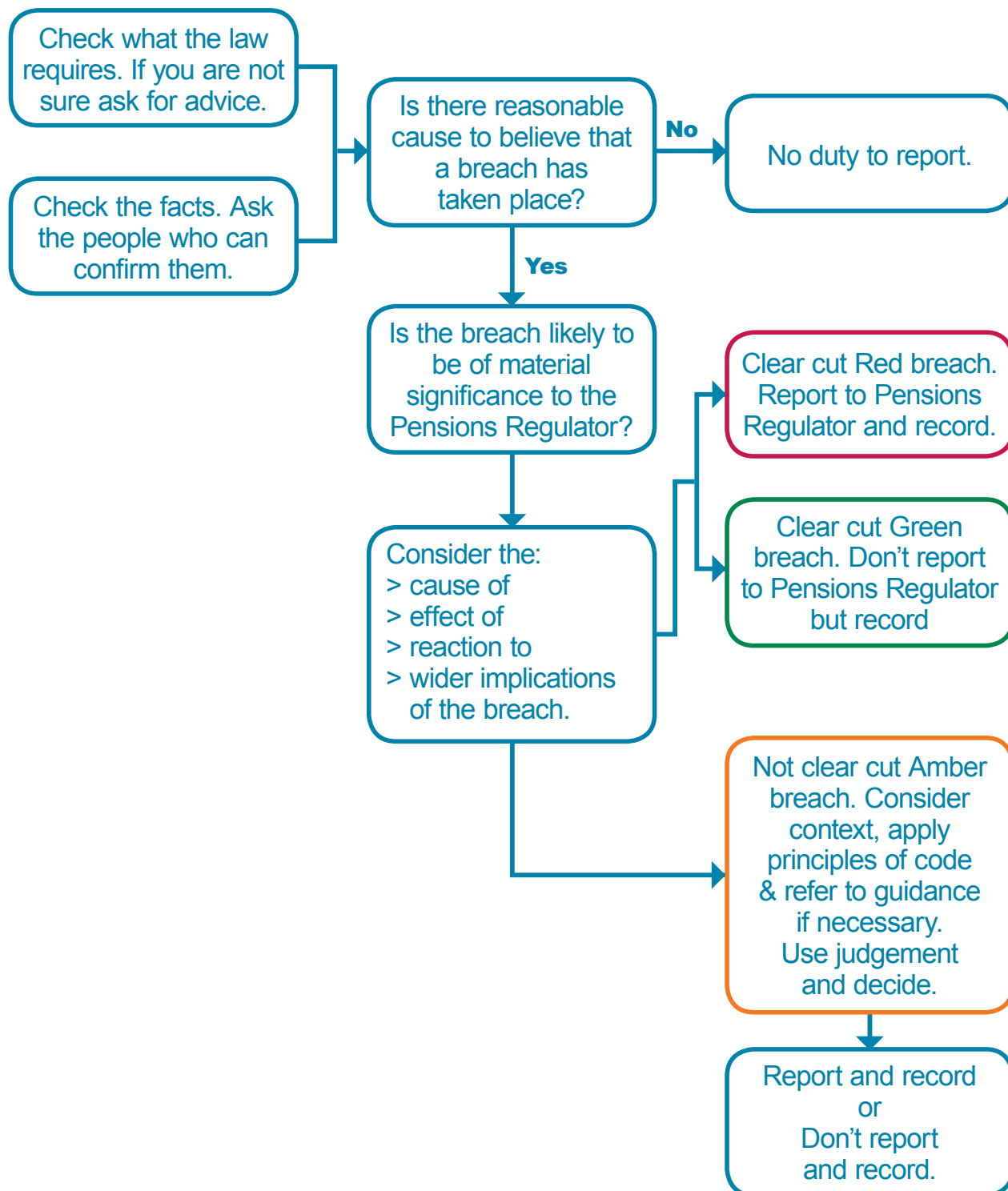
3.5.3. The matter should not be referred to any of these officers if doing so will alert any person responsible for a possible serious offence to the investigation. If that is the case, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to the Regulator before the submission may be appropriate, particularly in more serious breaches. Before referring to the Pensions Regulator the individual may prefer to approach External Audit for their opinion.

