

Cumbria Local Government Pension Scheme

**Annual Report
and Accounts
2018/19**

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

ANNUAL REPORT AND ACCOUNTS 2018/19

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1. CHAIR'S INTRODUCTION

1 CHAIR'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 2018/19.

2018/19 continued in the same vein as recent years i.e. one of continued regulatory challenge and market volatility which has provided the Fund with both challenges and new opportunities. Despite these external pressures, by having clear long term strategic plans that are underpinned with robust internal performance measurement frameworks and effective governance arrangements throughout the Fund I am pleased to report that performance has continued to remain strong across all areas throughout 2018/19.

However, the Committee is aware that to maintain such performance we must not become complacent and as such the Fund continues its active engagement at a national level across all core activities (investments, administration and governance) as well as being mindful of the risks the Fund is exposed to and attempting to mitigate these where possible. To support these activities, a focused training regime is maintained which supports all those charged with the governance of the Fund with being able to deliver to the highest standards.

2018/19 Summary Key Results:

Investment Portfolio: During the year to 31st March 2019 the Cumbria LGPS value increased by £140m from £2,563m (31/03/18) to £2,703m (31/03/19). The Fund returned 7.4% (net of fees and excluding the effect of equity protection) for the year which was 0.6% in excess of the Fund's bespoke index performance benchmark for the year of 6.8%.

I am pleased to report that these results have ensured the Fund has continued to outperform its bespoke benchmarks over the 3, 5 and 10 year time horizons. Three-year return of 9.8% outperforming the benchmark of 9.4% (per year), five-year return 9.3% outperforming benchmark of 8.1% (per year); and ten year return delivering 10.7%, again above the benchmark of 10.0% (per year).

Pooling of Pension Assets: In February 2017, Cumbria County Council, approved to use Border to Coast Pensions Partnership (Border to Coast) Ltd; as the Administering Authority's chosen approach to meet the requirement to pool assets in the LGPS.

In July 2018 Border to Coast became operational as an asset manager, with the first assets from three Partner Funds transitioning into the company. Subsequent to this I'm pleased to report that, following robust due diligence work, the Fund transitioned its first assets (its 10% allocation to actively managed UK equities) into the pool in December 2018. In addition to this, in November the Fund also approved a £50m investment in the Border to Coast Private Equity Fund 2019.

During 2018/19 the Fund continued to be active in working with the company and Partner Funds on the development of investment opportunities that the company will offer. This work has enabled the Fund, in the first quarter of 2019/20, to consider and

1. CHAIR'S INTRODUCTION

approve two further investments into the pool; an investment of £50m into the Border to Coast Infrastructure Fund 2019 and that it transitions its 20% allocation to actively managed global equities into the Border to Coast Global Equity Alpha Fund.

Throughout the year I have continued to enjoy the very positive relationship that has developed with the Chairs from the Partner Funds as we continue to work together to share each Fund's respective views and find collaborative solutions to meet the many challenges that pooling presents. I was also very pleased to note that Deirdre Burnet, the Chair of the Cumbria Local Pension Board, was appointed as the substitute representative for Local Pension Board's at the Joint Committee of Border to Coast further strengthening Cumbria's presence at this meeting.

Administration Activities: 2018/19 has been another busy and challenging year in terms of benefits and administration for the LGPS.

At the start of the year, the Fund experienced a reduction in service quality and standards from its pensions' administrator, Your Pension Service (YPS). Whilst this created challenges to the service, I was pleased to note that performance returned to its previous standards by the second half of the year. I would like to offer my apologies to any scheme member who was directly affected by the decline in performance standards over this time.

The Fund has maintained a key focus on continuing to ensure Fund member records are maintained to the standards expected by the Pensions Regulator. This included aiming to verify the addresses of nearly 20,000 scheme members to ensure that we can stay in touch and process pensions in a timely manner when these become due.

Other key challenges faced have included the continuation of reconciling data relating to the Guaranteed Minimum Pension and supporting employers in meeting their regulatory and statutory duties to the Fund.

In the summer of 2018, the Pensions Regulator announced that it was to undertake a nationwide cohort review of the LGPS. Cumbria Pension Fund was one of ten Funds selected to undergo a comprehensive review of its administration and governance arrangements to inform the findings of this review. The Fund welcomed this review by the Regulator as an opportunity to highlight the effective practices and policies within the Fund but also to identify areas where administration and governance arrangements could be further strengthened.

A triennial valuation is currently being undertaken with the value of the Fund's assets and liabilities as at 31st March 2019 being assessed. This exercise, which will form a significant part of the Committee's work plan in 2019/20, will ultimately determine the employer contribution rates for the period 1st April 2020 to 31st March 2023.

Governance: Under the Chairmanship of Deirdre Burnet, the Board has had another successful year and included at page 8 is their Annual Report. I am pleased that the role of the Board has been further strengthened during the year by increasing the frequency of meetings from two to four meetings per year.

1. CHAIR'S INTRODUCTION

Throughout the year, members of the Board have attended joint training events alongside Members of the Committee and I look forward to the continuation of this constructive working relationship between the Committee and the Board for the future benefit of the Fund.

Investment Strategy: The Investment Strategy Statement outlines the Fund's investment strategy, and how the investment risk and return issues have been managed relative to the Fund's investment objectives.

The Strategy was previously subject to a full review in 2017/18 and an interim review undertaken during 2018/19 concluded that, whilst the existing strategy remained fit for purpose in the short term, a full review of the Strategy should be undertaken in 2019/20 following the results of the Triennial Actuarial Valuation of the Fund. A full review of the Investment Strategy has therefore been incorporated within the Fund's business plan for 2019/20.

In 2018/19, in response to the findings of the 2017/18 Strategy review, the Fund entered into a suite of derivative 'equity protection' options. The purpose of the options is to help mitigate the risk that employer contribution rates need to increase due to poor asset performance at the point of the 2019 valuation. Specifically, they are designed to protect some of the increases in asset values that have arisen since the 2016 valuation due to improvements in global equity markets. The options will therefore provide this protection until 31st March 2020 (the date at which the 2019 valuation is required to be formally completed).

Summary:

To sum up, I believe the outlook for the LGPS as a whole and the Cumbrian Fund in particular remains positive. All LGPS Funds will continue to face challenges in the coming years as they seek to continue to balance both a drive to maintain regulatory compliance and improve scheme member and employer satisfaction; whilst seeking to achieve governance and investment performance at reduced cost at the same time as meeting external demands and pressures coming from servicing additional national regulatory requirements and the necessary management of cashflow.

That said, I believe the embedded approach of both Members and Officers of the Fund towards strong governance arrangements (including ensuring all involved in governing the Fund are appropriately trained), scheme member focused services and 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 would like to convey the Committee's thanks to all the council 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 2018/19 and welcome new Members that have joined throughout the year.

1. CHAIR'S INTRODUCTION

I hope you will find the report informative. Further information is available from the contact points shown in **Appendix C** to this report.

Cllr. Melvyn Worth
Chair of Cumbria Pensions Committee
August 2019



1.1 ANNUAL REPORT OF THE CUMBRIA LGPS LOCAL PENSION BOARD FOR 2018/19

ANNUAL REPORT OF THE CUMBRIA LGPS LOCAL PENSION BOARD FOR 2018/19

As Chair of the Cumbria Local Pension Board (LPB) it is my pleasure to present the Annual Report for 2018/19 on behalf of my fellow Board members.

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 was established in 2015 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 (LGPS).

The Council's Constitution requires the Board to meet 'as a minimum twice a year'. In recognition of the important role the Board has to play in supporting Cumbria County Council in its role of administering the Cumbria LGPS, a decision was made in July 2018 to hold meetings on a quarterly basis. There were three meetings held during the year.

Work Programme during 2018/19:

2018/19 was another busy year for the Cumbria LGPS, with the Cumbria LPB continuing to focus on issues relating to Administration matters, in line with the expectations of the Pensions Regulator, and in particular maintaining the high standard of data quality within the Fund. During the year the Fund reviewed its compliance with both the LGPS regulations and the Pensions Regulator's requirements and Code of Practice.

To assist with the governance process, a representative from the external Pensions Administration service provider (Your Pension Service) now attends all Board meetings. The Board was also instrumental in undertaking an extensive review of the Fund's risk register and a review of adherence to the Pensions Regulator's Code of Practice 14 to ensure effective administration and governance arrangements within the Fund.

The Board were apprised of work undertaken by the Fund, reviewed Pension Committee decisions and noted the recommendations the Committee approved at its quarterly meetings.

To support their work on the Local Pensions Board, Members continued to maintain and develop the knowledge of the LGPS through attending various training courses throughout the year.

Training during the year:

Training	Delivery	Date
CIPFA LPB Conference	External	27/06/18
Data Quality & Actuarial Valuation	Internal / External	12/09/18

1.1 ANNUAL REPORT OF THE CUMBRIA LGPS LOCAL PENSION BOARD FOR 2018/19

Training	Delivery	Date
Attendance at Northumberland LPB meeting	External	10/12/18
LGA LGPS Governance Conference	External	18/01/19
CIPFA Spring LPB seminar	External	25/02/19
Public Service & Trustee Toolkit	Individual	ongoing

Looking forward to 2019/20:

The Cumbria LGPS (alongside all other LGPS's) expects to continue to face a series of external pressures and new and on-going challenges in 2019/20, which will need to be delivered alongside operational business to ensure that the Fund continues to deliver planned internal service improvements and efficiencies.

The Work Plan of the Cumbria Local Pension Board also takes into account areas highlighted by the Pensions Regulator and will focus on review and analysis of the following areas:

- Improving data quality across the Fund;
- Enhancement of Member / employer engagement;
- The 2019 Actuarial Valuation and the impact of the results for scheme employers;
- The Pensions Regulator's cohort review of the LGPS and specific actions related to the Cumbria LGPS;
- The impact that consultations, regulatory changes and publications may have on the Cumbria LGPS;
- Further transition of appropriate assets to Border to Coast; and
- Consideration of Climate Change and the implications for the Cumbria LGPS.

I was pleased to be appointed as a substitute Scheme Member Representative on the Border to Coast Joint Committee, in February 2019.

I would like to convey the Board's thanks to all the Council's staff involved in administering the Cumbria LGPS, staff at Your Pension Service, 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 Board members for their contributions to the successful operation of the Board during 2018/19.

Deirdre Burnet
Chair of the Cumbria LGPS Local Pension Board
4th July 2019

1.1 ANNUAL REPORT OF THE CUMBRIA LGPS LOCAL PENSION BOARD FOR 2018/19



Information on the work of the Cumbria Local Pension Board can be found on our web page on the Cumbria County Council website:

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

2. THE LOCAL GOVERNMENT PENSION SCHEME

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 (PSPA 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 2016 (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 127 employers participating within the Fund are set out in the Pension Fund Accounts on **Note 25**. 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 enrolled 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 3.5.2 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 determine the employee contribution rates payable (see 2.3.1 below) on an ongoing basis (subject to the cost cap mechanisms¹).

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:

<http://www.yourpensionservice.org.uk/local-government-scheme/>

2.3 CONTRIBUTION RATES

¹ 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>

2. THE LOCAL GOVERNMENT PENSION SCHEME

2.3.1 EMPLOYEE CONTRIBUTION RATES

Employee contribution rates are set by regulation. During 2018/19 rates payable were between 5.5% and 12.5%:

Standard pay band table from 1st April 2018 to 31st March 2019	
If your whole time pay rate is:	You pay a contribution rate of:
up to £14,100	5.5%
£14,101 - £22,000	5.8%
£22,001 - £35,700	6.5%
£35,701 - £45,200	6.8%
£45,201 - £63,100	8.5%
£63,101 - £89,400	9.9%
£89,401 - £105,200	10.5%
£105,201 - £157,800	11.4%
£157,801 or more	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. The last valuation was undertaken as at 31st March 2016 which set employer contribution rates for 3 years from April 2017. For further detail see section 6.4 of this report. The next triennial valuation is currently being undertaken based on the assets and liabilities of the Fund as at 31st March 2019.

2.4 REGULATORY CHANGES

The following key change to LGPS regulations was enacted during 2018/19:

2.4.1 THE LGPS REGULATIONS 2013 AND LGPS (TRANSITIONAL PROVISIONS, SAVINGS AND AMENDMENT) REGULATIONS 2014

Amendments to the LGPS Regulations 2013 and the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 were laid on 14th May 2018, however some of these amendments have been retrospectively applied from 1st April 2014. The majority of the regulations relate to clarification of existing regulations, but one area concerns the early release of pension benefits for those members who left the scheme prior to 1st April 2014. Amendments to the 1997 and 2008 regulations will now enable deferred members access to their actuarially reduced pension from age 55 (rather than the previous age of 60) without the need for employer consent.

2.5 OTHER MATTERS ARISING IN 2018/19

2.5.1 PENSIONS REGULATOR COHORT REVIEW OF THE LGPS

2. THE LOCAL GOVERNMENT PENSION SCHEME

The Pensions Regulator's corporate plan 2018-2021, sets out how the Regulator aims to become a 'clearer, quicker and tougher regulator' noting that they will engage with the highest risk cohort of public sector schemes. In the summer of 2018, the Regulator announced that it would be undertaking a nationwide cohort review of the LGPS. Cumbria Pension Fund was selected as one of ten LGPS Funds to undergo a deep dive review to inform the findings of the review.

The Regulator met with Officers of the Fund through the second half of 2018/19 and, whilst it was recognised that the Fund has a sound level of governance and administration arrangements in place, a number of suggestions for improvement were made and an action plan developed for implementing these. The action plan, along with the Fund's data improvement plan (see section 5.5), has been considered and agreed by the Committee and progress against it is subject to quarterly monitoring by the Cumbria Local Pensions Board.

The Regulator's final report is due out in the summer of 2019 and will be reviewed by the Local Pension Board to identify any further learning points for the Fund.

2.5.2 POOLING OF PENSION FUND ASSETS ACROSS THE LGPS

The set-up of the Border to Coast Pensions Partnership Ltd (Border to Coast) pooling company; as the Authority's chosen approach to meet the requirement to pool assets in the LGPS, has progressed at pace in 2018/19. During the year the company gained FCA approval and was ready to accept investment assets from the summer of 2018, with Cumbria commencing the transition of its assets into the pool from December 2018. Further details are provided in Section 4.4.

2.5.3 GENERAL DATA PROTECTION REGULATIONS (GDPR)

New legislation associated with GDPR came into effect on 25th May 2018 updating the obligations on the Fund to maintain and control and manage data held relating to Scheme Members.

All Officers, Pensions Committee and Local Pension Board members have received training on the requirements placed on the Fund by the GDPR. The Fund considers itself to be compliant with GDPR regulations however it is recognised that compliance is an ongoing duty and is not complacent as to its obligations to continue to adhere to this legislation.

All personal data held by the Fund is treated in the strictest confidence. Where there is a breach of data, this is reported to the Information Governance & Risk Manager of the County Council (as the Administering Authority of the Fund) and is also recorded in the Fund's breach register. Where a breach is considered to be materially significant such breaches would be reported to the Information Commissioner's Office and the Pensions Regulator.

3. MANAGEMENT & FINANCIAL PERFORMANCE**3 MANAGEMENT AND FINANCIAL PERFORMANCE****3.1 FUND MANAGEMENT AND ADVISORS****Officers responsible for the Fund**

Julie Crellin

Director of Finance (Section 151 Officer)

Alison Clark

Senior Manager - Pensions & Financial Services (Deputy Section 151 Officer LGPS)

Cumbria County Council

Finance Directorate,

Cumbria House,

117 Botchergate,

Carlisle,

CA1 1RD

Cumbria County Council

Finance Directorate,

Pensions & Financial Services,

Parkhouse Building,

Kingmoor Business Park,

Carlisle, CA6 4SJ

Pensions Committee

Details of the membership of the Committee during the year to 31st March 2019 are set out below. For further details of the role of the Pensions Committee, please see section 7.2.1.

County Council Elected Members
Mr MH Worth (Chair) Mr NH Marriner (Vice Chair) Mr SB Collins Mr J Airey Mr LN Fisher Dr S Haraldsen Mr P Thornton Ms H Wall
District Council Elected Member – Ms G Troughton, until May 2019
Trade Union Non-Voting Members - Ms T Barber - Mr Ken McDonald, until April 2019

Updated details of the membership of the Pension Committee are available at the following web address:

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

Local Pension Board

Details of the membership of the Local Pension Board during the year to 31st March 2019 are set out below. For further details of the role of the Local Pension Board, please see section 7.2.14.

Local Pension Board Members
Mrs D Burnet (Chair)

3. MANAGEMENT & FINANCIAL PERFORMANCE

Mr D Southward (Vice Chair)
Mrs B Cannon
Mrs K Powell
Mrs K Thomson
Ms K Wilson

Updated details of the membership of the Local Pension Board are available at the following web address:

<http://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=1164>

Investment Managers

Manager	Notes	Core Asset Class
Aberdeen Standard Investments		Direct & Indirect property and UK corporate bonds
Aviva		Long lease property
Barings		Private Loan Funds
BlackRock Investment Management	(to June 2012 – remaining funds held until maturity)	Alternatives
Border to Coast Pensions Partnership Limited	LGPS Asset Pooling Investment vehicle	UK equities
HealthCare Royalty Partners		Healthcare royalties
Insight Investments		Cash funds and securities
JP Morgan		Infrastructure
Legal and General Investment Management		Passive equities and bonds, cash
Loomis Sayles		Global Equities
M&G		Real estate debt & long lease property
Nordea		Global Equities
Pantheon Ventures		Private Equity, Infrastructure
Partners Group		Infrastructure & Multi Asset Credit
Schroder Investment Management	(to December 2018 – funds transitioned to Border to Coast Pensions Partnership Limited)	UK equities
SL Capital Partners		Private Equity Secondaries, Infrastructure
Unigestion		Private Equity Secondaries

Pool Operator

Border to Coast Pensions Partnership Ltd
www.bordertocoast.org.uk/contact/

Custodian

State Street Bank and Trust Company

Additional Voluntary Contribution providers:

Prudential

3. MANAGEMENT & FINANCIAL PERFORMANCE

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) / Labaton Sucharow (class actions)

Bankers

National Westminster Bank PLC

Auditor

Mr G Kelly, Grant Thornton UK LLP

Performance Monitoring

State Street Investment Analytics

Independent Advisors

Mr TJA Gardener, TG Advisory Services Ltd
Mr AJ Sutherland, Horizon Investment Advisory Limited

Pensions Administration (a delegated function from Cumbria County Council to Lancashire County Council)
Local Pensions Partnership (LPP) - Your Pension Service
Cumbria LGPS Team
PO Box 1382, Preston PR2 0WQ
Email: AskPensions@localpensionspartnership.org.uk
Telephone: 0300 323 0260

Good to know:

For how to contact the Fund see Appendix C 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 **Appendix A-2** of this report) and continually review and monitor risks throughout the year.

Pension Committee and Pension Board 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

3. MANAGEMENT & FINANCIAL PERFORMANCE

impact of each risk. Members actively monitor progress in relation to controls and actions taken to mitigate risk. Any significant emerging issues are escalated by Officers to the Chair and Vice Chair in the intervening periods.

3.2.1 RISKS IDENTIFIED AT MARCH 2019:

The risk register presented to Pensions Committee in March 2019 identified 15 risks to the Pension Fund. There was one risk in the red category, three identified in the amber category and eleven in the green category. A summary of the risk register as at March 2019 is shown below at 3.2.2. Full details of the red and amber risks are presented in section 3.2.3. The full risk register is available to view in the Agenda Report pack for the Cumbria Pensions Committee by accessing the following link:

<http://councilportal.cumbria.gov.uk/ieListMeetings.aspx?CId=150&Year=0>

In addition to this **note 14** to the Financial Statements (**page 173**) details the nature and extent of risks arising from Financial Instruments.

3. MANAGEMENT & FINANCIAL PERFORMANCE

3.2.2 SUMMARY OF RISK REGISTER AT MARCH 2019:

PENSION FUND RISKS		Q1	Q2	Q3	Q4	Target	DOT	CORPORATE RISK PROFILE (Risk Score = Likelihood x Impact)					
								Impact Likelihood	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Most severe
1	1.1. Information security arrangements	15	15	15	15	10	→	5 Very Likely					
2	1.2. Pensions administration processes	9	12	12	12	6	→	4 Likely			1.2		
3	1.3. Scheme member communication	4	4	4	4	4	→	3 Possible		2.3	1.4; 3.1		1.1
4	1.4. Timeliness of breach reporting	N/A	9	9	9	6	→	2 Unlikely		1.3; 2.4; 2.5	1.5; 3.3	1.6; 2.2; 3.2	
5	1.5. Data quality	6	6	6	6	3	→	1 Very unlikely				2.6	2.1
6	1.6. Payment of contributions	8	8	8	8	8	→	Summary of risk changes since last quarter		Emerging Risks			
7	2.1. Pension Regulator Intervention	5	5	5	5	5	→						
8	2.2. Regulatory changes	N/A	8	8	8	8	→	<ul style="list-style-type: none"> No new risks added or risks deleted during the quarter No change in the quarter to scores attributed to the likelihood or severity of risks occurring 		<ul style="list-style-type: none"> The triennial valuation changes the focus of a number of risks, e.g. "payment of contributions" but it has not been considered appropriate to amend the scores or key risks within the register at this time. 			
9	2.3. Financial irregularity	6	6	6	6	6	→						
10	2.4 Loss of key personnel	4	4	4	4	4	→						
11	2.5. Conflicts of Interest	4	4	4	4	4	→						
12	2.6 Operational disaster	4	4	4	4	4	→						
13	3.1. Cashflow	9	9	9	9	9	→						
14	3.2 Investment performance	8	8	8	8	8	→						
15	3.3 Flexibility of investments	6	6	6	6	6	→						

3. MANAGEMENT & FINANCIAL PERFORMANCE

3.2.3 RED AND AMBER RISKS IDENTIFIED AT MARCH 2019

Risk:	Caused by:	Resulting in:	Mitigated by:
Information Security Arrangements There is a risk that the Council will experience a significant information security incident.	<ul style="list-style-type: none"> a concerted cyber attack on Council or YPS systems, inadequate information security arrangements, lack of training, awareness or human error. 	<ul style="list-style-type: none"> partial or total interruption to service delivery to scheme members, scheme employers, Fund Officers or YPS. Disclosure of personal data or a data breach leading to financial penalties, liability claims and reputational damage. 	<p><u>Cumbria County Council (CCC) – Corporate Risk</u></p> <ul style="list-style-type: none"> The County Council maintains a detailed corporate risk register including the risk associated with Information Security Arrangements. The Fund adheres to the controls and measures in place detailed within the Corporate Risk Register. All staff within the team have completed the GDPR & Information Security e-learning training which is renewed on an annual basis. All Members have received training on information security. The Fund is compliant with the requirements of GDPR. Any data breaches by officers within the Fund are reported through the Council's data breach processes and also recorded on the Fund's breach register. In the event of systems being interrupted, the Council will implement the relevant Business Continuity Plan to ensure service continuity in a timely manner. <p><u>Your Pension Service (YPS):</u></p> <ul style="list-style-type: none"> Cyber security risks and controls in place Services backed up to tape every night and held off site. Disaster recovery plan is tested twice yearly. Networks protected by fire walls to prevent authorised access. Intrusion Prevention Systems in place and penetration tests completed annually.
Pension Administration Processes There is a risk of delays in scheme members entering into pension or receiving other services	<ul style="list-style-type: none"> organisational restructure within YPS, personnel 	<ul style="list-style-type: none"> customer dissatisfaction with the service 	<ul style="list-style-type: none"> Formal agreement in place with Lancashire County Council for the discharge of pension administration functions through the Local Pensions Partnership (LPP). This confirms Lancashire will exercise the same skill, care and diligence they would apply

3. MANAGEMENT & FINANCIAL PERFORMANCE

Risk:	Caused by:	Resulting in:	Mitigated by:
from the Fund in an untimely manner.	changes and the need for retraining		<p>to the discharge of their own functions in relation to the administration of pensions.</p> <ul style="list-style-type: none"> • Formal quarterly meetings of YPS and Cumbria LGPS officers to review and consider standards of service provision against YPS internal KPIs. Regular (at least quarterly meeting) of operational group and ongoing dialogue with officers at YPS throughout the year. • YPS experienced a decline in performance standards as a result of a restructure within the service at the beginning of April 2018 as reported to Committee in June and September. • The Deputy Director of Pensions of LPP presented performance stats to the Fund throughout the quarter which were regularly scrutinised and challenged. LPP have a clear recovery plan to address the performance issues and adherence to this plan is being closely monitored by Officers of the Fund. • Internal audit assurance is provided annually by Lancashire County Council that internal controls with YPS over the operation and administration of Cumbria Fire Service Pension Scheme data are adequate and effective.
<p>Timeliness of breach reporting</p> <p>There is a risk that escalation of employer breaches (including the reporting of breaches to the Regulator) are not conducted in a timely manner.</p>	<ul style="list-style-type: none"> • not effectively maintaining or reviewing the breach register. Not advising Pensions Committee / Local Pension Board of employer breaches or failing to report significantly material breaches to the Regulator within the prescribed timeframe. 	<ul style="list-style-type: none"> • difficulties in recovering unpaid contributions, and potentially a reportable breach to the Pensions Regulator. 	<ul style="list-style-type: none"> • The Scheme's Administration and Communication Policy details the processes that the Fund deploys if an employer breaches their regulatory to scheme policy obligations. • All breaches are recorded on the Fund's breach register. • Any failure to pay within 5 days of the required timeframe are reported to Pensions Committee on a quarterly basis. These breaches are also reported to the Local Pension Board on a quarterly basis. Material breaches would be reported to the Chair of Pensions Committee between meetings. • Where a breach is considered to be significantly material, this will be reported to the Pensions Regulator within the prescribed timeframe. Non-urgent but material breaches should be reported to the Regulator within 10 working days of them being confirmed.

3. MANAGEMENT & FINANCIAL PERFORMANCE

Risk:	Caused by:	Resulting in:	Mitigated by:
Cash Flow There is a risk that the Fund will turn cash flow negative (after investment income).	<ul style="list-style-type: none"> • pension contributions not being received, pension payments increasing at a faster rate than expected or investment yield being lower than expected 	<ul style="list-style-type: none"> • insufficient cash being available when required to pay pensions and the need for the Fund to quickly sell investments to provide cash to ensure pensions are paid. 	<ul style="list-style-type: none"> • Consideration of options to address any movement of the Fund towards a negative cashflow position are included within the Business Plan of the Fund. • Officers and Members work closely with the Fund's investment advisors and actuary to consider the options to address any potential cashflow implications. • Effective cashflow planning and management enables the Fund to understand when there may be significant calls on cash. This may be due to the pension payroll or calls on committed investments. • The Fund aims to hold between 2% and 10% of its portfolio as cash to enable it to effectively manage its cash position.

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3.2.4 THIRD PARTY RISK

Employers:

- The 2016 valuation of the Fund was based on requirements set out within the 2016 CIPFA Guidance 'Preparing and Maintaining a Funding Strategy Statement in the LGPS'. This required the Actuary and the Fund to consider:
 - The requirement for contributions rates to be sufficient to secure the Fund's solvency within an appropriate deficit recovery period, and
 - The desirability of employer contribution rates remaining as stable as possible.

These requirements for Fund valuations are also relevant to the valuation being undertaken as at 31st March 2019.

Prior to 2016, triennial valuations placed equal consideration on ensuring local term solvency and maintaining stable employer contribution rates.

- Due to the large proportion of small employers in the Fund, a review of employer covenant was undertaken during 2018/19 to understand the risk to other employers and the overall solvency of the Fund. Where covenant risk of an employer has been assessed as high the Administering Authority will work closely with the employer throughout the valuation process to seek to mitigate the third party risk to both the Fund and other employers.
- Pension contribution payments from employers are monitored on a monthly basis. Late payments constitute a breach of regulatory obligation by the employer. Where such a breach occurs, this is reported to both the Pensions Committee and the Local Pension Board. Where the breach is considered to be materially significant, this will be reported to the Pension Regulator. No material breaches were identified in 2018/19. The Fund will take any action necessary to protect other employers in the Scheme including (but not being limited to) charging interest on the late payments, claiming outstanding payments from the employers guarantor (if appropriate) or terminating the employer's participation in the Scheme. The Fund charged interest for late payment of contributions to two employers in 2018/19. Additionally during the year, the Fund called in the guarantee for outstanding contributions associated with an employer that had entered into administration in 2017/18.

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 quarterly client review meetings focusing on both past performance and future plans and expectations, review of the pensions press and ISAE 3402/SSAE 16 Internal Control reports.

3.2.5 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

3. MANAGEMENT & FINANCIAL PERFORMANCE

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 both active fund managers and a passive manager.

The detailed selection and timing of investment purchases and sales within each portfolio is delegated to the Investment 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 mandate (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 Investment Management Agreements. Manager's performance targets are set to balance exposure to risk and required performance. Their performance against target is monitored throughout the year and reported to the Investment Sub Group every quarter.

3.2.6 INTERNAL CONTROL AND RISK MANAGEMENT

Good internal controls are an important characteristic of a well-run Fund and one of the main components of the administering authority's role in securing the effective governance and administration of the Fund. Internal controls can help protect the Fund from adverse risks, which could be detrimental to the Fund and its stakeholders if they are not mitigated.

The Internal Control and Risk Management Policy (**Appendix A-12**) details the structure of internal controls & risk management considerations that already exist in the processes Officers undertake on a regular basis

3.2.7 INTERNAL AUDIT

In 2018/19 the Internal Audit function of Cumbria County Council, as the Administering Authority of the Cumbria LGPS Pension Fund, undertook an audit, reviewing data quality arrangements within the Fund.

The scope of the audit was to provide assurance over management's arrangements for governance, risk management and internal control in the following areas:

- The Fund's approach to assessing, monitoring and reporting data quality;
- The processes in place for improving data quality across the Fund; and
- The Fund's consideration and inclusion of all key sources of information to ensure all relevant steps have been taken to improve data quality.

The audit report concluded that the current controls operating within Pensions data quality arrangements provide "substantial assurance" (the highest level of assurance) and there were no recommendations arising from the review.

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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 CONTRIBUTIONS DUE FROM EMPLOYERS

Details of contributions received by the Fund from employers are disclosed in **note 3** to the Financial Statements (see page **87**). During the year there were a small number of employers who failed to pay contributions to the Fund in a timely manner.

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. As noted in section 3.2.4 the Fund charged two employers interest for the late payment of contributions in 2018/19 totalling £839 and called in the guarantee for one employer who had entered into administration owing contributions to the Fund.

There were no material breaches of employer statutory obligations to the Scheme in 2018/19 and consequently no breaches were reported to the Pensions Regulator.

The following table sets out employer and employee contributions made during 2018/19 by employer within the Fund.

	Employer Contributions* £'000	Employee Contributions £'000
Employers - Scheduled Bodies		
Allerdale Borough Council	928	390
Appleby Grammar Academy	142	29
Barrow Borough Council	1,888	336
Broughton Primary Academy	31	8
Burton Morewood Primary Academy	51	14
Caldew Academy	209	56
Carlisle City Council	1,617	677
Cartmel Priory Academy	99	23
Chetwynde School Academy	56	17
Cockermouth Academy	288	79
Copeland Borough Council	975	375
Cumbria Chief Constable	2,939	1,211
Cumbria County Council	25,712	10,328
Cumbria Education Trust (one employer)	791	198
Dallam Academy	314	88
Dearham Primary Academy	70	21
Eden District Council	802	273

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	Employer Contributions* £'000	Employee Contributions £'000
Fairfield Primary Academy	83	22
Flimby Academy (New)	26	7
Furness Academy	315	69
Furness College	517	182
George Hastwell School Academy	129	30
Ghyllside Academy	96	25
Inspired Learning MAT (one employer)	136	37
James Rennie Academy (New)	130	35
Kendal College Further Education	417	130
Kendal MAT - Castle Park Academy	65	16
Keswick Academy	297	75
Kirkbie Kendal Academy	199	51
Kirkby Stephen Academy	108	24
Lake District National Park Authority	734	339
Lakes College (West Cumbria)	440	151
Lunesdale MAT (one employer)	346	87
Orian Solutions	216	88
Queen Elizabeth Grammar Academy	139	28
Richard Rose Academy	418	75
Settlebeck High Academy	77	18
South Lakeland District Council	1,569	614
Stanwix School Academy	89	23
Stramongate Academy	79	26
The Good Shepherd MAT (one employer)	90	22
The Queen Katherine School Academy	327	82
Trinity Academy	392	93
Walney Academy	172	45
West Lakes Academy	318	91
Less than 20 Active Employees	703	210
Total for Scheduled Body employers	45,539	16,818
Employers - Admitted Bodies		
Carlisle Leisure Ltd	62	46
Carlisle Mencap - Hart St	77	23
Carlisle Mencap - Huntley Ave	76	21
South Lakes Housing	64	51
West House	412	158
Less than 20 Active Employees	600	155
Total for Admitted Body employers	1,291	454
Total Contributions received	46,830	17,272
<i>* Employer contributions include Normal and Deficit recovery contributions</i>		

3. MANAGEMENT & FINANCIAL PERFORMANCE

3.3.2 PERFORMANCE AGAINST BUDGET

The expenditure budget for administering the Cumbria LGPS for 2018/19 was £6.980m (excluding pooled fund costs and entry fees and transaction costs). The outturn for 2018/19 was £6.813m resulting in an underspend of £0.167m as detailed below.

	2018/19 Revised Budget (£'000)	2018/19 Outturn Actual (£'000)	Budget v Actual Variance (£'000)
Administration			
- Pensions Administration	1,049	1,038	(11)
- Employee Costs	201	198	(3)
- Legal Advice	30	5	(25)
- Other	0	27	27
Administration Total	1,280	1,268	(12)
Investment Management			
- Fund Management Fees	4,827	4,719	(108)
- Custody Fees	100	107	7
- Pooled Fund costs including Entry Fees*	-	13,266	13,266
- Transaction Costs*	-	302	302
Investment Management Total	4,927	18,394	13,467
Oversight & Governance			
- Employee Costs	337	361	24
- Pension Fund Committee	39	10	(29)
- Pension Board	16	10	(6)
- Investment consultancy fees	123	94	(29)
- Performance monitoring service	22	30	8
- Shareholder voting Service	16	17	1
- Actuarial fees	34	72	38
- Audit fees	30	21	(9)
- Legal & Tax	44	21	(23)
- Border to Coast Pensions Partnership	78	77	(1)
- Other (including bank charges)	34	6	(28)
Oversight & Governance Total	773	719	(54)
Total Pensions Expenditure	6,980	20,381	13,401
*Excluding pooled fund costs and transaction costs	-	(13,568)	(13,568)
Total Net Pensions Expenditure against Budget	6,980	6,813	(167)

* The Cumbria LGPS Administration budget does not incorporate pooled fund costs and entry fees and transaction costs. Cumbria LGPS complies with CIPFA guidance on accounting for management expenditure and as a result of this these costs are accounted for as management expenses and adjusted from the change in market value and net income (where for management purposes they are budgeted).

3. MANAGEMENT & FINANCIAL PERFORMANCE

Good to know:

Total Management expenses paid in 2018/19 (£20.381m adopting CIPFA's 'Management Costs Guidance') equates to 0.75% of the Fund net assets at 31st March 2019. The gain on return on investments was over £180m.

Narrative on variances:

- Pensions Administration - The costs associated with the Fund's pensions' administrator increased in line with inflation and to reflect the increasing membership within the Scheme. Pensions Administration costs marginally underspent by £0.012m against the budget of £1.280m.
- Investment Management - The investment manager fees (excluding pooled fund and transaction costs) account for approximately two thirds of the total Pensions budget. This element of the budget can be difficult to predict and influence due to the correlation with asset performance, and any manager or asset allocation changes. The full year spend on fund management and custody fees was £4.826m. This equated to £0.101m less than the budget of £4.927m. Pooled Fund and transaction costs (which are not included with the management budget) totalled £13.568m during the year.

Fund management fees in 2018/19 were £4.719m. This includes £0.648m of Border to Coast fees and £4.071m related to other investment managers.

- Oversight & Governance - The Fund spent £0.719m on Oversight & Governance services compared to a budget of £0.773m - an underspend across the service of £0.054m. The Fund spent £0.038m more than budgeted on Actuarial fees predominately due to undertaking some early work associated with the 2019 Triennial Valuation. This was offset by underspends on investment consultancy (£0.029m) (due to the timing of transitioning assets to Border to Coast), Pensions Committee (£0.029m) and Legal Services (£0.023m) due to the specific advice required during the year. Other elements of this budget underspent by a total of (£0.011m).

3.3.3 ANALYSIS OF POOL SET UP COSTS

The expenditure above includes costs relating to the set-up of the Fund's chosen pooling company, Border to Coast Pensions Partnership Ltd. These are shown within Investment Management fees and Oversight & Governance, totalling £0.648m for 2018/19 as set out below.