3.5.4. Individuals must bear in mind that the involvement of the Senior Manager – Pensions & Financial Services (Deputy s.151 LGPS) and/or the Monitoring Officer is to help clarify the potential reporter's thought process and to ensure this procedure is followed. The reporter remains responsible for the final decision as to whether a matter should be reported to TPR.

3.6. Decision Tree: deciding whether or not to report:

- 3.6.1. A decision tree is provided below to show the process for deciding whether or not a breach has taken place and whether it is materially significant and therefore requires to be reported.

Decision Tree: deciding whether or not to report:



3.7. Timescales for reporting

3.7.1. The Pensions Act and The Pensions Regulator's Code require that if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not rely on waiting for others to report and nor is it necessary for a reporter to gather all the evidence which TPR may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on "reasonable cause to believe" and on "material significance" should be consistent with the speed implied by 'as soon as reasonably practicable'. In particular, the time taken should reflect the seriousness of the suspected breach.

3.7.2. **Early identification of very serious breaches:** In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, TPR does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert TPR to the breach.

3.8. Recording all breaches even if they are not reported

3.8.1. The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). Cumbria County Council will maintain a record of all breaches identified by individuals and reporters should therefore provide copies of reports to the Senior Manager: Pensions & Financial Services (Deputy s.151 LGPS) or the Monitoring Officer. Records of unreported breaches should also be provided as soon as reasonably practicable and certainly no later than within 20 working days of the decision made not to report. These will be recorded alongside all reported breaches. The record of all breaches (reported or otherwise) will be included in the quarterly Monitoring Report at each Pension Committee, and this will also be shared with the Local Pension Board.

3.9. Reporting a breach

3.9.1. Reports must be submitted in writing via TPR's online system at www.thepensionsregulator.gov.uk/exchange.aspx or by post, email or fax, and should be marked urgent if appropriate. If necessary, a written report can be preceded by a telephone call. Reporters should ensure they receive an acknowledgement for any report they send to TPR. TPR will acknowledge receipt of all reports within five working days and may contact reporters to request further information. Reporters will not usually be informed of any actions taken by TPR due to restrictions on the disclosure of information.

3.9.2. As a minimum, individuals reporting should provide:

- full scheme name (Cumbria Local Government Pension Scheme);
- description of breach(es);
- any relevant dates;
- name, position and contact details;
- role in connection to the scheme; and
- employer name or name of administering authority (the latter is Cumbria County Council).

3.9.3. If possible, reporters should also indicate:

- the reason why the breach is thought to be of material significance to TPR;
- scheme address (provided at the end of this procedures document);
- administering authority contact details (provided at the end of this procedures document);
- pension scheme registry number (PSR – 10079082); and
- whether the breach has been reported before.

3.9.4. The reporter should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

3.10. Confidentiality

3.10.1. If requested, TPR will do its best to protect a reporter's identity and will not disclose information except where it is lawfully required to do so. If an individual's employer decides not to report and the individual employed by them disagrees with this and decides to report a breach themselves, they may have protection under the Employment Rights Act 1996 if they make an individual report in good faith.

3.11. Reporting to Pensions Committee and Pension Board

- 3.11.1. The monitoring report presented to the Pensions Committee and available to the Local Pension Board on a quarterly basis will include details of:
- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates;
 - in relation to each breach, details of what action was taken and the result of any action (where not confidential);
 - any future actions for the prevention of the breach in question being repeated; and
 - highlighting new breaches which have arisen in the last year/since the previous meeting.
- 3.11.2. This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings). An example of the information to be included in the quarterly report is provided in Annex C to this procedure.
- ### 4. Review and maintenance of the policy:
- 4.1. This policy is expected to be appropriate for the long-term but to ensure good governance it will be formally reviewed by the Cumbria Pensions Committee at least annually to ensure that it remains accurate and relevant. It may be changed as a result of legal or regulatory changes, evolving best practice and ongoing review of the effectiveness of the policy.