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Cumbria Pension Fund's Allocation of Border to Coast Expenditure

	2018/19 £'000	2017/18 £'000	2016/17 £'000	Cumulative £'000
Set up Costs				
Equal allocation to partner funds:				
- Governance and oversight of company	171	-	-	171
- Implementation				
Staff Costs	56	70	-	126
Recruitment	27	18	-	45
Legal & Tax advice	80	67	-	147
Procurement	8	-	-	8
ICT	23	17	-	40
Project Mngt Costs	31	-	-	31
Other Costs	14	7	10	31
- Total Implementation costs	239	179	10	428
Cost allocation by investment strategy:				
- Sub-fund development and projects	175	-	-	175
	585	179	10	774
Direct Investment Management Fees				
- Sub-fund costs (on assets under management)	13	-	-	13
- Transition manager costs	50	-	-	50
	648	179	10	837
Estimated savings due to pooling & LGPS discounts	(444)	(335)	(332)	(1,111)

Estimated savings due to pooling & LGPS discounts:

Whilst the Fund's allocation to UK equity was invested in the pool for only one quarter during 2018/19, the move to the pool delivered savings on management fees for these assets of £0.138m in 2018/19. In addition to this the Fund has benefited from discounted management fees negotiated as a result of the pooling agenda.

Taking both the savings generated by the negotiated rates and the savings on the UK equity management fees the estimated total savings in investment management fees arising from collaboration with pooling partners (including on passive management) were £0.444m in 2018/19, and cumulatively to date amount to £1.111m. This figure does not take into account the set up costs and non-investment related running costs of the pool.

One of the main aims of pooling is to deliver cost savings through economies of scale whilst generating the net returns required to fund members' current and future pensions. The joint submissions to Government by the Border to Coast partner funds in February 2016 and July 2016 detailed the pooling proposal and outlined the potential savings that could be achieved. Based on estimates of total investment costs and fees for each of the authorities in the pool (£126m as at March 2015), the proposal outlined potential savings per year of between £15m and £27m by March 2021, and between £21m and £39m by March 2024, excluding set-up costs and transition costs. Estimated

3. MANAGEMENT & FINANCIAL PERFORMANCE

break-even for the pool overall was expected to be achieved at best within 2 years and at worst within 5 years (March 2023).

The build of the new pooling company will involve several years of upfront set-up costs whilst in the build phase, to invest in a structure that will enable future years of cost savings from economies of scale and collective investment. The benefits are expected then to be seen for many years to come, more particularly in private markets and alternatives where investing at scale has a significant impact on fees that can be negotiated.

3.3.4 ANALYSIS OF PENSION OVERPAYMENTS, RECOVERIES AND AMOUNTS WRITTEN OFF

The Cumbria Pension Fund pays approximately 16,200 pensioners every month and annual net pensions paid totalled £70.525m in 2018/19 (£67.266m in 2017/18). 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.

To limit potential overpayments the Fund operates rigorous controls and participates in several multiagency initiatives, including the National Fraud Initiative (NFI) an exercise to match data and identify overpayments, and Tell Us Once (through Department of Work and Pensions) to receive early notification of deaths.

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.

	2018/19		2017/18		2016/17		2015/16		2014/15	
	£	Number of cases	£	Number of cases	£	Number of cases	£	Number of cases	£	Number of cases
Overpayments	140,060	112	45,917	105	156,755	163	48,643	92	37,936	69
Overpayments as % of annual pensions paid	0.20%		0.07%		0.24%		0.08%		0.06%	
Overpayments recovered in year	128,388	115	89,894	113	97,804	140	42,115	83	30,333	64
Overpayments in process of recovery	61,514	25	23,498	24	71,599	32	6,528	9	7,603	4
Overpayments in process of recovery as a % annual pensions paid	0.09%		0.03%		0.11%		0.01%		0.01%	
Overpayments written off	245	3	5,244	3	1,200	3	3,524	5	82	1

3.4 PERFORMANCE AGAINST BUSINESS PLAN 2018/19

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 December 2018 detailing the half year position for 2018/19 and an end of year update report in June 2019 outlining delivery against the business plan and the expected 2018/19 outturn.

The purpose of the Cumbria LGPS annual Business Plan is to provide an Action Plan for the current year of the key priorities in order to ensure these objectives are

3. MANAGEMENT & FINANCIAL PERFORMANCE

delivered. While the plan is reviewed annually it builds on those prepared for earlier years.

All work plan objectives in the 2018/19 Business Plan have either been completed during the year or are ongoing work that is on track for completion. The main actions completed during 2018/19 are set out in **Note 1(d)** to the accounts from page **76** of this report.

3.4.1 LOOKING FORWARD - BUSINESS PLAN 2019/20

Looking forward to 2019/20, the proposed key deliverables in the year (grouped under the three main service areas of Administration, Investment Management and Oversight and Governance) include:

Administration:

- Undertake the Triennial Actuarial Valuation as at 31st March 2019.
- Implement action plan from the Pensions Regulator's cohort review of the Fund.
- 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 to meet the data requirements of the Pensions Regulator.
- Continual improvement programme for the quality of data held by the Fund.

Investment Management:

- Undertake a full Investment Strategy Review, to consider the key outcomes of the 2019 actuarial valuation and their implications for the Fund going forwards.
- Continue to investigate investment options for the Fund's 'underweight' positions in asset allocations (subject to outcomes of the strategy review).
- Continue the transition of assets from the Fund to Border to Coast.
- Consideration of options to address negative cash flow position at a contributions level of the Fund.
- Continual monitoring of the Equity Protection solutions held within the Fund.

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Oversight & Governance:

- Undertake the election process for membership of the Local Pension Board.
- Review and update of Fund risks, policies and strategies.
- Continue to influence the development and maintenance of robust Governance arrangements in respect of the relationships between the Pension Fund and Border to Coast.
- Review, measure and deliver training to Members and Officers as outlined in the Training Plan.
- Compliance with contract review processes and performance monitoring at both Committee and Officer level.
- Assess the impact of and respond to consultations that will have an impact on the structure and performance of the Fund.
- Review of governance arrangements in response to financial, regulatory and structural changes.
- Completion of the 2018/19 Cumbria LGPS Annual Report and Accounts incorporating any new regulatory/technical changes to meet guidance issued by CIPFA, the Pensions Regulator, HMRC, or the Local Government Association (LGA). Annual accounts are required to be completed by the shortened time frame of 31st July 2019.

3.5 ADMINISTRATION MANAGEMENT PERFORMANCE

In February 2016 the arrangement with Lancashire County Council for the provision of pension administration was extended. Lancashire CC has contracted for this service (for both Lancashire and Cumbria LGPS Funds) to be undertaken by the Local Pension Partnership (LPP) from April 2016. This is a not for profit arrangement providing pension administration services to the public sector. The overall performance for 2018/19 against key pension administration indicators was 91% against a target of 90% as set out in the table in 3.5.1 below.

3.5.1 KEY PERFORMANCE INDICATORS

Indicator	Target %	Actual 2018/19 %	Actual 2017/18 %	Actual 2016/17 %
Estimate benefits within 10 working days	90	91	98	98
Payment of retirement benefits within 10 working days	90	90	99	98
Payment of death benefits within 10 working days	95	83	98	99

3. MANAGEMENT & FINANCIAL PERFORMANCE

Indicator	Target	Actual 2018/19	Actual 2017/18	Actual 2016/17
	%	%	%	%
Implement change in pensioner circumstance by payment due date	90	98	99	98
Respond to general correspondence within 10 working days of receipt	90	78	95	97
Action transfers out within 15 working days	90	84	97	95
Action transfers in within 15 working days	90	84	98	98
Pay refunds within 10 working days	90	93	99	94
Provide leaver statement within 15 days	90	93	97	98
Amend personal records within 10 working days	90	99	100	100
	90	91	98	98

The quality of service provided by Local Pension Partnership (LPP) (which trades in Cumbria as YPS), significantly reduced in the first half of 2018/19 following an internal reorganisation within LPP in April 2018. Performance against KPIs fell to 73% in Q1 and 89% in Q2 before recovering to pre-restructure levels of 97% in Q3 and 97% in Q4. This reduction in service provision in the first six months of the year and the recovery in the second half of the year resulted in annual performance against the KPIs of 91% (against a target of 90%).

Whilst YPS has maintained its pre-restructure level of performance against KPIs for two successive quarters, the Fund will continue to provide robust scrutiny and challenge to the quality of service provided by YPS to ensure that the effect on scheme members and employers is minimised.

The Fund and YPS have agreed to review the performance indicators used to assess performance of the pensions administration service. This will ensure that performance is assessed by focussing on customer experience thereby “putting the customer at the heart of everything we do” a key objective of Cumbria County Council, as the Administering Authority of the Cumbria Pension Fund.

3.5.2 NUMBER OF SCHEME MEMBERS IN THE FUND

Over the last five years the Fund has seen a 10% increase in the numbers of Scheme Members in the Fund:

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Membership Category	31-Mar-19	31-Mar-18	31-Mar-17	31-Mar-16	31-Mar-15
Actives	16,453	17,034	16,832	16,270	16,506
Deferred	25,202	24,436	23,793	23,339	21,768
Pensioners	16,185	15,796	15,373	14,910	14,403
TOTAL	57,840	57,266	55,998	54,519	52,677

During the year 1,212 scheme members were put into pension and a further 39 scheme members converted their pension into a cash lump sum. The breakdown of new pensioners is set out in the table below.

Retirement Method	Active Members	Deferred Members	Total
Ill Heath	17	-	17
Normal Retirement	117	-	117
Early Retirement	256	764	1,020
Late Retirement	50	8	58
TOTAL	440	772	1,212

3.5.3 EMPLOYERS IN THE FUND

As at 31st March 2019, there were 127 employer bodies within the Fund (127 at March 2018). Whilst there was no net movement in the number of employers in the Fund during the year, two academy employers joined and one left the Fund during the year. Additionally one admitted body joined the Fund and two left during the year. The admitted body that joined the Fund was required to provide a guarantor to secure the assets of the Fund on behalf of all other employers.

The table below provides a summary of employers as at 31st March 2019 split between those with and without active members in the Fund.

	Scheduled Bodies	Admitted Bodies	Total
Employers with active members	71	34	105
Employers with liabilities but no active members	12	10	22
TOTAL	83	44	127

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The service standards set and agreed between the Fund and employers is detailed in the Administration & Communication Policy presented in Appendix A-3 to the Annual Report.

4. INVESTMENT POLICY & PERFORMANCE

4 INVESTMENT POLICY AND PERFORMANCE REPORT

4.1 INTRODUCTION

The purpose of this section of the report is to demonstrate how the investment strategy has been implemented during the year.

Investment Strategy Statement: The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require an Administering Authority to prepare, maintain and publish an Investment Strategy Statement (ISS). The aim of the ISS being to formulate a policy for the investment of Fund money, which must be in accordance with guidance issued by the Secretary of State.

The ISS (**Appendix A-4.**) outlines the Fund's investment strategy, and how the investment risk and return issues are to be managed relative to the Fund's investment objectives. It should be read in conjunction with the Funding Strategy Statement (FSS) (**Appendix A-6**) which sets out how solvency risks will be managed with regard to the underlying pension liabilities.

In summary the Fund has a long term, prudent, risk aware investment strategy, which is kept continually under review through an annual evaluation of the Funding Strategy and the Investment Strategy Statement.

Funding Strategy Statement: The Funding Strategy Statement (FSS) is the Administering Authority's key governance document in relation to the actuarial valuation. It sets out the funding policies adopted, the actuarial assumption used and the timescales over which deficits will be paid off.

The purpose of the FSS is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory requirement for contributions rates to be sufficient to secure the Fund's solvency within an appropriate deficit recovery period;
- have regard to the desirability of employer contribution rates remaining as stable as possible; and
- to take a prudent longer-term view of funding those liabilities.

4.2 INVESTMENT MANAGEMENT, ADMINISTRATION AND CUSTODY

Overarching administration of investments (including accounting, appointment of investment managers (excepting those appointed by Border to Coast on behalf of the pool), custodian, and other investment related services) is undertaken in-house by Cumbria County Council as Administering Authority of Cumbria LGPS.

4. INVESTMENT POLICY & PERFORMANCE

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, the Fund operates a tiered investment governance structure. The Committee controls asset allocation (which current empirical evidence has been shown to drive over 85% of performance) while tactical investment decisions and investment manager monitoring have been delegated to Officers in consultation with the Investment Sub Group. (For further details of the governance arrangements within Cumbria LGPS see section 7.2.)

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. These managers include the Border to Coast Pensions Partnership Ltd, formed and owned by twelve partner LGPS funds including Cumbria, in order to collectively pool investment assets; more detail on pooling is included in section 4.4.

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 (pooled funds, UK property, some cash, and 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.

4.3 ASSET ALLOCATION

The Fund underwent a Strategic Investment Review in 2017/18 and the key conclusion of this was that "the Fund's investment strategy is in good shape with no material changes required". An interim review, undertaken during 2018/19, echoed this conclusion whilst also recommending that a full review of the Strategy be undertaken in 2019/20 following the results of the Triennial Actuarial Valuation of the Fund. A full review of the Investment Strategy has therefore been incorporated within the Fund's business plan for 2019/20.

The 2017/18 Strategy Review also stated the Fund should consider options for "banking" a proportion of recent funding level improvements. In response to this, and in recognition of the risk of a significant increase in employer contributions at the 2019 valuation in the event of a significant downturn in global equity markets, the Fund purchased a number of equity protection products. The products purchased protect £1.075bn of UK, US and European equity against falls in the value of this equity of between 5-30%. This protection was taken out on 4th April 2018 and provides protection to the value of these assets until 31st March 2020.

4. INVESTMENT POLICY & PERFORMANCE

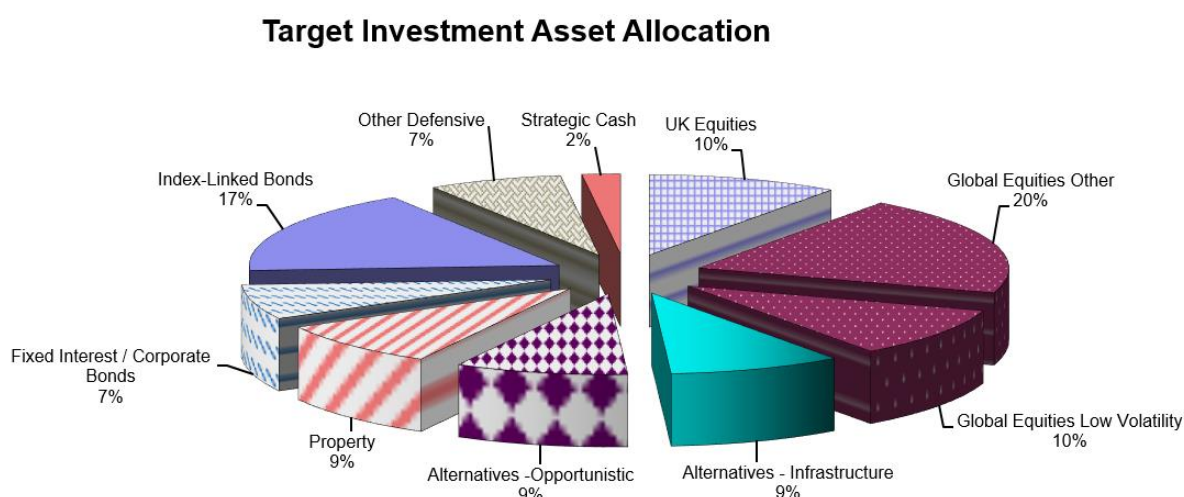
The process of implementing changes in asset allocation to enable the Fund to reach its allocation targets in alternative assets has progressed steadily, with the following changes being made this year:-

- The selection of suitable investment for the infrastructure and opportunistic portfolios, including new investment commitments to Pantheon Private Equity, Healthcare Royalty Partners, SL Capital, and the first Border to Coast private markets fund to be launched in 2019/20 – Border to Coast Private Equity 2019;
- The selection of suitable investments to the defensive asset allocation (income seeking with capital preservation), with new investment commitments made to Barings Global Private Loan Funds, and the use of cash as a strategic holding; and
- The liquidation of the BlackRock alternatives portfolio has continued with the Fund's assets held by BlackRock reducing (from £21.7m at 31/03/18 to £19.0m at 31/03/19) as funds are released for new investment into infrastructure and opportunistic products.

Investment asset allocation once Investment Strategy has been fully implemented:

The targeted investment asset allocation is specified in the Fund's Investment Strategy Statement, which has been agreed by the Pensions Committee, and this also includes a section detailing the Fund's Investment Beliefs.

The following chart shows the target investment asset allocation to be held by the Fund as set in the Investment Strategy:

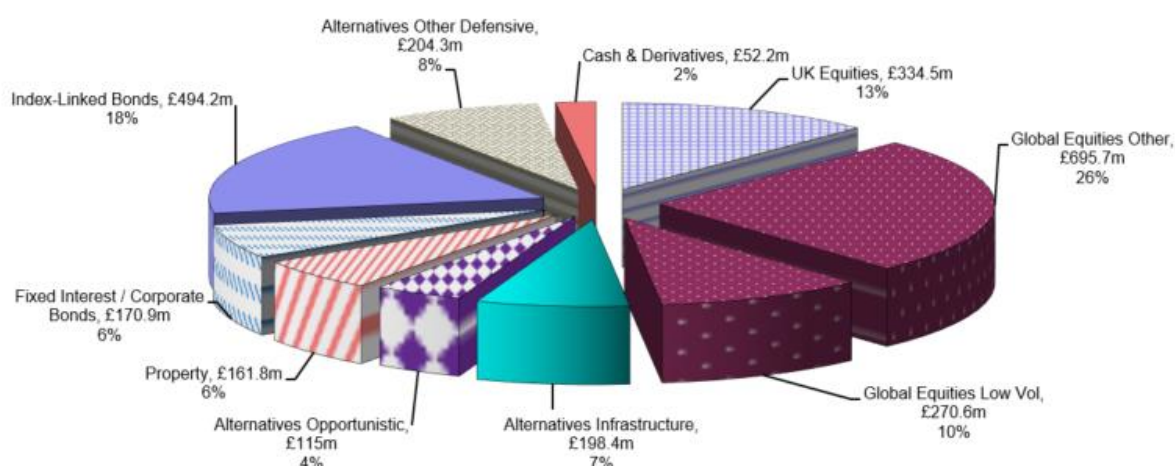


Investment assets as at 31st March 2019:

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:

4. INVESTMENT POLICY & PERFORMANCE

Investment Assets at 31st March 2019, £2,697.601 million



Assets held in investment pooling arrangements: As at 31 March 2019, the investments managed by the Border to Coast Pool totalled £268m, with the remaining £2,430m investments managed outside of the pool, as shown in the following table.