Annex A

Determining whether a breach is likely to be of material significance

1. To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:
 - cause of the breach (what made it happen);
 - effect of the breach (the consequence(s) of the breach);
 - reaction to the breach; and
 - wider implications of the breach.
2. Where appropriate expert or professional advice should be taken into account when deciding whether the breach is likely to be of material significance to the regulator.

3. The cause of the breach

- 3.1. Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:
- dishonesty;
 - poor governance or poor administration, i.e. failure to implement adequate administration procedures;
 - slow or inappropriate decision-making practices;
 - incomplete or inaccurate advice; or
 - acting, or failing to act, in deliberate contravention of the law.
- 3.2. When deciding whether a cause is likely to be of material significance individuals should also consider:
- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake.
 - whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant n.b. historical information should be considered with care, particularly if changes have been made to address previously identified problems.

4. The effect of the breach

- 4.1. Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:
- Committee/Board members not having the appropriate degree of knowledge and understanding, which may result in them not fulfilling their roles, the Fund not being properly governed and administered and/or the administering authority breaching other legal requirements;
 - Conflicts of interest of Committee or Board members, which may result in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the Fund and/or the administering authority breaching legal requirements;
 - Inadequate internal controls, which may lead to the Fund not being run in accordance with scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the Fund at the right time;

- Inaccurate or incomplete information about benefits and fund information provided to members, which may result in members not being able to effectively plan or make decisions about their retirement;
- Appropriate records not being maintained, which may result in member benefits being calculated incorrectly and/or not being paid to the right person at the right time;
- Misappropriation of assets, resulting in fund assets not being safeguarded; and
- Any other breaches which may result in the fund being poorly governed, managed or administered.

5. The reaction to the breach

5.1. Where prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, notify any affected members the regulator will not normally consider this to be materially significant.

5.2. A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence;
- are not pursuing corrective action to a proper conclusion; or
- fail to notify affected fund members where it would have been appropriate to do so.

6. The wider implications of the breach

6.1. Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

Annex B

Traffic light framework for deciding whether or not to report

It is recommended that those responsible for reporting use the traffic light framework when deciding whether to report to The Pensions Regulator. This is illustrated below:



Where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance.

These must be reported to The Pensions Regulator.

Example: Several members' benefits have been calculated incorrectly. The errors have not been recognised and no action has been taken to identify and tackle the cause or to correct the errors.



Where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance. They might consist of several failures of administration that, although not significant in themselves, have a cumulative significance because steps have not been taken to put things right.

You will need to exercise your own judgement to determine whether the breach is likely to be of material significance and should be reported.

Example: Several members' benefits have been calculated incorrectly. The errors have been corrected, with no financial detriment to the members. However the breach was caused by a system error which may have wider implications for other public service schemes using the same system.



Where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance.

These should be recorded but do not need to be reported.

Example: A member's benefits have been calculated incorrectly. This was an isolated incident, which has been promptly identified and corrected, with no financial detriment to the member. Procedures have been put in place to mitigate against this happening again.

All breaches should be recorded even if the decision is not to report.

When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. Some useful examples of this framework is provided by The Pensions Regulator at the following link:

www.thepensionsregulator.gov.uk/codes/code-related-report-breaches.aspx

Annex C

[illegible]

12.6 Information for Scheme Advisory Board

To assist with the production of the scheme annual report compiled by the LGPS Scheme Advisory Board individual Funds within the LGPS are required to provide the following information:

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

31st March 2016	Active	Ceased (closed)	Total
Scheduled body	69	12	81
Admitted body	33	14	47
Total	102	26	128

Comparatives:

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

12.6.2 Fund assets as at the reporting date:

31st March 2016	UK £m	Non-UK £m	Global** £m	Total £m
Equities	301.7		737.5	1,039.2
Bonds	521.5	8.0	-	529.5
Property (direct holdings)	156.8		-	156.8
Alternatives*	96.8	160.9	-	257.8
Cash and cash equivalents	20.2	30.6	-	50.8
Other ***	-	-	-	-
Total	1,097.1	199.5	737.5	2,034.1