Manager	Asset Class	31 March 2018		31 March 2019	
		£'000	%	£'000	%
Investments Managed by Border to Coast Pensions Partnership Ltd					
Border to Coast UK Equity	Equities	-	0.0%	268,002	9.9%
	Managed by Pool	-	0.0%	268,002	9.9%
Investments Managed outside Border to Coast Pensions Partnership Ltd	Assets outside Pool	2,542,985	100.0%	2,429,599	90.1%
Total Net Investments		2,542,985	100.0%	2,697,601	100.0%

Full Details of the investments managed outside the pool are listed by Investment Manager and asset class in Table 10(e) of the pension fund accounts (section 8)

Further details of investment asset pooling are set out at 4.4 below.

Changes in assets during the year: The percentage (%) asset allocation has moved as follows since 1st April 2018:

4. INVESTMENT POLICY & PERFORMANCE

	Assets as at 1st April 2018	Assets as at 31st March 2019	Movement
UK Equities	14%	13%	(1%)
Global Equities	34%	36%	2%
Fixed Interest / Corporate Bonds	6%	6%	0%
Index Linked Bonds	18%	18%	0%
Alternatives	14%	19%	5%
Property	8%	6%	(2%)
Cash & Derivatives	6%	2%	(4%)
	100%	100%	0%

The key changes in asset holdings since the start of the year are reductions in the percentage of the portfolio held in UK equities of 1% to reduce the strategic overweight at the time of transition to Border to Coast, and an increase in alternatives of 5% mainly funded from cash holdings (reduction 4%). These moves have arisen as a result of ongoing work to achieve the target investment allocation as per the Investment Strategy Statement (ISS) (the current Cumbria LGPS ISS can be found in **Appendix A-4**). Other changes reflect the relative performance from the asset type.

The Fund is temporarily overweight in global equities whilst it progresses towards the targeted strategic asset allocation as per the ISS (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 31st March 2019 commitments to infrastructure and opportunistic alternatives totalled £569m (approximately 21% of Fund assets compared to the target ISS allocation to alternatives of 18%) of which £314m (approximately 12% of Fund assets) had been drawn down; elements of which have already been returned to the Fund as profits are generated. The drawdown of these current committed and as yet unallocated amounts will be funded from the overweight element of the equity holdings.

4.4 INVESTMENT ASSET POOLING – BORDER TO COAST PENSIONS PARTNERSHIP**4.4.1 BACKGROUND**

In November 2015, the Department for Communities and Local Government's Secretary of State required authorities to submit proposals describing how they could seek to pool LGPS investment assets, having regard to each of four criteria:

1. Asset pool(s) that achieve the benefits of scale;
2. Strong governance and decision making;
3. Reduced costs and excellent value for money; and,
4. An improved capacity to invest in infrastructure.

In response to this, in February 2016, Cumbria LGPS and a number of partner Funds submitted a proposal for the creation of an investment asset pooling company. Following further discussions between the Minister and the partner funds, Border to

4. INVESTMENT POLICY & PERFORMANCE

Coast Pensions Partnership Ltd was duly formed by twelve partner LGPS funds including Cumbria.

In February 2017, Cumbria County Council formally confirmed the adoption of the Border to Coast Pensions Partnership Ltd (Border to Coast) investment asset pooling arrangement proposal as the Authority's chosen approach to meet the regulatory requirement to pool assets in the LGPS. The Council also resolved to take a 1/12th shareholding in the company.

The shareholders are the administering authorities for the pension funds of Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, Northumberland, North Yorkshire, South Yorkshire, Surrey, Teesside, Tyne & Wear, and Warwickshire. The Fund has an unquoted UK equity investment of £0.833 million as one of the twelve shareholders in Border to Coast Ltd.

Following FCA approval in July 2018, Border to Coast became operational as an asset manager, with the first assets from three Partner Funds transitioning into the company. Border to Coast is progressing at pace with the development of investment opportunities for its Partner Funds planned for launch over the coming years.

As pooling is aimed at investing collectively to deliver cost savings at scale and efficiencies, each Pension Fund and Pensions Committee will remain with its sovereignty unchanged. Cumbria LGPS will retain the decision making powers regarding investment strategy and asset allocation, and will delegate the majority of the investment management function to Border to Coast. Neither the 57,840 Cumbria Scheme members nor the 127 employers in the Cumbrian Fund will be directly affected by these changes.

4.4.2 INVESTMENTS IN THE POOL

It is anticipated that a significant proportion of the Fund's investments will be made through Border to Coast. Where it is not practical or cost effective for assets to be transferred into the pool they will continue to be managed at the Fund level. This is expected to predominantly include index tracking passive investments and unquoted investments such as limited partnerships and property. Whilst these assets are unlikely to be transferred in the short-term, it is expected that once these investments mature the proceeds will be reinvested into Border to Coast-held investments.

The Fund will perform an annual review of assets that are determined to be held outside the pool to ensure that it continues to demonstrate value for money. Following this review it will submit a report on the progress of asset transfers to the Scheme Advisory Board, in line with the guidance.

As previously noted one of the main aims of pooling is to deliver cost savings through economies of scale whilst generating the net returns required to fund members' current and future pensions. The creation and running of suitable investment sub-funds (i.e. the investment 'packages' for core strategic allocations) is fundamental to this process. In recognition of the importance of this work and the need to ensure Cumbria's requirements are met, Officers and Advisers have been heavily involved in Border to Coast's development of its investment sub-funds.

4. INVESTMENT POLICY & PERFORMANCE

The Fund undertakes due diligence before and during the transition of assets to Border to Coast to ensure the interests of Cumbria LGPS are upheld. Both the Pensions Committee and the Investment Sub Group (ISG) consider progress in their quarterly meetings, which in 2018/19 included consideration of options for the Fund's 10% actively-managed UK equity allocation as set out below.

At a special meeting of the Pension Committee, held on 17th July 2018, it was agreed to approve in principle the transfer of the Fund's 10% allocation to UK equities into the Border to Coast internally managed UK Listed Equity Fund and, following completion of final due diligence, this transfer took place in December 2018. The value of this investment as at 31st March 2019 was £268m.

In December 2018, the Pensions Committee agreed in principle to transition up to 20% of its allocation to global equities into the Border to Coast Global Listed Equity Alpha Fund. In June 2019 the Committee confirmed that, subject to the completion of the final elements of due diligence work, the Fund would transition its 20% holding of actively managed global equity into the fund. The transition is expected to take place during 2019/20.

Border to Coast have also launched a structure for the Fund to invest in private markets i.e. unquoted pooled funds in alternative investments. During 2018/19, the Cumbria Investment Sub Group agreed to commit £50m to be invested in the Border to Coast Private Equity 2019 fund. Since the year-end, the Investment Sub Group also agreed to commit £50m to be invested in the Border to Coast Infrastructure 2019 fund. These commitments will be invested in underlying funds chosen by Border to Coast over three to four years starting from April 2019 and September 2019 respectively.

The Fund has no local investment assets i.e. invested directly in Cumbria.

For details of the Border to Coast set-up costs, savings to date and expected future benefits refer to 3.3.3.

4.5 INVESTMENT PERFORMANCE

Good to know:

In 2018/19 the Fund outperformed its Fund specific benchmarks for the 3, 5 and 10 year periods.

The investment outperformance for the three year period of 0.4% means that the active management of investments has gained the Fund (after the investment management fees are paid) around £9.5m per year for three years over a benchmark return.

Detailed performance figures for the Fund are shown at 4.5.1 to 4.5.3 below.

For the twelve month period to March 2019, the majority of markets in which the Fund holds investments showed positive returns. Whilst there was significant volatility

4. INVESTMENT POLICY & PERFORMANCE

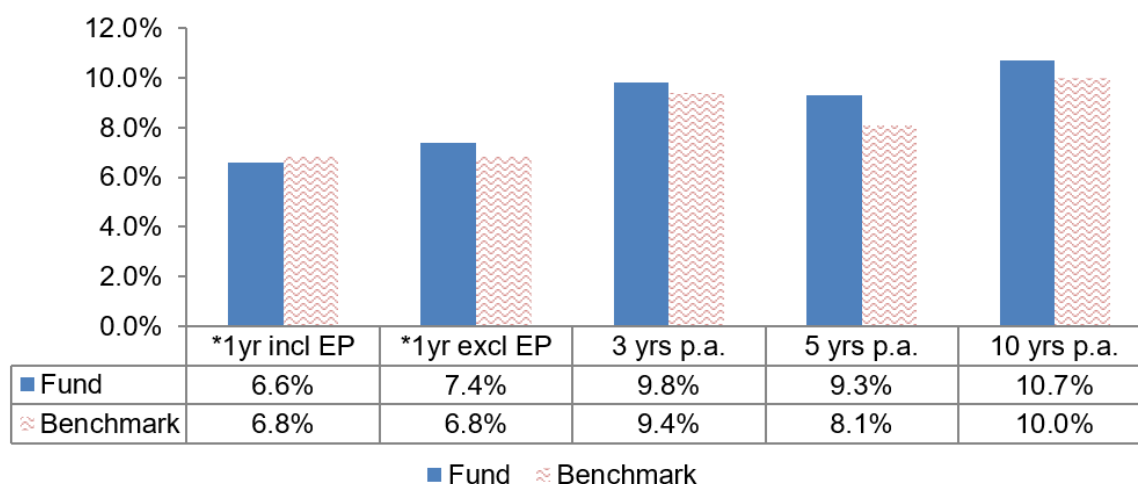
during the year with a low point in December 2018, markets recovered in the final quarter of the financial year to March 2019.

The ongoing uncertainty posed by Brexit has contributed to the volatility in UK financial markets and has also impacted on sterling which experienced devaluation against most other currencies with the exception of sterling in relation to the euro where there has been a marginal recovery over the year.

Global Equities have shown a rise overall in 2018/19 of 11.0%, although there were variations by region. North America showed the strongest performance at 17.5% with the UK, Asia Pacific and Europe growing by 6.4%, 4.7% and 2.7% respectively. UK equities hit a low for the year in December 2018 when the FTSE100 was priced at 6,585, this was followed by a recovery during the first quarter of 2019, replicating similar developments in US markets. Whilst Brexit negatively impacted equity market volatility in 2018/19, much of the volatility in equity markets was as a result of market sentiment around the trade tensions between the United States and China and the move by central banks away from quantitative easing to interest rate increases.

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.



The investment out performance for the three year period shown above of 0.4% means that the active management of investments has gained the Fund (after the investment management fees are paid) around £9.5m per year for three years over a benchmark return.

4. INVESTMENT POLICY & PERFORMANCE

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	4.3	7.5	10.6	10.4
Border to Coast UK Equity	not a full year	n/a	n/a	n/a
Legal & General	7.7	11.4	10.3	11.7
Loomis Sayles (from Dec 2013)	15.4	18.0	15.6	n/a
Nordea (from Nov 2013)	12.5	10.5	12.6	n/a
Schroders	n/a	8.3	5.6	11.2
Standard Life (from Oct 2012)	3.9	5.0	5.8	n/a

Source: State Street Investment Analytics

The Fund Manager mandates above cover 80% (£2,147m) of the fund in segregated and index-tracking mandates, the balance is invested in Alternative pooled funds

4.5.3 FUND RETURNS OVER 1, 3 AND 5 YEARS BY ASSET CLASS (GROSS OF FEES):

To 31 March 2019	1 year %	3 years % p.a.	5 years % p.a.
Total Equities	10.8	12.4	10.4
UK Corporate Bonds	4.3	4.8	5.1
Overseas Bonds	2.1	1.4	*
UK Index Linked Bonds	12.2	7.4	8.0
Cash, currency & other	(9.4)	0.3	*
Alternatives	12.9	13.5	12.6
Property	5.2	7.4	11.0
Total Assets	6.8	10.0	9.4

* not available

Sources: State Street Investment Analytics / PIRC

4.5.4 INVESTMENT FUND MANAGER COSTS AND THE CODE OF TRANSPARENCY

The fund management fees of £4.719m and transaction costs (broker fees) of £0.302m shown in the Accounts - Note 8 Management Expenses Additional Information are the investment management fees as invoiced to the Fund and / or as disclosed in standard accounting information provided to the Fund by Investment Managers.

It is recognised, however, that the reporting of fees by investment managers is not always consistent (even between investment managers in the same asset class) and that there may be additional 'hidden' costs over and above those invoiced or disclosed in traditional reporting to clients. In response to this a voluntary Code of Transparency, covering the provision of transparent and consistent investment cost and fee information between investment managers and Funds, was developed and approved

4. INVESTMENT POLICY & PERFORMANCE

by the Scheme Advisory Board and launched in May 2017. Fund managers to the LGPS are being encouraged to sign up to this Code and as at April 2019, there were over 110 signatories.

The aim of the Transparency code is to provide institutional investors with a clearer understanding of the costs and charges for a given fund or mandate. This should allow investors to compare charges between providers and give them a clear expectation of the disclosure they can expect. It can support the Fund in decision making, demonstrates good governance, and when monitored and evaluated in the context of asset class, risk and return, can assist with value for money assessments.

The majority of the Fund's investment managers have signed up to the transparency code and the Fund has reviewed the first submissions of cost transparency templates received from those managers for the year 2018/19. The templates received from the segregated managers and the passive managers for 2018/19 show additional costs incurred by those managers (i.e. over and above the management fees directly invoiced or reported to the Fund) of approximately £0.892m. These costs are incurred in the course of normal transactions and trading of the portfolios; approximately 60% of the costs were incurred as direct transaction costs (taxes, broker commissions and implicit costs) and the remainder being other indirect transaction costs and passive funds ongoing charges.

In December 2018 the Fund transitioned from Schroders (UK equity segregated portfolio manager) to the Border to Coast Authorised Contractual Scheme (ACS) internally managed pooled UK equity fund. There were additional direct transaction costs incurred during this transition which are not included above as they are related to a specific decision to change our Investment Manager as part of the pooling of LGPS assets and are therefore not specific to ongoing charges of an Investment Manager. The costs over and above the management fees directly invoiced or reported by the Fund were £0.601m of transaction taxes and a further £0.543m of costs relating to the impact of trading / timing etc. on the pricing of the shares bought and sold.

In addition to the above, the Fund's UK directly held property manager has declared costs of £0.547m relating to the stamp duty, agents, legal and other fees that are incurred at the point of buying and selling investment properties. These costs are capitalised at the date of the transaction but are detailed here for completeness.

It is anticipated that the recently issued updated cost transparency template for 2019/20 will provide greater consistency and completeness in reporting by managers; such that, when the full 2019/20 year cost transparency data has been received, it will enable the Fund to further enhance the reporting of 'hidden' investment costs in future years, and continue in its aim to follow best practice within LGPS accounting.

4.6 INVESTMENT GOVERNANCE

4.6.1 RESPONSIBLE INVESTMENT POLICIES AND THE STEWARDSHIP CODE

Cumbria LGPS is committed to being a responsible owner and believes that responsible investment, incorporating environmental, social and governance (ESG)

4. INVESTMENT POLICY & PERFORMANCE

factors into investment decisions, can help to improve the long term value for shareholders.

The Fund's investment guidelines stress the overriding importance of financial considerations in selecting investments, and the Fund aims to fulfil its fiduciary duty to its employers and members by considering investments primarily for maximisation of return, or minimisation of risk. ESG issues can have a material impact on the value of financial assets, and are considered across all asset classes where, in the view of the manager, such considerations may affect performance. If the same risk or return can be achieved from two investments then ESG considerations could be a deciding factor. This process ensures that the Administering Authority does not prefer its own particular interests to those of other Fund employers and members.

The Fund believes that the best way to influence policy change is not through divestment but through active management of its shares. The Fund would only disinvest if maintaining an investment affected the Fund's duty to generate investment return.

Cumbria LGPS takes its responsibilities as an asset owner (shareholder) seriously and adheres to the Principles of the Stewardship Code. It views stewardship as part of the responsibilities of share ownership and therefore, an integral part of the investment strategy. As global investors, Cumbria LGPS expect the principles of good stewardship to apply globally whilst recognising the need for local market considerations.

Cumbria LGPS is a Tier 1 signatory to the UK Stewardship Code and includes its Statement of Compliance with the UK Stewardship Code in Appendix A-4. Cumbria expects its investment managers to also adhere to the Stewardship Code.

Good to know:

Cumbria LGPS is a Tier 1 signatory to the UK Stewardship Code, and publishes a Statement of Compliance with the UK Stewardship Code in its Annual Report and Accounts (Annex B to the Investment Strategy Statement).

Cumbria LGPS's investment managers adhere to the Stewardship Code, and are signatories to the UN Principles for Responsible Investment (PRI).

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.

4.6.2 VOTING AND ENGAGEMENT ARRANGEMENTS

There is an increasing body of evidence to suggest that a well governed company is more likely to deliver stronger long term investment performance. The informed use of votes, whilst not a legal duty, is a responsibility of the owners of companies (i.e. shareholders) and as such is an implied fiduciary duty of pension fund trustees and investment managers to whom they may delegate this function.

4. INVESTMENT POLICY & PERFORMANCE

As detailed in section 4.4.2 the transfer of the Fund's 10% UK equity allocation from Schroders to the Border to Coast Internally managed UK Listed Equity sub-fund took place in December 2018. The voting of these shares previously undertaken by the specialist proxy voting advisor Pension & Investment Research Consultants (PIRC), is now delegated to Border to Coast. Border to Coast has a collaborative voting policy which is enacted on behalf of the Partner Funds by specialist voting advisor, Robeco. This policy aims for the Pool to exercise collective shareholder voting rights effectively through leveraging the benefits of scale.

To ensure that Border to Coast undertake collective voting and engagement activity that is aligned to the individual Fund's beliefs, the Border to Coast Corporate Engagement and Shareholder Voting Policy and Guidelines are approved annually by the Partner Funds at the Border to Coast Joint Committee.

The voting policy and guidelines take into account the UK Corporate Governance Code and other best practice global guidelines. Robeco's voting activities aim to encourage good governance and sustainable corporate practices which contribute to long term shareholder value creation. They will support management wherever possible. To ensure local discretion is retained if, in exceptional circumstances, there was a reason that an individual Fund wished to have their proportionate holding voted differently, a mechanism to enable this to be accommodated is available.

Responsibility for the exercise of voting rights in relation to 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. Where a resolution is put forward which is particularly controversial the manager should liaise with the authority as appropriate.

In endeavouring to invest in the best financial interests of the beneficiaries, the Committee Members have also elected to invest in passive pooled indexed funds and cannot therefore directly influence the social, environmental and ethical policies and practices of the companies in which the index-tracking funds invest. The Members are satisfied that the fund manager's Corporate Governance policy reflects the key principles of Responsible Investment and ESG issues.

Border to Coast and the other investment managers are Tier 1 signatories to the Stewardship Code. In addition the passive manager has also signed up to the United Nations Principles for Responsible Investment (PRI), and Border to Coast are aiming to join at a future date.

All investment managers and PIRC/Border to Coast are required to report their voting and engagement activity to the Fund on a quarterly basis, which the Fund then reports to the Pension Committee. These reports to Committee include a full disclosure of voting activity as an appendix, and are available for viewing on the Council's website under meeting minutes. Full disclosure of voting activity is also available on the Cumbria LGPS website (<https://www.cumbria.gov.uk/Finance/finance/sharevotingrecord.asp>).

4. INVESTMENT POLICY & PERFORMANCE

Cumbria LGPS is also a member of the Local Authority Pensions Fund Forum (LAPFF), and has been able to use the expertise of the Forum to enhance understanding of Corporate Governance issues. LAPFF is a collaborative shareholder engagement group which brings together 80 local authority pension funds and six pools from across the UK with combined assets of over £250 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 ESG issues. LAPFF meets on a quarterly basis and issues voting alerts including advice on how Funds might wish to vote where voting issues arise in relation to particular companies.

Through its membership of LAPFF and ownership of Border to Coast the Fund supports the following organisations:-

- Climate Action 100+
- Task Force on Climate-related Financial Disclosures (TCFD)
- Workforce Disclosure Initiative (WDI)
- Institutional Investors Group on Climate Change (IIGCC)
- Transition Pathway Initiative (TPI)
- 30% Club

There is a dedicated role within the Pensions Finance Team to monitor all aspects of corporate governance at a Fund level which includes liaising with our corporate engagement providers and LAPFF and where appropriate the investment managers.

Key voting and engagement issues affecting Cumbria LGPS investments during 2018/19:

A key focus in voting shares of the Fund continues to be focused on climate change policies, executive remuneration and corporate governance.

Oppose votes were cast across a range of companies in such areas as executive remuneration (for excessive pay or remuneration policies not being linked to long term performance), re-election of directors (for lack of independence or diversity) and re-election of auditors (where their tenure or fees were deemed to be excessive).

Climate change has become increasingly important to companies and their shareholders and it is also acknowledged that these issues are important to Scheme Members of the Fund.

As an example of how responsible investing can influence corporate policy, at the Royal Dutch Shell (Shell) AGM in May 2018 a shareholder resolution was put forward requesting the company to set and publish targets that are aligned with the goals of the Paris Agreement. Whilst this resolution was unsuccessful at the AGM, later in the year Shell brought forward its plans to reduce its net carbon footprint; linked the targets for this to executive remuneration; and set longer-term ambitions related to the company's opportunities in advance biofuel technology and the development of systems to capture and store carbon emissions. Robeco now consider Shell to be a leader in the sector in terms of their planning and positioning for energy transition.

4. INVESTMENT POLICY & PERFORMANCE

In March 2018, the Pensions Committee received a presentation from the Director of Corporate Governance at Legal & General Investment Management. The company is highly regarded in this field, and continues to engage with companies on a variety of issues ranging from climate change to board diversity.

LAPFF have continued with their active engagement, challenging companies on their executive pay arrangements, and climate change policies, in addition to other key corporate governance issues, such as board diversity and independence. Officers continue to keep Committee Members informed of LAPFF activity through quarterly reporting.

4.6.3 COMPLIANCE WITH THE UPDATED MYNERS PRINCIPLES

Good to know:

During 2018/19 the Fund was fully compliant with the updated Myners Principles.

The Myners report on Institutional Investment in the UK was published in 2001 and included principles of good investment practice. In 2007 a review was undertaken to assess the progress made throughout the pensions industry. A recommendation of this review was to modify the principles to reflect the context of the LGPS and compliance with the principles continues to be a measure of 'good investment practice' for all LGPS funds.

Details of the Fund's compliance with the Principles are set out in the Investment Strategy Statement (ISS) (**Appendix A-4**).

Border to Coast have also confirmed their compliance with the updated Myners principles.

5. FUND ADMINISTRATION REPORT & ADMINISTRATION STRATEGY

5 FUND ADMINISTRATION REPORT & ADMINISTRATION STRATEGY

5.1 FUND MEMBER AND PENSIONER ADMINISTRATION

As stated in the Governance Policy Statement **Appendix A-2**, 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 Director of Finance is responsible for securing the satisfactory provision of this service.

In general the Council delegates the control of functions in respect of the management of the Cumbria LGPS to its Pensions Committee, in addition to this it has delegated specific elements of the administration functions of the Scheme to:

- Lancashire County Council; (who's performance is reported to and monitored by the Pensions Committee and Pension Board) 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 by Lancashire County Council to the Local Pensions Partnership (LPP) from April 2016. This is a not for profit arrangement providing pension administration services to the public sector. LPP operates in Cumbria under the trading name of Your Pension Service (YPS).

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. Where escalation is required, officers of the Fund would raise this with Lancashire County Council as the provider for the service.

A key part of the monitoring process is the review of performance against agreed key performance indicators. Details of YPS performance are provided in section 3.5 of this report.

The Cumbria Fund and Lancashire County Council continue to work together with LPP to seek to ensure 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 function 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, GMP reconciliation, and changes to the pensions tax allowances.

During 2018/19 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.

5. FUND ADMINISTRATION REPORT & ADMINISTRATION STRATEGY

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 **Appendix A-3** 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 sections (5.2.1 to 5.2.3).

5.2.1 METHODS OF COMMUNICATION - 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-scheme/) 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, March 2013 and March 2016;
- Prior year Annual Reports including that for 2017/18 (the 2018/19 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; and
- 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:
 - Doing 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.

5. FUND ADMINISTRATION REPORT & ADMINISTRATION STRATEGY

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

5.2.2 METHODS OF COMMUNICATION - 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 323 0260 or by writing to Your Pension Service, PO Box 1382, Preston, Lancashire, PR2 0WQ.

5.2.3 METHODS OF COMMUNICATION - OTHER:

During the year the dedicated Engagement Team within Your Pensions Service undertook a variety of events, courses and presentations. In addition the team visited 8 Fund employers to support, maintain and improve working relationships. They also delivered one to one training to a number of employers to encourage the use of the Employer Self-Service facility. Three Employer training events were hosted with 66 payroll and HR practitioners present.

There were six annual pension surgeries for members, which also focused on enrolling members to My Pension Online, which has led once again to an increase in sign up to the service. In addition to this the team attended 3 redundancy and 1 TUPE presentation at the request by employers.

The services annual practitioners' conference was held on 7th November. The event included a workshop on ill health retirements, an annual pensions update including any regulatory changes, an overview of employer responsibilities and a presentation from the Pensions Regulator. There was also an opportunity for employers to meet the team and discuss all aspects of the service.

For further information on communications see the Administration Strategy & Communications Policy at **Appendix A-3**.

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 2018/19:

- Pensions and Lifetime Savings Association (PLSA) (previously National Association of Pension Funds (NAPF));
- Local Authority Pension Fund Forum (LAPFF);
- CIPFA Pensions Network;

5. FUND ADMINISTRATION REPORT & ADMINISTRATION STRATEGY

- CIPFA Benchmarking;
- Local Government Employers (LGE);
- Local Government Association (LGA); and
- Society of County Treasurers (SCT).

5.4 VALUE FOR MONEY

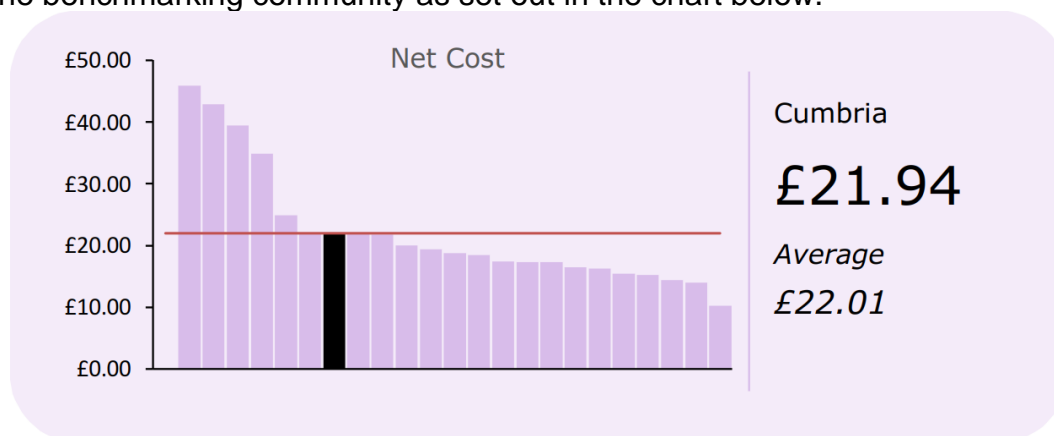
As in all areas of the operation of the LGPS Pension Scheme in Cumbria, the Fund is committed to ensuring that the administration functions represent value for money (VfM) and is committed to enhancing VfM of these functions where possible.

Further detail about the performance of the Fund's administration functions during 2018/19 is included in section 3 of this report, specifically:

- Section 3.3: Financial Performance;
- Section 3.4: Performance against Business Plan; and
- Section 3.5: Administration Management Performance – including key performance indicators.

Cumbria Pension Fund has subscribed to the CIPFA Pensions Administration Benchmarking Club for 2018/19 to assess its performance and costs against other LGPS Funds. With less than 25% of Funds (22 out of 89) contributing data to the club the findings of the benchmarking must be taken with some caution especially as different Funds will have different models for the provision of pensions administration e.g. some provide this service in-house whereas other Funds, including Cumbria, have a third party providing much of their pensions administration service.

However, the benchmarking data does indicate that on a net cost basis, Cumbria's net cost for the provision of pensions administration services is on a par with the average for other LGPS Funds at £21.94 per member compared to an average £22.01 across the benchmarking community as set out in the chart below.



In addition to the benchmarking data, Cumbria attends a quarterly regional Pensions Officer Group and an annual LPP Client Forum which provides the Fund with the opportunity to share best practice with other LGPS Funds.

5.5 DATA QUALITY

5. FUND ADMINISTRATION REPORT & ADMINISTRATION STRATEGY

Retaining good quality data within the Fund is paramount to ensuring effective governance and administration of members' pension records.

Whilst the Fund has a high level of scheme member data which is considered to be present and accurate, it continually strives to improve its data quality. In recognition of this, during 2018/19, the Fund developed a data improvement plan. The plan details actions to be taken to ensure that data quality is continually reviewed, metrics for success and progress made to date.

From September 2018 the plan and progress against it has been reported to both the Pensions Committee and Local Pension Board on a quarterly basis. During the year good progress was made, including in key areas such as member tracing (which included 19,370 addresses being reviewed for accuracy) and dealing with pending leavers (which resulted in a reduction of 48% in records flagged as pending leavers).

The Fund completed its annual Scheme Return to the Pensions Regulator in October 2018 which, for the first time, was required to include data quality scores. Using the scoring mechanism as set out by the Pensions Regulator, the Fund reported that 99.36% of its common data (e.g. NI Number, address etc.) was present and accurate and the scheme specific conditional data (e.g. employment details, contribution history etc.) was scored as being 99.25% present and accurate.

In recognition of the vital importance of data quality, the Fund's risk register includes a specific risk – that member data is incomplete or inaccurate – which is reported on to both the Committee and Board on a quarterly basis. Further detail of this is set out in section 3.2.62 of this document.

5.6 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-scheme/

and downloading the guide entitled 'IDRP Employee's Guide' from the "Members, Active, Deferred & Pensioner" section then the "Guides, Leaflets and Forms" tab. Alternatively Your Pension Service can be contacted by telephone on 0300 323 0260.

The Fund undertook 10,091 calculations/enquiries during 2018/19 and received 63 complaints (equivalent to 0.6% of cases completed in 2018/19) and 6 compliments.

Additionally, the Administering Authority had 8 new IDRP appeals in 2018/19, 4 of which were concluded with 1 subsequently moving to Stage 2 appeal. 1 appeal was rejected as the case had already been through the procedure, 3 are awaiting conclusion. No cases from Cumbria Pension Fund were determined by the Pension Ombudsman in 2018/19.

5. FUND ADMINISTRATION REPORT & ADMINISTRATION STRATEGY

Where Scheme Members are unsatisfied with the outcome of the Fund's IDRP, an appeal may be made to the Pensions Ombudsman. Further information can be found at www.pensions-ombudsman.org.uk.

The Administration Strategy and Communications Policy is shown in the Fund Policy Document at **Appendix A-3**. This details the policies and guidance produced by the Fund for employing bodies.

6. ACTUARIAL REPORT ON THE FUND**6 ACTUARIAL REPORT ON THE FUND****6.1 INTRODUCTION**

Legislation requires that all individual local government pension funds undertake an actuarial valuation every three years – “the triennial valuation”. 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.

The most recent valuation was carried out as at 31st March 2016 with the results of this valuation being used to set employer contribution rates from 1st April 2017. The 2016 valuation was undertaken in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

The 2016 Actuarial Valuation Report (including the Rates and Adjustments Certificate as at 31st March 2017) is available on the Cumbria County Council website at: <http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp>

The next full Actuarial Valuation takes place as at 31st March 2019. The work takes place during 2019/20, and will set employer contribution rates from 1st April 2020.

6.2 2016 VALUATION

The latest valuation was undertaken based on the Fund's position as at 31st March 2016. The resultant employer contributions are effective from April 2017 to March 2020.

The methodology and core assumptions on which the 2016 valuation was based were proposed by the actuary and accepted by Pensions Committee at their meeting in September 2016. These included:

- Methodology based on returns above the projected Consumer Price Index (CPI)
- Required rate of return on investments - CPI plus 2.0% for past service
- Required rate of return on investments - CPI plus 2.75% for future service
- Fund deficit recovery period reduced from 19 years at the 2013 valuation to 16 years
- Short term earnings growth – 2.0% per annum for four years
- Long term earnings growth – CPI plus 1.5% per annum.

6.3 FUNDING LEVEL

The funding level of the Fund as at 31st March 2016 was 91% compared to 78% in 2013 and 79% in 2010. However it should be noted that this variation in the funding level was partially due to the methodology on which the valuation is calculated.

6. ACTUARIAL REPORT ON THE FUND

Figure 6.3 Funding level – assets versus liabilities at actuarial valuation date:

	31 March 2016	31 March 2013	31 March 2010
	£	£	£
Total Assets	2,047	1,659	1,278
Liabilities:			
Active members	737	744	702
Deferred pensioners	502	429	219
Pensioners	1018	943	688
Total Liabilities	2,257	2,116	1,609
Past service surplus / (shortfall)	(210)	(457)	(331)
Funding level	91%	78%	79%

Growth within the Fund's investment portfolio since April 2016 has resulted in an estimated funding position of 97.9% as at 31st March 2019 based on the parameters used for the 2016 valuation.

6.4 EMPLOYER 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 for the next three years. The rates for 2018/19 were set by the 2016 Actuarial Valuation. In setting employer contribution rates during the 2016 Valuation the Actuary and the Fund were required to consider:

- The **requirement** for contributions rates to be sufficient to secure the Fund's solvency within an appropriate deficit recovery period; and
- The **desirability** of employer contribution rates remaining as stable as possible.

There are two elements of employer contributions as detailed in 6.4.1 and 6.4.2 below.

6.4.1 PRIMARY CONTRIBUTION RATE

The primary contribution rate is set by the Actuary at each Actuarial Valuation. This 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 primary contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable in 2018/19 can be found at 6.5 and in the 2016 Actuarial Valuation Report at the web address detailed at 6.1.

6. ACTUARIAL REPORT ON THE FUND

Figure 6.4.1 Primary Contribution rate:

	31 March 2016	31 March 2013	31 March 2010
Normal contribution rate for retirement and death benefits	21.0	20.0	18.3
Allowance for administrative expenses	0.6	0.5	0.4
Total normal contribution rate	21.6	20.5	18.7
Average member contribution rate	6.3	6.3	6.2
Primary Contribution rate	15.3	14.2	12.5

6.4.2 CONTRIBUTIONS TO REDUCE THE HISTORIC DEFICIT

In addition to ensuring that sufficient assets are built up to meet future pension payments, during each Actuarial Valuation the actuary also calculates an additional contribution for each employer 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 deficit recovery period for the Fund was set at 16 years in the 2016 valuation having reduced from 19 years at the 2013 valuation. The Fund is therefore expected to be fully funded by 2033.

6.5 ACTUARIAL CERTIFICATE

Attached below is the actuarial certificate from the 2016 valuation and the employer contribution rates for the period April 2017 to March 2020.

6. ACTUARIAL REPORT ON THE FUND

Rates and Adjustments Certificate issued in accordance with Regulation 62

Name of Fund

Cumbria Local Government Pension Scheme

Primary Contribution Rate

I hereby certify that, in my opinion, the primary rate of the employers' contribution for the whole Fund for each of the three years beginning 1 April 2017 is 15.3% of pensionable pay.

The primary rate of contribution for each employer for the three year period beginning 1 April 2017 is set out in the attached schedule.

Secondary Contribution Rate

I hereby certify that, in my opinion, the secondary rate of the employer's contribution for the whole Fund for each of the three years beginning 1 April 2017 is as follows:

2017/18	£16.3 million less 0.1% of pensionable pay
2018/19	£16.2 million less 0.1% of pensionable pay
2019/20	£16.0 million

The secondary rate of contribution for each employer for each of the three years beginning 1 April 2017 is set out in the attached schedule.

Contribution Amounts Payable

The total contribution payable for each employer is the total of the primary and secondary rates as detailed in the attached schedule. Contributions will be paid 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 the schedule.

Further Adjustments

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. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's Actuary and the Administering Authority.