Comparatives:

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

12.6.3 Investment income accrued during the reporting date:

31st March 2016	UK £m	Non-UK £m	Global** £m	Total £m
Equities	10.8	6.7	0.0	17.5
Bonds	6.8	0.3	0.0	7.2
Property (direct holdings)	8.2			8.2
Alternatives*	3.8	4.8		8.6
Cash	0.2	0.0	0.0	0.2
Other***				-
Total	29.7	11.9	0.0	41.7

Comparatives:

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

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

Notes on above tables:

* "Alternatives" are taken to mean holdings in private equity, hedge funds, pooled property funds, infrastructure funds, royalty funds and derivatives.

** "Global" holdings are those that include an element of both overseas and UK listed assets.

*** "Other" denotes assets not falling into any other category, such as investments in vehicles where the underlying investments may comprise of assets of more than one type.

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

12.7 Auditor's Opinion



Independent auditor's report to the members of Cumbria County Council on the consistency of the pension scheme financial statements included in the scheme annual report.

The accompanying Pension Scheme (the "scheme") financial statements of Cumbria County Council (the "Authority") for the year ended 31 March 2016 which comprise the pension fund account, the net assets statement and the related notes are derived from the audited pension scheme financial statements for the year ended 31 March 2016 included in the Authority's Statement of Accounts. We expressed an unmodified audit opinion on the pension scheme financial statements in the Statement of Accounts in our report dated 30 September 2016. The pension scheme annual report, and the pension scheme financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension scheme financial statements is not a substitute for reading the audited Statement of Accounts of the Authority.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Assistant Director – Finance responsibilities for the pension scheme financial statements in the pension scheme annual report

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer is responsible for the preparation of the pension scheme financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension scheme financial statements in both the Authority Statement of Accounts and the pension scheme annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Auditor's responsibility

Our responsibility is to state to you whether the pension scheme financial statements in the pension scheme annual report are consistent with the pension scheme financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

In addition we read the other information contained in the Cumbria Local Government pension scheme annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Cumbria Local Government pension scheme financial statements. The other information consists of Chairman's Introduction, Annual Report of the Cumbria LGPS Pension Board for 2015/16, The Local Government Pension Scheme, Management and Financial Performance, Investment Policy and Performance, Fund Administration Report and Administration Strategy, Actuarial Report on Funds, Governance Compliance Statement, Funding Strategy Statement, Statement of Investment Principles, Communications and Other statements and Information.

Opinion

In our opinion, the scheme financial statements in the pension scheme annual report derived from the audited pension scheme financial statements in the Authority Statement of Accounts for the year ended 31 March 2016 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Jackie Bellard

Jackie Bellard

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

30 September 2016

13/ Glossary

Active Management

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

Actuary

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

Actuarial Valuation

An actuary formally reviews the assets and liabilities of the pension fund and produces a report on the fund's financial position.

Alternatives

Investment products other than traditional investments of stocks, bonds, cash or property. The term is used for tangible assets such as infrastructure; property; art, wine etc., and financial assets such as commodities, private equity, hedge funds, venture capital; royalties / patents and derivatives.

Asset Allocation

Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return, and is a central concept in financial planning and investment management.

Auto Enrolment

UK employers have to automatically enrol their staff into a workplace pension if they meet certain criteria. The law on workplace pensions has now changed and every employer must comply.

Benchmark

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

Bid price

Price at which a security or unit in a pooled fund can be sold.

Bonds

Certificate of debt issued by a government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.

Buy and Hold Credit

An approach to bond investment that is very different to an index-tracking or traditional active approach. In the case of "buy and hold" investing, the starting point of the portfolio construction process is not the index weight of the bonds, but a basket of bonds that the

manager believes have a high probability of honouring the payment obligations due. As such the investor's return expectation has a "margin of safety" and is not dependant on a change in sentiment in credit markets. The intention is typically to hold the bonds until maturity (and to be prepared to sell bonds if the default risk increases). Constant duration portfolios are also available.