The 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

6. ACTUARIAL REPORT ON THE FUND

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 Scheme employer's deficit is transferred to a new employer on its inception, the Scheme employer's deficit recovery contributions, as shown on the schedule to this Certificate in Appendix H, may be reallocated between the Scheme 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 62(8)

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

Signature:

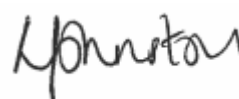


Name: John Livesey

Qualification: Fellow of the Institute
and Faculty of Actuaries

Date of signing: 31 March 2017

Signature:



Name: Leanne Johnston

Qualification: Fellow of the Institute
and Faculty of Actuaries

6. ACTUARIAL REPORT ON THE FUND

SCHEDULE TO THE RATES AND ADJUSTMENTS CERTIFICATE DATED 31 MARCH 2017

Employer	Employer Number	Notes	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
				2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Scheme Employers									
Allerdale Borough Council	10007	1	14.5%	£899,300	£882,000	£865,100	14.5% plus £899,300	14.5% plus £882,000	14.5% plus £865,100
Barrow Borough Council	10003	2	15.7%	£1,044,100	£1,067,000	£1,090,500	15.7% plus £1,044,100	15.7% plus £1,067,000	15.7% plus £1,090,500
Carlisle City Council	10002	1,3	15.6%	£896,400	£879,100	£862,300	15.6% plus £896,400	15.6% plus £879,100	15.6% plus £862,300
Carlisle College	10013		15.6%	£88,400	£90,300	£92,300	15.6% plus £88,400	15.6% plus £90,300	15.6% plus £92,300
Copeland Borough Council	10008	1	15.9%	£640,200	£627,900	£615,900	15.9% plus £640,200	15.9% plus £627,900	15.9% plus £615,900
Cumbria Chief Constable	10240	4	15.4%	Nil	Nil	Nil	15.4%	15.4%	15.4%
Cumbria County Council	10001	1,3	14.9%	£9,370,300	£9,190,500	£9,014,100	14.9% plus £9,370,300	14.9% plus £9,190,500	14.9% plus £9,014,100
Cumbria Police & Crime Commissioner	10235	4	15.4%	Nil	Nil	Nil	15.4%	15.4%	15.4%
Eden District Council	10009	2	16.4%	£106,500	£108,800	£111,200	16.4% plus £106,500	16.4% plus £108,800	16.4% plus £111,200

6. ACTUARIAL REPORT ON THE FUND

Employer	Employer Number	Notes	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
				2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Furness College	10016		14.6%	£75,200	£76,900	£78,600	14.6% plus £75,200	14.6% plus £76,900	14.6% plus £78,600
Kendal College	10021		15.3%	£84,700	£86,600	£88,500	15.3% plus £84,700	15.3% plus £86,600	15.3% plus £88,500
Lake Dist National Park Auth	10011	1,3	14.0%	£272,000	£266,800	£261,700	14.0% plus £272,000	14.0% plus £266,800	14.0% plus £261,700
Lakes College West Cumbria	10014		15.1%	£57,600	£58,900	£60,200	15.1% plus £57,600	15.1% plus £58,900	15.1% plus £60,200
South Lakeland District Council	10005	1	16.2%	£768,600	£753,900	£739,400	16.2% plus £768,600	16.2% plus £753,900	16.2% plus £739,400
Designated / Resolution bodies									
Aspatia Town Council	10257		15.9%	Nil	Nil	Nil	15.9%	15.9%	15.9%
Cleator Moor Town Council	10157		17.6%	(£300)	(£300)	(£300)	17.6% less £300	17.6% less £300	17.6% less £300
Cockermouth Town Council	10139		16.6%	(£6,000)	(£6,100)	(£6,300)	16.6% less £6,000	16.6% less £6,100	16.6% less £6,300
Cumbria Waste Management	10078		13.4%	£51,200	£52,400	£53,500	13.4% plus £51,200	13.4% plus £52,400	13.4% plus £53,500
Kendal Town Council	10138		18.3%	(£2,100)	(£2,100)	(£2,200)	18.3% less £2,100	18.3% less £2,100	18.3% less £2,200
Keswick Town Council	10086		18.9%	£1,200	£1,200	£1,300	18.9% plus £1,200	18.9% plus £1,200	18.9% plus £1,300

6. ACTUARIAL REPORT ON THE FUND

Employer	Employer Number	Notes	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
				2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Maryport Town Council	10203		15.9%	£400	£400	£400	15.9% plus £400	15.9% plus £400	15.9% plus £400
Orian Solutions Limited	10230		21.5%	(£114,200)	(£116,700)	(£119,300)	21.5% less £114,200	21.5% less £116,700	21.5% less £119,300
Penrith Town Council	10253		17.5%	£3,000	£3,100	£3,200	17.5% plus £3,000	17.5% plus £3,100	17.5% plus £3,200
Ulverston Town Council	10172		23.4%	Nil	Nil	Nil	23.4%	23.4%	23.4%
Wigton Town Council	10129		12.6%	£11,200	£11,400	£11,700	12.6% plus £11,200	12.6% plus £11,400	12.6% plus £11,700
Workington Town Council	10237		11.9%	£1,100	£1,100	£1,100	11.9% plus £1,100	11.9% plus £1,100	11.9% plus £1,100
Academies									
Appleby Grammar School	10213		17.2%	£48,900	£50,000	£51,100	17.2% plus £48,900	17.2% plus £50,000	17.2% plus £51,100
Arnside National CofE School	10220		20.1%	£6,200	£6,300	£6,500	20.1% plus £6,200	20.1% plus £6,300	20.1% plus £6,500
Broughton Primary School	10221		16.6%	£8,300	£8,500	£8,700	16.6% plus £8,300	16.6% plus £8,500	16.6% plus £8,700
Building Futures MAT	10248		14.4%	£14,600	£14,900	£15,200	14.4% plus £14,600	14.4% plus £14,900	14.4% plus £15,200

6. ACTUARIAL REPORT ON THE FUND

Employer	Employer Number	Notes	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
				2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Burton Morewood CofE Primary School	10222		16.7%	£7,000	£7,200	£7,300	16.7% plus £7,000	16.7% plus £7,200	16.7% plus £7,300
Caldew School	10208		14.9%	£69,000	£70,500	£72,100	14.9% plus £69,000	14.9% plus £70,500	14.9% plus £72,100
Cartmel Priory CofE School	10217		18.6%	£24,900	£25,400	£26,000	18.6% plus £24,900	18.6% plus £25,400	18.6% plus £26,000
Castle Carrock School	10223		17.5%	£6,700	£6,800	£7,000	17.5% plus £6,700	17.5% plus £6,800	17.5% plus £7,000
Chetwynd School	10239		17.5%	£2,400	£2,500	£2,500	17.5% plus £2,400	17.5% plus £2,500	17.5% plus £2,500
Cockermouth School	10251		16.5%	£70,500	£72,100	£73,600	16.5% plus £70,500	16.5% plus £72,100	16.5% plus £73,600
Crosby on Eden CofE School	10229		15.5%	£6,300	£6,400	£6,600	15.5% plus £6,300	15.5% plus £6,400	15.5% plus £6,600
Cumbria Education Trust Ltd	10214		15.8%	£226,500	£231,500	£236,600	15.8% plus £226,500	15.8% plus £231,500	15.8% plus £236,600
Dallam School	10209		15.4%	£86,500	£88,400	£90,300	15.4% plus £86,500	15.4% plus £88,400	15.4% plus £90,300
Dearham Primary	10219		17.1%	£10,500	£10,700	£11,000	17.1% plus £10,500	17.1% plus £10,700	17.1% plus £11,000
Eaglesfield Paddle CofE VA Primary School	10206		16.5%	£17,600	£18,000	£18,400	16.5% plus £17,600	16.5% plus £18,000	16.5% plus £18,400

6. ACTUARIAL REPORT ON THE FUND

Employer	Employer Number	Notes	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
				2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Energy Coast UTC	10238		13.7%	(£4,600)	(£4,700)	(£4,800)	13.7% less £4,600	13.7% less £4,700	13.7% less £4,800
Fairfield Primary School	10250		15.2%	£23,500	£24,100	£24,600	15.2% plus £23,500	15.2% plus £24,100	15.2% plus £24,600
Furness Academy	10035		15.2%	£149,200	£152,500	£155,800	15.2% plus £149,200	15.2% plus £152,500	15.2% plus £155,800
George Hastwell School	10252		17.0%	£37,900	£38,700	£39,600	17.0% plus £37,900	17.0% plus £38,700	17.0% plus £39,600
Ghyllside Primary	10228		17.7%	£20,100	£20,500	£21,000	17.7% plus £20,100	17.7% plus £20,500	17.7% plus £21,000
Gilsland CofE Primary	10226		17.9%	£1,500	£1,500	£1,600	17.9% plus £1,500	17.9% plus £1,500	17.9% plus £1,600
Great Corby Primary School	10227		15.1%	£2,800	£2,900	£2,900	15.1% plus £2,800	15.1% plus £2,900	15.1% plus £2,900
Inspired Learning MAT	10254		14.3%	£41,200	£42,100	£43,000	14.3% plus £41,200	14.3% plus £42,100	14.3% plus £43,000
Kendal Primary MAT	10259		17.4%	£15,000	£15,300	£15,700	17.4% plus £15,000	17.4% plus £15,300	17.4% plus £15,700
Keswick School	10216		16.2%	£87,700	£89,600	£91,600	16.2% plus £87,700	16.2% plus £89,600	16.2% plus £91,600
Kirkbie Kendal School	10204		16.6%	£60,500	£61,800	£63,200	16.6% plus £60,500	16.6% plus £61,800	16.6% plus £63,200
Kirkby Stephen Grammar School	10212		15.8%	£42,500	£43,400	£44,400	15.8% plus £42,500	15.8% plus £43,400	15.8% plus £44,400

6. ACTUARIAL REPORT ON THE FUND

Employer	Employer Number	Notes	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
				2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Penny Bridge	10233		17.7%	£2,900	£3,000	£3,000	17.7% plus £2,900	17.7% plus £3,000	17.7% plus £3,000
Queen Elizabeth Grammar School	10205		17.7%	£54,500	£55,700	£56,900	17.7% plus £54,500	17.7% plus £55,700	17.7% plus £56,900
Queen Elizabeth School	10210		15.3%	£125,700	£128,500	£131,300	15.3% plus £125,700	15.3% plus £128,500	15.3% plus £131,300
Richard Rose Academy	10028		15.5%	£219,000	£223,800	£228,700	15.5% plus £219,000	15.5% plus £223,800	15.5% plus £228,700
Seaton Infant School	10124		14.7%	£8,000	£8,200	£8,400	14.7% plus £8,000	14.7% plus £8,200	14.7% plus £8,400
Settlebeck High School	10211		16.6%	£21,300	£21,800	£22,200	16.6% plus £21,300	16.6% plus £21,800	16.6% plus £22,200
Stanwix School	10243		16.9%	£19,800	£20,200	£20,700	16.9% plus £19,800	16.9% plus £20,200	16.9% plus £20,700
Stramongate School	10224		15.5%	£24,100	£24,600	£25,100	15.5% plus £24,100	15.5% plus £24,600	15.5% plus £25,100
The Good Shepherd MAT	10244		16.8%	£15,500	£15,800	£16,200	16.8% plus £15,500	16.8% plus £15,800	16.8% plus £16,200
The Queen Katherine School	10207		16.1%	£107,800	£110,200	£112,600	16.1% plus £107,800	16.1% plus £110,200	16.1% plus £112,600
Trinity School	10215		17.6%	£108,200	£110,600	£113,000	17.6% plus £108,200	17.6% plus £110,600	17.6% plus £113,000
Walney Academy	10245		16.9%	£46,500	£47,500	£48,600	16.9% plus £46,500	16.9% plus £47,500	16.9% plus £48,600

6. ACTUARIAL REPORT ON THE FUND

Employer	Employer Number	Notes	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
				2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
West Lakes Academy	10049		14.6%	£81,700	£97,900	£114,100	14.6% plus £81,700	14.6% plus £97,900	14.6% plus £114,100
Whitehaven Academy	10234		16.1%	£39,200	£40,100	£40,900	16.1% plus £39,200	16.1% plus £40,100	16.1% plus £40,900
Transferee Admission Bodies									
1st Eclipse Cleaning	10266		21.5%	Nil	Nil	Nil	21.5%	21.5%	21.5%
Blue Support Services	10255		23.8%	(£3,000)	(£3,100)	(£3,100)	23.8% less £3,000	23.8% less £3,100	23.8% less £3,100
Carlisle Leisure (Allerdale)	10127		21.7%	-21.7%	-21.7%	-21.7%	0.0%	0.0%	0.0%
Carlisle Leisure Ltd	10036		15.3%	-15.3%	-15.3%	-15.3%	0.0%	0.0%	0.0%
Carlisle Mencap (Hart Street)	10271		tbc	tbc	tbc	tbc	tbc	tbc	tbc
Carlisle Mencap (Huntley Ave)	10272		tbc	tbc	tbc	tbc	tbc	tbc	tbc
Caterlink William Howard	10264		21.0%	Nil	Nil	Nil	21.0%	21.0%	21.0%
Creative Support Limited	10236		23.5%	£300	£300	£300	23.5% plus £300	23.5% plus £300	23.5% plus £300
FCC Environment (prev FOCSA)	10092		24.3%	(£32,100)	(£32,800)	(£33,500)	24.3% less £32,100	24.3% less £32,800	24.3% less £33,500

6. ACTUARIAL REPORT ON THE FUND

Employer	Employer Number	Notes	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
				2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Knowledge Network Ltd	10256		13.9%	(£100)	(£100)	(£100)	13.9% less £100	13.9% less £100	13.9% less £100
Mellors Catering (Police)	10154		27.1%	(£2,000)	(£2,000)	(£2,100)	27.1% less £2,000	27.1% less £2,000	27.1% less £2,100
Mellors Catering (Rockcliffe)	10247		20.4%	(£100)	(£100)	(£100)	20.4% less £100	20.4% less £100	20.4% less £100
Mellors Kirkby Stephen	10262		22.4%	Nil	Nil	Nil	22.4%	22.4%	22.4%
North Country Leisure (Copeland)	10064		16.3%	-5.2%	-5.2%	-5.2%	11.1%	11.1%	11.1%
North Country Leisure (South Lakes)	10242		18.0%	-1.4%	-1.4%	-1.4%	16.6%	16.6%	16.6%
People First	10231		18.9%	(£600)	(£600)	(£600)	18.9% less £600	18.9% less £600	18.9% less £600
SLS (Cumbria) Ltd - Queen Katherine	10260		19.9%	Nil	Nil	Nil	19.9%	19.9%	19.9%
SLS (Cumbria) Ltd - St Herberts	10261		23.4%	Nil	Nil	Nil	23.4%	23.4%	23.4%
South Lakes Services	10232		16.0%	(£1,300)	(£1,300)	(£1,400)	16.0% less £1,300	16.0% less £1,300	16.0% less £1,400
Tullie House Trust	10201		19.8%	(£38,500)	(£39,300)	(£40,200)	19.8% less £38,500	19.8% less £39,300	19.8% less £40,200
Community Admission Bodies									

6. ACTUARIAL REPORT ON THE FUND

Employer	Employer Number	Notes	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
				2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Barrow Dist Soc For The Blind	10097		20.0%	£31,500	£32,200	£32,900	20.0% plus £31,500	20.0% plus £32,200	20.0% plus £32,900
Care Quality Commission	10104		23.5%	£95,600	£97,700	£99,800	23.5% plus £95,600	23.5% plus £97,700	23.5% plus £99,800
Cumbria Cerebral Palsy Society	10106		26.3%	(£600)	(£600)	(£600)	26.3% less £600	26.3% less £600	26.3% less £600
Cumbria Deaf Association	10037		25.1%	£14,500	£14,800	£15,100	25.1% plus £14,500	25.1% plus £14,800	25.1% plus £15,100
Cumbria Tourism	10034		23.3%	£40,500	£41,400	£42,300	23.3% plus £40,500	23.3% plus £41,400	23.3% plus £42,300
Eden Housing Association Limited	10047		15.1%	£43,800	£44,700	£45,700	15.1% plus £43,800	15.1% plus £44,700	15.1% plus £45,700
Glenmore Trust (The)	10066		19.7%	£30,700	£31,300	£32,000	19.7% plus £30,700	19.7% plus £31,300	19.7% plus £32,000
Harraby Community Centre	10167		28.9%	(£1,800)	(£1,800)	(£1,900)	28.9% less £1,800	28.9% less £1,800	28.9% less £1,900
Higham Hall College	10119		24.7%	(£21,700)	(£22,200)	(£22,700)	24.7% less £21,700	24.7% less £22,200	24.7% less £22,700
Home Group (Copeland)	10031		19.2%	(£16,500)	(£16,900)	(£17,300)	19.2% less £16,500	19.2% less £16,900	19.2% less £17,300
Kendal Brewery Arts Centre	10143		26.8%	£12,300	£12,600	£12,900	26.8% plus £12,300	26.8% plus £12,600	26.8% plus £12,900

6. ACTUARIAL REPORT ON THE FUND

Employer	Employer Number	Notes	Primary rate 2017/18 to 2019/20	Secondary rates			Total Contribution rates		
				2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Lakeland Arts Trust	10063		tbc	tbc	tbc	tbc	tbc	tbc	tbc
Longtown Memorial Hall CC	10168		29.1%	(£4,400)	(£4,500)	(£4,600)	29.1% less £4,400	29.1% less £4,500	29.1% less £4,600
Morton Community Centre	10132		21.2%	(£5,100)	(£5,200)	(£5,300)	21.2% less £5,100	21.2% less £5,200	21.2% less £5,300
Oaklea Trust (The)	10121		20.9%	£4,700	£4,800	£4,900	20.9% plus £4,700	20.9% plus £4,800	20.9% plus £4,900
Riverside Housing (Carlisle Housing)	10022		18.9%	(£13,600)	(£13,900)	(£14,200)	18.9% less £13,600	18.9% less £13,900	18.9% less £14,200
Soundwave	10150		21.8%	(£1,500)	(£1,500)	(£1,600)	21.8% less £1,500	21.8% less £1,500	21.8% less £1,600
South Lakes Housing	10225		17.1%	(£61,500)	(£62,800)	(£64,200)	17.1% less £61,500	17.1% less £62,800	17.1% less £64,200
West House	10020		13.1%	£58,300	£59,600	£60,900	13.1% plus £58,300	13.1% plus £59,600	13.1% plus £60,900
Wigton Joint Burial Committee	10133		24.2%	(£2,400)	(£2,400)	(£2,500)	24.2% less £2,400	24.2% less £2,400	24.2% less £2,500

6. ACTUARIAL REPORT ON THE FUND

Other interested bodies with no pensionable employees

Employer	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:

6. ACTUARIAL REPORT ON THE FUND

1. Cash payments in respect of £ lump sums are payable by 30 April 2017. These amounts have been reduced to reflect this early payment;
2. Cash payments in respect of £ lump sums are payable by 30 April of the year in which they are due. These amounts have been reduced to reflect this early payment;
3. With the agreement of the Administering Authority these employers have agreed to pay their % employer contributions in the April of the year in question. The cash amounts payable will be reduced in return for this early payment as follows. Payments made in the April of the certified year will be reduced by 2.1% (i.e. the above amounts will be multiplied by 0.979). For these cases the employer will need to estimate in advance the pensionable pay for the entire period, and a balancing adjustment to reflect the actual pensionable pay over the period would be made at the end of the period (no later than 19th April or 22nd April as appropriate following the year-end);
4. These employers have prepaid their deficit contributions for 2017/18 to 2019/20 in advance of the valuation signing date.

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

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. As well as being a legal requirement, good governance leads to good management, good performance and good stewardship of public money.

From 1 April 2015 management arrangements of the Cumbria Local Government Pension Scheme has five elements: the Cumbria Pensions Committee & Investment Sub-Group, Cumbria Pensions Forum, Cumbria LGPS Local Pensions Board and the Advisors 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 (see Appendix A).

The purpose of each is summarised as follows:

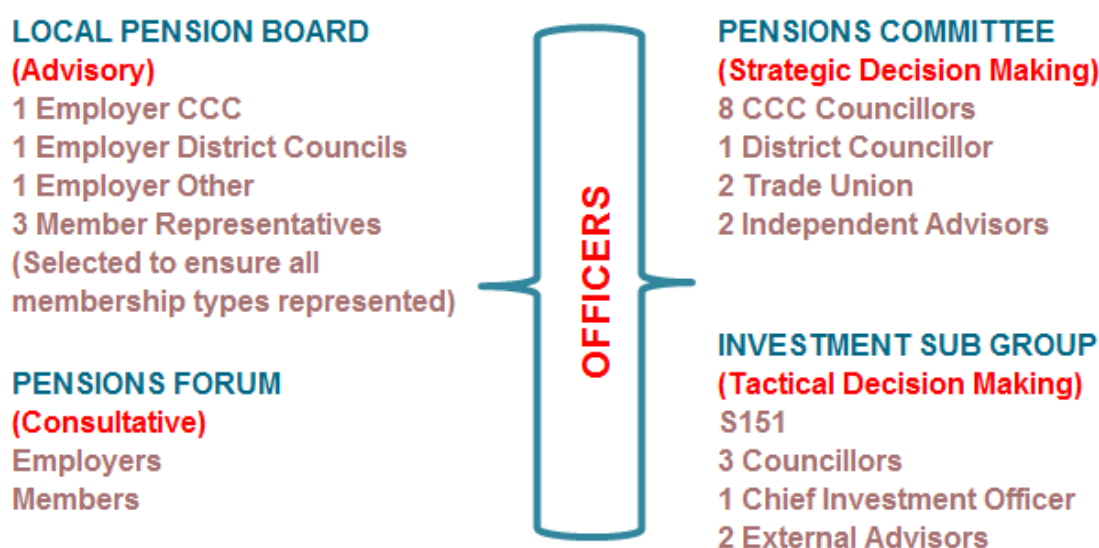
- **Governance Policy Statement (including the Governance Compliance Statement)** (see **Appendix A-2**) – sets out the roles and responsibilities, describes risk management (which is also considered in section 3.2 of this report), and reports compliance against a set of best practice principles.
- **Administration Strategy & Communications Policy** (see **Appendix A-3**) – details the formal arrangements for pensions and benefits administration for the Fund, and the communications with members, employers and pensioners.
- **Investment Strategy Statement** (see **Appendix A-4**) – details how the Fund's assets are invested, the fund managers and benchmarks, the investment beliefs of the Fund and the Fund's compliance with the updated Myners Principles and Stewardship Code.
- **Cash Investment Policy** (see **Appendix A-5**) – the management of the pension fund cash, bank account and investment of surplus cash.
- **Funding Strategy Statement** (see **Appendix A-6**) – identifies how the Fund's pension liabilities will be funded in the longer term and addresses solvency issues.
- **Admissions and Termination Policy** (see **Appendix A-7**) – details the policy on employer admissions and the methodology on cessation from the Fund.

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

- **Discretions Policy** (see **Appendix A-8** and section 7.5 below) – detailing the policy regarding the exercise of certain discretions to assist in the management of the Fund.
- **Training Policy** (see **Appendix A-9**) – 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 **Appendix A-10**) – sets out the policy and procedures to be followed by persons involved with the Cumbria LGPS in relation to reporting breaches of the law.
- **Internal Controls & Risk Management policy** (see **Appendix A-11** and also 3.2.6) – details the structure of internal control & risk management considerations that are effective within the Fund.

7.2 GOVERNANCE ARRANGEMENTS WITHIN THE CUMBRIA LGPS

During 2017/18 the management arrangements of Cumbria LGPS consisted of five elements: Cumbria Pensions Committee (7.2.1), Cumbria Investment Sub Group (7.2.2), Cumbria Pensions Forum (7.2.3), Cumbria LGPS Local Pension Board (7.2.4) and Advisors and Officers (7.2.5).



7.2.1 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').

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

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 Director of Finance), the Council's pensions 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, lawyers, custodians and wider service providers.

As detailed in section 2.5.1, in February 2017 Council confirmed adoption of the BCPP Ltd pooling arrangement as its chosen approach to meet the requirement to pool assets in the LGPS. Council also approved amendments to the Constitution updating the duties and responsibilities of the Pensions Committee to ensure that the Council is appropriately represented at the Joint Committee and shareholder meetings of BCPP Ltd. Details of how oversight and governance of Border to Coast takes place are detailed in section 4.6 of the Investment Strategy Statement

The Terms of Reference of the Cumbria Pensions Committee were reviewed by the Council in June 2018 and are set out in section 2H of Cumbria County Council's Constitution available online at: www.cumbria.gov.uk/council-democracy/constitution/part2/decisionmakingbodies/2h.asp.

7.2.2 CUMBRIA PENSIONS INVESTMENT SUB GROUP

The dedicated Investment Sub Group advises the Section 151 Officer in the exercise of their delegated powers to appoint / terminate non-strategically significant investment managers (i.e. those holding less than 5% of the Fund by total value), thus speeding up decision making. This enables the Pensions Committee 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 tactical investment managers (less than 5% of the Fund) 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.

The Terms of Reference of the Investment Sub Group were reviewed by the Council in June 2018 and are set out in section 2O of Cumbria County Council's Constitution available online at: www.cumbria.gov.uk/council-democracy/constitution/part2/otherpanels/2o.asp

7.2.3 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.

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

Further details of the Forum, including its Terms of Reference are detailed in in the Governance Policy Statement detailed **Appendix A-2**.

The Forum meets annually and during 2018/19 met on 30th October 2018. The meeting presented an overview of the actuarial valuation process and current issues facing the LGPS and together with information relating to Data Quality and the role of the Fund and the Employers.

The Terms of Reference of the Pension Forum are set out in section 2R of Cumbria County Council's Constitution available online at: **www.cumbria.gov.uk/council-democracy/constitution/part2/otherpanels/2r.asp**

7.2.4 CUMBRIA LGPS LOCAL PENSION 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. Further details of the Pension Board, including its Terms of Reference are detailed in in the Governance Policy Statement detailed **Appendix A-2**.

The Terms of Reference of the Pension Board are set out in section 2P of Cumbria County Council's Constitution available online at: **<http://www.cumbria.gov.uk/council-democracy/constitution/part2/otherpanels/2p.asp>**

7.2.5 ADVISORS AND OFFICERS

Advice is given by Cumbria County Council's Director of Finance (s.151 Officer), the Council's Pensions Finance Team and by two independent advisors; Mr Tim Gardener and Mr Alistair Sutherland. The current advisors 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.

7.2.6 CONFLICTS OF INTEREST

Each Member of the Pension Committee and Cumbria Local Pension Board 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 2018/19 any related party transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

7.3 TRAINING 2018/19

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

- Updated Myners Principles (as detailed in the Investment Strategy Statement in Appendix A-4 of this report);

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

- 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 Appendix A-9 of this report).

The Cumbria Pensions Committee ensures that the Fund 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/Technical Knowledge and Skills Frameworks (KSF) and the Pensions Regulator's Public Service "Trustee Knowledge and Understanding" (TKU) Toolkit. Both these frameworks are LGPS specific and have been devised to ensure those charged with governance in the LGPS (i.e. members of the Pensions Committee, Pensions Board, Officers and Advisors) have capability and capacity to undertake their duties.

A training policy (see **Appendix A-9**) 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 or Board Membership. The Training Plan incorporated in the Training Policy relates to 2019/20 (the 2018/19 Training Plan is set out in the 2017/18 Annual Report which can be found at:

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

Training undertaken by members of the Cumbria Local Pension Board during 2018/19 is referenced in the Annual Report of the Local Pension Board (see section 1.1).

The formal training undertaken by Members of both the Pensions Committee and Local Pension Board together with Officers during the 2018/19 financial year has consisted of:

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

DATE	TRAINING COURSE / INFORMATION REPORT
Apr-18	New Committee Member Training by officers on the core roles and functions of the Pensions Fund and the Pensions Committee, together with Cumbria LGPS Key information and an update of National issues.
Feb-19	Briefing session detailing the key attributes of Private Residential Property Investment Funds and 'Cash Plus Investments' or Asset Backed Securities – Liquidity Funds.

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

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

DATE	TRAINING COURSE	ATTENDEES	
		Members	Officers
Apr-18	Equity Protection - Team briefing		5
“	Cumbria County Council GDPR Workshop		2
“	Eversheds – Investment Tax Training		1
May-18	PLSA Local Authority Conference		1
Jun-18	CIPFA - Introduction to Local Government Finance		1
“	LGPIF Alternative Investment Summit		1
“	CIPFA – The Data Challenge 2018		2
“	LGA – Data Requirements, GAD Section 13		3
“	CIPFA – Local Pension Board Conference		2
Jul-18	CIPFA – Annual Conference		2
Sep-18	CIPFA – Protecting Public Finances		2
Oct-18	LAPF Local Government Investment Forum		1
“	CIPFA Investment Governance Workshop		1
“	Cumbria Pensions Forum	4	7
Nov-18	Your Pension Service – Annual Conference		3
“	Border to Coast - Annual Conference	5	3
“	MHCLG – Infrastructure & the LGPS		1
“	Annual LGPS Pension Managers Conference		2
“	CIPFA Pensions Network – Annual Conference		2
“	Tony Travers Seminar – Public Expenditure & Local Government		1
Dec-18	LAPFF – Annual Conference	1	1
Jan-19	LGA – LGPS Governance Conference	2	1
Feb-19	CIPFA – Undertaking 2018-19 Closedown		1
“	LAPFF – Strategic Investment Forum 2019		1
“	CIPFA – Pensions Audit and Accounts 2018-19		3
“	HMRC – Managing Pension Schemes		1
“	LGC – Investment Seminar	1	1
Mar-19	CIPFA – Pensions Administration Update		2
“	SPS – Local Authority Pension Fund Investment Issues		1

7.3.1 SUMMARY OF COMMITTEE, SUB GROUP AND LOCAL PENSION BOARD ATTENDANCE AND FORMAL TRAINING IN 2018/19:

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

Committee Member (member of Pensions Committee only unless otherwise indicated)		Voting rights?	Attendance at meetings / total meetings	Training received (days)
Cllr. MH Worth	Chair - Committee & Investment Sub Group	Yes	11 / 11	3.0
Cllr. NH Marriner	Vice Chair - Committee & Investment Sub Group	Yes	11 / 11	3.0
Cllr. SB Collins	Committee & Investment Sub Group	Yes	10 / 11	5.0
Cllr. J Airey		Yes	3 / 5	1.5
Cllr. DS Fairbairn		Yes	5 / 5	3.0
Cllr. S Haraldsen		Yes	4 / 5	4.5
Cllr. P Thornton		Yes	3 / 5	1.5
Cllr. H Wall		Yes	3 / 5	1.5
Cllr. G Troughton	Co-opted District Councillor	Yes	4 / 5	4.0
T Barber	Employee representative	No	0 / 5	0.0
K McDonald	Employee representative	No	3 / 5	3.5

Local Pension Board Member		Voting rights?	Attendance at meetings / total meetings	Training received (days)
Mrs D Burnet	Chair	Yes	3 / 3	6.5
Mr D Southward	Vice Chair	Yes	2 / 3	3.0
Mrs B Cannon		Yes	1 / 3	1.5
Mrs K Powell		Yes	2 / 3	4.0
Mrs K Thomson		Yes	2 / 3	1.0
Ms K Wilson		Yes	2 / 3	2.0

7.4 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 2018/19 Pension Fund accounts resulted in an unqualified and unmodified positive opinion with the Fund's external auditor (Grant Thornton) noting that the quality of the accounts and the associated working papers accompanying the

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

financial statements were of a very high standard and provided in accordance with the agreed timetable.

There were no adjustments identified that required amendment to the primary statements, and any adjustments made were to memorandum disclosure notes only.

There was one recommended action from the auditors in the 2018/19 Audit Findings Report relating to the process for uploading journals into the financial system. Management have noted this recommendation and introduced further internal controls to mitigate this risk. This had no impact on the financial statements or disclosure notes included within the Annual Accounts of the Fund.

Please note: the Governance Policy Statement is shown in the Fund Policy Document at **Appendix A-2**.

7.5 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, Cumbria LGPS updated the Administration Authority discretions policy. Additionally each employer within the LGPS is required to review and update their individual employer discretions policy and submit these to the Administration Authority.

Please note: the Discretions Policy is shown in the Fund Policy Document at **Appendix A-8**.

7.6 REPORTING BREACHES OF THE LAW

Under the Pensions Act 2004 certain persons have a duty to report breaches of the law when there is a reasonable cause to believe that it is relevant to the scheme and has not been or is not being complied with and that this failure is likely to be material to the regulator.

Breaches can occur in relation to a wide variety of tasks and this policy sets out the procedures to be followed by persons involved in the Fund, in relation to reporting Breaches of the law.

Breaches of both the law and of Fund policies are reported to both the Pensions Committee and the Local Pension Board. Where the breach is considered to be

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

materially significant, this will be reported to the Pension Regulator. No material breaches have been identified during 2018/19.

Please note: the Policy & Procedure on Reporting Breaches of the Law is shown in the Fund Policy Document at **Appendix A-11**.

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8. THE PENSION FUND ACCOUNTS**8 FINANCIAL STATEMENTS AND NOTES TO THE ACCOUNTS****8.1 THE FINANCIAL STATEMENTS****PENSION FUND ACCOUNT FOR THE YEAR ENDED 31st MARCH 2019**

	Notes	2017/18		2018/19	
		£000's	£000's	£000's	£000's
Dealings with members, employers and others directly involved in the fund					
Contributions	3		110,986		64,102
Transfers in from other pension funds	4		5,668		3,000
			116,654		67,102
Benefits	5		(80,228)		(83,204)
Payments to and on account of leavers / employer exit	6		(4,795)		(4,889)
Net additions / (deductions) from members			31,631		(20,991)
Management expenses	7 & 8		(11,393)		(20,381)
Net additions / (deductions) including fund management expenses			20,238		(41,372)
Returns on investments					
Investment Income		57,481		52,667	
Taxes on Income		(239)		(233)	
Net investment income	9	57,242		52,434	
Profit / (losses) on disposal of investments and changes in the market value of investments	10(d)	62,651		128,241	
Net return on investments			119,893		180,675
Net increase in the net assets available for benefits during the year			140,131		139,303
Net assets at the start of the year			2,423,326		2,563,457
Net assets at the end of the year			2,563,457		2,702,760

8. THE PENSION FUND ACCOUNTS**NET ASSETS STATEMENT AS AT 31st MARCH 2019**

	Notes	31 March 2018	31 March 2019
		£'000	£'000
Investment assets	10	2,547,532	2,706,212
Investment liabilities	10	(4,547)	(8,611)
Total net investment assets		2,542,985	2,697,601
Long term assets	12a	657	328
Current assets	12b	22,287	7,056
Long term liabilities	13a	(87)	-
Current liabilities	13b	(2,385)	(2,225)
Net assets of the Fund available to fund benefits at the period end		2,563,457	2,702,760

8. THE PENSION FUND ACCOUNTS

8.2 NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 (a): DESCRIPTION OF THE FUND AND BASIS OF PREPARATION

The Cumbria Local Government Pension Scheme (Cumbria LGPS) is a contributory defined benefit scheme administered by Cumbria County Council to provide pensions and other benefits for all members of the Fund.

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 Fund benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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:-

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes; and
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

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); and
- other eligible employees of admitted 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.

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As at 31st March 2019 the total membership of the Fund was 57,840 (2017/18: 57,266) and consisted of 16,453 contributors/actives (2017/18: 17,034), 25,202 deferred members (2017/18: 24,436) and 16,185 pensioners (2017/18: 15,796).

At 31st March 2019 there were 127 (31st March 2018: 127) employer bodies in the Cumbria LGPS (for the full list see Note 25). Whilst the number of employers was 127 at both the start and end of the year, 2 Academy employers joined the Fund and 1 left during the year; whereas in respect of Admitted bodies, 1 employer joined the Fund and 2 left the Fund during the year. Whilst there has been no change in the number of employers in the Scheme during 2018/19, it is expected that the continued growth in academies and outsourcing of local government services to other providers will see an increase in the number of employers within the Scheme in future years.

Basis of Preparation:

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 2018/19 and the position at the year-end date, 31st March 2019. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 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 main change to the CIPFA Code accounting guidance in 2018/19 was the adoption of IFRS 9 Financial Instruments, which introduced the following (none of which require a restatement of comparative data):

- new financial instrument classification, with new categories of Fair Value Through Comprehensive Income (FVOCI);
- new requirement for an expected loss allowance should there be any potential material impairments (prospective – looking forward); and
- the option of additional disclosures for hedging (should it be assessed as adding to the readability of the accounts).

In addition, there were minor changes related to:

- separate disclosures required should there be any de-recognition of assets at amortised costs,
- a move away from a prescriptive list of accounting policies,

8. THE PENSION FUND ACCOUNTS

- the option to remove the analysis of debtors and creditors across the public sector.

These changes have not caused any significant changes to the compilation of the accounts for 2018/19 primarily because the Financial Instruments held are already valued at Fair Value Through Profit & Loss (FVTPL), and because the proposed detail was at a level that the Cumbria LGPS accounts already met or exceeded. Therefore there have been no substantial changes to, or any additional notes or disclosures made to the accounts for 2018/19.