Career Average Revalued Earnings (CARE) Scheme

The pension at retirement will relate to your average salary over your career (while paying into the pension scheme). More precisely for the LGPS, it is based on pensionable earnings, increased in line with inflation as measured by the Consumer Price Index (CPI).

Class Action

An action where an individual represents a group in a court claim. The judgment from the suit is for all the members of the group (class). This is often done when shareholders launch a lawsuit against a company, mainly because it would be too expensive for each individual shareholder to launch their own law suit.

Conflicts of Interest

Real or apparent instances where a person or firm has an incentive to serve one interest at the expense of another. Some of these conflicts are inherent in any large, diversified organisation, while others stem from the nature of the services offered to clients. These conflicts are managed through disclosure and with policies and procedures that are designed to protect client's interests. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties.

Corporate Governance

The system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

Counterparty

The other party that participates in a financial transaction. Every transaction must have a counterparty in order for the transaction to go through. More specifically, every buyer of an asset must be paired up with a seller that is willing to sell and vice versa.

Custodian

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

DCLG

Department for Communities and Local Government.

Defined Benefit

An employer-sponsored retirement plan where employee benefits are assessed based on a formula using factors such as salary history and duration of employment. Public sector pension schemes, including the LGPS, were defined benefit prior to the introduction of the Career Average Revalued Earnings (2014) Scheme.

Defined Contribution

A retirement plan in which a certain amount or percentage of money is set aside each year by a company for the benefit of the employee. There are restrictions as to when and how you can withdraw these funds without penalties. There is no way to know how much the plan will ultimately give the employee upon retiring. The amount contributed is fixed, but the benefit is not.

Derivative

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

Diversification

Risk management technique which involves spreading investments across a range of different investment opportunities, thus helping to reduce overall risk. Risk reduction arises from the different investments not being perfectly correlated. Diversification can apply at various levels, such as diversification between countries, asset classes, sectors and individual securities.

Divestment or divestiture

The reduction of some kind of asset for financial, ethical, or political objective. A divestment is the opposite of an investment. For investors, divestment can be used as a social tool to protest particular corporate policies.

Emerging Markets

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

Engagement

A series of actions investors can take to reduce environmental, social and governance risks. This can include raising concerns or making proposals about company practices directly to its directors via correspondence, face-to-face meetings, attendance and voting at shareholder meetings.

Equities

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

ESG (Environmental, Social and Corporate Governance)

A set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights. ESG is the catch-all term for the criteria used in what has become known as socially responsible investing. Socially responsible investing is among several related concepts and approaches that influence and, in some cases govern, how asset managers invest portfolios. See also Socially Responsible investing.

Exchange Traded Fund (ETF)

Fund that tracks an index, but can be traded like a stock.

Fiduciary Duty

A legal obligation of one party to act in the best interest of another. The obligated party is typically a fiduciary, that is, someone entrusted with the care of money or property.

Final Salary

Another term for the defined benefit pension schemes where employee benefits are based on the person's final salary when they retire. The LGPS 2014 Scheme has moved from this to a CARE (career average) scheme.

Fixed Interest Securities

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

Funding Level

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

Futures Contract

A contract that is traded on an organised exchange and subject to rules of the exchange. It is an obligation that the buyer and seller settle the contract through purchase or sale of an underlying asset at the future date.

Gilts

These are the simplest form of UK government bond. A conventional gilt is a bond issued by the UK government which pays the holder a fixed cash payment (or coupon) every six months until maturity, at which point the holder receives his final coupon payment and the return of the principal.

Governance

The procedures and practice associated with decision-making, performance and control, which provide structures and satisfy expectations of accountability in large, mainly commercial, organisations.

IFRS

International Financial Reporting Standards. Aim to standardise the reporting and information disclosed in the financial accounts of companies and other organisations globally.

Index-linked Gilts

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

Index-Tracking Fund (Managed Fund)

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

Infrastructure

The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

Investment Strategy

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

Liabilities

Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pensions liabilities are the pensions benefits and payments that are due to be paid when someone retires; the LGPS is a 'final-salary' scheme where pension relates to years service and final salary and so the pensions liability can be estimated by the actuary.

Market Value

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

Myners Review

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

OTC

A security traded in some context other than on a formal exchange such as the London Stock Exchange, New York Stock Exchange, etc. The phrase "over-the-counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

Passive Management

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

PIRC

Pensions & Investment Research Consultants

Pooled Investment Fund

A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region. The underlying assets the funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity shares. They are used as an efficient low-risk method of investing in the asset classes.

Pooling

In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale thereby, as requested by DCLG: 'significantly reducing costs whilst maintaining investment performance'.

Portfolio

Block of assets generally managed under the same mandate.

Private Equity

Shares in unquoted companies. Usually high risk, high return in nature.

Private Equity Secondaries

Shares in unquoted companies that were pre-existing investor commitments to private equity which have since been sold in a secondary market. Usually high risk, high return in nature.

Retail Price Index

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

Real Estate Debt

Commercial property loans; the debt is secured against commercial property or portfolios of property, eg. hotels, shopping centres, offices.

Return

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

Risk

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

Settlement

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

Shareholder Voting

Shareholders are people and organisations who buy shares in UK companies. In large companies, shareholders are overwhelmingly large institutional investors, such as pension funds, insurance companies, mutual funds or similar foreign organisations.

Shareholders have the right to vote on matters of 'corporate policy' at the underlying company's AGM (Annual General Meeting). UK shareholders have the most favourable set of rights in the world in their ability to control directors of corporations. UK company law gives shareholders the ability to;

- remove the board of directors with a simple majority of votes ;
- change the company constitution with a three quarter vote (unless a higher figure is in the constitution);
- wind up (i.e. liquidate) the company with a three quarter vote; and
- veto any sale of a significant percentage of company assets.

The number of votes corresponds to the number of shares owned. The shareholder does not need to be present at the meeting, and many shares are voted 'by proxy'. Managers invariably hand over the process of voting to proxy voting agencies.

In practice many shareholders delegate the voting function to Investment Managers (who have stewardship of their assets).

Resolutions which are voted upon include:-

Approval of Annual Report and Accounts

Approval of Remuneration Policy, and Remuneration Report

Election/Re-election of Directors

Appointment/Re-appointment of auditors

Approve dividend

Approve political donations

Voting is the key to exercising ownership rights, and influencing investee company policy

Socially Responsible Investing

An investment that is considered socially responsible because of the nature of the business the company conducts. Common themes for socially responsible investments include avoiding investment in companies that produce or sell addictive substances (like alcohol, gambling and tobacco) and seeking out companies engaged in social justice, environmental sustainability and alternative energy/clean technology efforts. See also ESG.

Statement of Investment Principles

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

Stewardship

The active and responsible planning and management of entrusted resources now and in the longer term, so as to hand them on in better condition.

Stock Lending

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

Target

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

Triennial Actuarial Valuation

Every three years the actuary formally reviews the assets and liabilities of the Cumbria LGPS Fund and produces a report on the Fund's financial position.

Unit Trust

A specific type of pooled investment fund.

Unquoted (Unlisted) Stock

A company share that is not available for purchase or sale through the stock market.

Venture Capital

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

14/ Contact Us

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

Cumbria County Council
Pensions and Financial Services
Resources & Transformation,
The Parkhouse Building,
Baron Way,
Kingmoor Business Park,
Carlisle,
Cumbria,
CA6 4SJ

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

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

Cumbria County Council
Resources & Transformation
Democratic Services,
Cumbria House,
107-117 Botchergate,
Carlisle,
CA1 1RD

w: http://www.cumbria.gov.uk/landing_page/yourcouncil.asp

Pensions Contact Details: for personal pensions and benefits queries please contact:

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

e: AskPensions@localpensionspartnership.org.uk
t: **0300 123 6717**

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

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

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

如果您希望通过母语了解此信息，
请致电 01228 226565

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

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

Se quiser aceder a esta informação na sua língua,
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Bu bilgiyi kendi dilinizde görmek istiyorsanız lütfen
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