These changes do not represent a significant change to existing accounting policies and consequently have not required a restatement of 2017/18 comparatives.

NOTE 1 (b): INVESTMENT MARKET ACTIVITY DURING 2018/19

For the twelve month period to March 2019, the majority of markets in which the Fund holds investments showed positive returns. Whilst there was significant volatility during the year with a low point in December 2018, markets recovered in the final quarter of the financial year to March 2019.

The ongoing uncertainty posed by Brexit has contributed to the volatility in UK financial markets, and also impacted on sterling which experienced devaluation against most other currencies, whereas there has been a marginal recovery against the euro over the year.

The Global Equities markets have shown a rise overall in 2018/19 of 11.0%, although there were variations by region. North America showed the strongest performance at 17.5% with the UK, Asia Pacific and Europe growing by 6.4%, 4.7% and 2.7% respectively. UK equities hit a low for the year in December 2018 when the FTSE100 was priced at 6,585, this was followed by a recovery during spring, and this replicated similar developments in the US markets. Levels of volatility in equity markets were seen throughout the year, as a result of market sentiment around the trade tensions between the United States and China and the move of central banks away from quantitative easing to interest rate increases.

In 2018/19 the Pension Fund entered into a suite of derivative (Equity Protection) options which are designed to protect the value of the Fund's UK, US and European equity portfolios from a significant fall in the value of the equity market indices being mindful of the upcoming triennial actuarial valuation as at 31st March 2019. These derivative option contracts are held by Legal and General Investment Management (LGIM) within a bespoke pooled vehicle, with Cumbria LGPS being the sole investor. Further information on these options is included in note 10(c).

In simple terms, the contracts LGIM have entered into on behalf of the Fund generate a nominal return based on the current value of the index plus any increase up to a certain level, irrespective of the actual value expected at the end of the contract term and these values have a nominal impact on the quarterly and annual performance of the Fund whilst they are in place. The duration of the contracts is until 31st March 2020, which is the date that the triennial valuation is signed off by the Actuary and therefore

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any significant adverse market movement could still affect the valuation outcomes up to this point.

For further information on Investment Performance refer to Section 4.5 of the Annual Report.

NOTE 1 (c): FUND PERFORMANCE 2018/19

During the year to 31st March 2019 the Cumbria LGPS value increased by £139.303m from £2,563.457m (31/03/18) to £2,702.760m (31/03/19). The Fund returned 6.6% (net of fees) for the year which was marginally below the Fund's bespoke index performance benchmark for the year of 6.8%. Positive performance in the year was attributable to both global equity managers and the alternatives portfolio.

The main detractor was the negative movement on the equity protection overlay as a result of an increase in equity value over the period. This equates to the notional cost of selling out of the equity protection at the end of the March 2019. It is not expected that this will be a realised cost at the end of the contract (31st March 2020). The movement in equity protection overlay effectively reduces the Fund's asset value at year-end by £14m, or around 0.5%. Excluding the effect of equity protection, the fund return would have been 7.4% (0.6% above the benchmark for the year).

The Fund performed well over the medium to longer term with the three-year return of 9.8% (net of fees) outperforming the bespoke hedged benchmark of 9.4% (per year) by 0.4%. The five year Fund return was 9.3% (net of fees), 1.2% above the benchmark of 8.1% (per year). The ten year Fund return was 10.7% (net of fees), 0.7% above the benchmark of 10.0% (per year). These longer term performance figures include the overall Fund's net of fees position (i.e. including equity protection); whilst this is a marginally lower performance, the impact of the equity protection products on performance over these longer term time horizons is negligible.

The Fund's Investment Strategy (including the core investment objectives and asset allocations) must be sufficiently flexible to meet longer term prevailing market conditions and address any short term cash flow requirements. To ensure these goals are achieved a full Strategic Investment Review will normally be undertaken by the Fund every three to five years by specialist professional advisors.

The Fund underwent a Strategic Investment Review in 2017/18 and the key conclusion of this review was that "the Fund's investment strategy is in good shape with no material changes required". An interim review undertaken during 2018/19 echoed this conclusion whilst also recommending that a full review of the Strategy be undertaken in 2019/20 following the results of the Triennial Actuarial Valuation of the Fund. A full review of the Investment Strategy has therefore been incorporated within the Fund's business plan for 2019/20.

The targeted investment asset allocation is specified in the Fund's Investment Strategy Statement, which has been agreed by the Pensions Committee, includes a section detailing the Fund's Investment Beliefs.

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The process of implementing changes in asset allocation to enable the Fund to reach its allocation targets in alternative assets has progressed steadily, with the following changes being made this year:-

- The selection of suitable investments for the infrastructure and opportunistic portfolios, including new investment commitments made to Pantheon Private Equity, Healthcare Royalty Partners, SL Capital, and the first Border to Coast private markets fund to be launched in 2019/20 - Border to Coast Private Equity 2019;
- The selection of suitable investments to the defensive asset allocation (income seeking with capital preservation), with new investment commitments made to Barings Global Private Loan Funds, and the use of cash as a strategic holding; and
- The liquidation of the BlackRock alternatives portfolio has continued, with the Fund's assets held by BlackRock reducing (from £21.7m at 31/03/18 to £19.0m at 31/03/19) as funds are released for new investment into infrastructure and opportunistic products.

NOTE 1 (d): BUSINESS PLAN ACHIEVEMENTS AND LOOKING FORWARD

All targets set within the 2018/19 Business Plan have been achieved during the year with key tasks either completed, or are ongoing work that is on track for completion and these have been delivered within the approved budget.

In addition to continual improvement activities and the major annual pieces of work, e.g. preparation of the Annual Report and Accounts, the core additional activities planned and delivered through the 2018/19 Business Plan were:-

- **Prepare for transition of assets from Cumbria LGPS to Border to Coast.**

Border to Coast Pensions Partnership Limited ('Border to Coast') was formed in 2017 to enable the pooling of assets of twelve Administering Authorities of the Local Government Pension Scheme ('Partner Funds'), including Cumbria ('the Fund'). This was in response to government requirements for LGPS Funds in England and Wales to "pool" investments to achieve economies of scale with the aim of reducing investment costs and in turn improve asset return.

Throughout the year the Fund has been actively engaging with Border to Coast and Partner Funds on the development and build of a range of investment capabilities ('sub-funds'). The aim of this work is to design and build sub-funds which enable Partner Funds to efficiently and effectively fulfil their strategic asset allocations and deliver the required returns within appropriate risk parameters.

Key developments include:

- In September 2018 the Cumbria Pensions Committee agreed in principle to transfer the 10% of the Fund's investments allocated to UK Equity to Border

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to Coast. Following the completion of due diligence work on the investment, the transition of these assets was effected in December 2018.

- The Investment Sub Group agreed in November 2018 to invest £50m in the Private Equity Fund of Border to Coast and it is anticipated that this will be drawn down by Border to Coast over the next 2 to 3 years.
- Additionally, Pensions Committee agreed in principle in December 2018 to transfer the 20% of the Fund's investments allocated to actively managed Global Equity to Border to Coast. Due diligence work on this investment is now in its final stages and, subject to its satisfactory conclusion, it is anticipated that the assets will transition during 2019.

- **Implementation of Equity Protection solutions within the Fund.**

The purchase of Equity Protection was approved by the Investment Sub Group on 20th February 2018 and the products were purchased on 4th April 2018 providing protection against significant falls in the value of equity until 31st March 2020, when the triennial valuation is signed off by the Actuary.

- **Review data quality held by the Fund in preparation for the 2019 Actuarial Valuation.**

During 2018/19 the Fund developed a Data Improvement Plan with progress against this plan reported to Pensions Committee and the Local Pension Board at each meeting.

Whilst the action to review data quality in preparation for the Actuarial Valuation is now complete, the Fund will continue to monitor and aim to enhance data quality on an on-going basis.

- **Gross Minimum Pension Reconciliation.**

Following the cessation of National Insurance contracting out, all Public Sector pension funds have been required by Government to undertake a Scheme Gross Minimum Pension (GMP) reconciliation and implement corrective action accordingly.

Good progress continues to be made on the Cumbria Fund reconciliation exercise (GMP reconciliation) with regular reporting on progress presented to the Pensions Committee. Where underpayments have been identified, these have been immediately rectified in line with Government guidance. Where overpayments have been identified, on-going monthly payments have been amended. The Fund is awaiting further national guidance in respect of the treatment of the accrued overpayments to date.

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- **Development and enhancement of contract review procedures and performance monitoring at both Committee and Officer level.**

All contracts are regularly reviewed to ensure that performance is appropriate.

Officers reviewed the performance of all investment managers on a quarterly basis and reported this performance to the Investment Sub group.

Officers met regularly with Mercer Ltd to review the contractual obligations of the Actuary and to consider future workloads e.g. triennial valuation.

New contracts are commissioned through the national LGPS Framework where appropriate. During the year the Fund used the framework to contract for:

- a Transition Manager to support the transition of UK equities to Border to Coast as approved by Pensions Committee in September; and
- scheme member data tracing.

Officers met at least quarterly with the Deputy Director of Your Pensions Service (YPS), the Fund's pensions' administration provider, to review performance standards. These meetings were more frequent between April and December 2018 due to performance issues as regularly reported to Pensions Committee throughout the year.

- **Assess the impact of and respond to consultations that will have an impact on the structure and performance of the Fund.**

The Fund responds to relevant consultations that have the potential to have an impact on the structure and performance of the Fund.

During 2018/19 the Fund responded to the following consultations:

- CIPFA LGPS Annual Report Guidance – Dec 2018
- MHCLG Consultation on Asset Pooling – March 2019

In addition to the 2018/19 Business Plan, the Fund has delivered against a number of additional activities during the year. These included:

- Increasing the frequency of Local Pension Board meetings from two to four meetings per year.
- Engagement with the Pensions Regulator through its cohort review of the LGPS.
- Increased management oversight on Your Pensions Service (YPS), the Fund's pensions' administration provider. YPS experienced performance issues following a restructure in the first quarter of 2018/19. In response to this the Fund increased its management oversight of this service and worked closely with YPS to understand the issues and challenge the recovery plans proposed and implemented by YPS. Performance recovered to pre-restructure performance levels in the third quarter of 2018/19, however officers continued with their enhanced monitoring of the quality of YPS performance throughout the remainder of the year.

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These activities, which were unforeseen when the business plan was approved in March 2018, have required significant resource from the officers involved. However, these have been delivered within the approved budget for the year.

Looking forward to 2019/20, the proposed key deliverables (grouped under the three main service areas of Administration, Investment Management and Oversight and Governance) include:

Pensions Administration

- Undertake the Triennial Actuarial Valuation as at 31st March 2019.
- Implement action plan from the Pensions Regulator's cohort review of the Fund.
- 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 to meet the data requirements of the Pensions Regulator.
- Continual improvement programme for the quality of data held by the Fund.

Investment Management

- Undertake a full Investment Strategy Review, to consider the key outcomes of the 2019 actuarial valuation and their implications for the Fund going forwards.
- Continue to investigate investment options for the Fund's 'underweight' positions in asset allocations (subject to outcomes of the strategy review).
- Continue the transition of assets from the Fund to Border to Coast.
- Consideration of options to address negative cash flow position at a contributions level of the Fund.
- Continual monitoring of the Equity Protection solutions held within the Fund.

Oversight & Governance

- Undertake the election process for membership of the Local Pension Board.
- Review and update of Fund risks, policies and strategies.

8. THE PENSION FUND ACCOUNTS

- Continue to influence the development and maintenance of robust Governance arrangements in respect of the relationships between the Pension Fund and Border to Coast.
- Review, measure and deliver training to Members and Officers as outlined in the Training Plan.
- Compliance with contract review processes and performance monitoring at both Committee and Officer level.
- Assess the impact of and respond to consultations that will have an impact on the structure and performance of the Fund.
- Review of governance arrangements in response to financial, regulatory and structural changes.

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 2018/19 will be published on-line when finalised (and at the latest by the statutory deadline of 1st December 2019) on the Cumbria LGPS website under 'Key Cumbria LGPS Documents' where the previous year's report is also available.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies have been reviewed in line with good practice. There have been no significant changes to accounting policies in 2018/19.

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 Fund 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).

8. THE PENSION FUND ACCOUNTS

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 Fund 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 gains/losses during the year. Realised gains/losses have been classified where a purchase or sale of investments has occurred. Gains/losses on transfers of investments within the portfolio of an individual manager have been classified as unrealised gains/losses (i.e. where no cash transactions have taken place). (See **Note 10(d)**).

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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.

The majority of the Fund's investment managers have signed up to the cost transparency code (the voluntary code which covers the provision of transparent and consistent investment cost and fee information between investment managers and Funds). The Fund has reviewed the first submissions of cost transparency templates received from those managers and has incorporated additional disclosures of investment costs in the Fund's 2018/19 Annual Report (section 4.5.4). It is anticipated going forwards that the recently issued, updated cost transparency template for 2019/20 will provide greater consistency and completeness in reporting by managers; this will enable the Fund to further enhance the reporting of 'hidden' investment costs in future years.

8. THE PENSION FUND ACCOUNTS

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 (e.g. training travel and allowances) 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 were no such investments at 31st March 2019.

8. THE PENSION FUND ACCOUNTS

- 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. Assurances are gained from the fact that valuations are audited for each investment manager by their respective auditors and reported to the Fund. 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**).
 - In the case of the unquoted equity shares for Cumbria LGPS's ownership of share capital in Border to Coast Pensions Partnership Ltd, as no market or comparable market exists, and as there are no financial accounts or published trading results for the newly formed company, the shares are valued at cost (£833,334).
 - Investments in private equity funds and unquoted limited partnerships (**Note 14**) 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.
- d) Limited partnerships: Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership. The General Partner is responsible for preparing financial statements which give a true and fair view in accordance with International Financial Reporting Standards and applicable laws. Fund officers review the Annual Reports of the partnerships which have been independently audited.
- e) Pooled investment vehicles: Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31st March 2019. Unquoted pooled 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 2019 by an independent valuer, CBRE Ltd, Chartered Surveyors, Henrietta House, Henrietta Place, London W1G 0NB, in accordance with the Royal Institution of Chartered Surveyors' Valuation - Global Standards 2017 (incorporating the International Valuation Standards) and the UK national supplement 2018 ("the Red Book").
- The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

8. THE PENSION FUND ACCOUNTS

- 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.
- "Fair Value", for the purpose of financial reporting under International Financial Reporting Standards and UK GAAP (FRS 102), 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 or for taxation which might arise in the event of a disposal.
 - ii. The properties are valued individually and no account has been taken of any discount or premium that may be negotiated in the market if all or part of the portfolio was to be marketed simultaneously, either in "lots" or as a whole.
 - iii. Acquisition costs have not been included in the valuation.
 - iv. No account has been taken of any inter-company leases or arrangements, or of any mortgages, debentures or other charges.
 - v. 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.

8. THE PENSION FUND ACCOUNTS

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 29th March 2019.

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.

Over-the-counter (OTC) derivatives are contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary. Legal and General utilise the industry standard Black-Scholes method of valuing these contracts as detailed in Note 10(c).

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

8. THE PENSION FUND ACCOUNTS

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 26 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 Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see **Note 15**).

2.16. Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

2.17. Stock Lending

8. THE PENSION FUND ACCOUNTS

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.

2.18. 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 Director of Finance (Section 151 Officer). Where a reasonable estimate has been made, but is subsequently identified as being insufficiently accurate, the Director of 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 would be corrected retrospectively by amending opening balances and comparative amounts for the prior period. However, no such amendments have been necessary for the opening balance of the 2018/19 accounts.

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 2018/19 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 11.1% to 29.1% of pensionable pay, plus a lump sum payment for deficit recovery contributions. 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.

8. THE PENSION FUND ACCOUNTS

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

By Category	2017/18 £'000	2018/19 £'000
Employee contributions to the fund	16,581	17,272
Employer contributions to the fund:		
Normal contributions	42,887	43,270
Deficit recovery contributions	51,518	3,560
Total Employer contributions	94,405	46,830
Total Contributions receivable	110,986	64,102
By Employer Type	2017/18 £'000	2018/19 £'000
Administering Authority	62,996	36,040
Other Scheduled bodies	35,493	26,317
Admitted bodies	12,497	1,745
	110,986	64,102

As shown in the above table the administering authority contributions (Cumbria County Council) were £36.040m (£62.996m 2017/18). The value for 2017/18 was inclusive of £27.575m which related to historic deficit contributions for three financial years from 2017/18 to 2019/20.

In April 2017, Cumbria County Council, Allerdale Borough Council, Carlisle City Council, Copeland Borough Council, South Lakeland District Council and the Lake District National Park Authority all paid additional lump sum contributions to offset their historic deficit contribution for the years 2017/18 to 2019/20, totalling £37.806m. These additional payments in 2017/18 explain the significantly higher contributions in 2017/18 in the table above.

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.

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 are contained in the full Actuarial Valuation Report as at 31st March 2016, and

8. THE PENSION FUND ACCOUNTS

all other Cumbria LGPS employer policies that are relevant to the 2018/19 financial year are available on the Cumbria LGPS website under 'Key Cumbria LGPS Documents'.

NOTE 4: TRANSFERS IN FROM OTHER PENSIONS

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

	2017/18 £'000	2018/19 £'000
Individual transfers	5,668	3,000
	5,668	3,000

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 1.04.08 to 31.03.14	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 accrues 1/49th x pensionable salary.
Lump sum	Each year worked is worth 3/80 x final pensionable salary. 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.	No automatic lump sum. 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.	No automatic lump sum. 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.

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

8. THE PENSION FUND ACCOUNTS

By Category	2017/18 £'000	2018/19 £'000
Net pensions paid	67,266	70,525
Net lump sum on retirement	11,334	11,324
Net lump sum on death	1,628	1,355
	80,228	83,204
By Employer Type	2017/18 £'000	2018/19 £'000
Administering Authority	45,168	46,615
Scheduled bodies	28,124	29,499
Admitted bodies	6,936	7,090
	80,228	83,204

As shown in the above table the Administering Authority (Cumbria County Council) benefits paid in 2018/19 were £46.615m (£45.168m 2017/18).

NOTE 6: PAYMENTS TO AND ON ACCOUNT OF LEAVERS / EMPLOYER EXIT

	2017/18 £'000	2018/19 £'000
Refund of member contributions	163	139
Individual transfers out to other Schemes	4,632	4,750
Group transfer out to other Schemes	-	-
	4,795	4,889

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 pension's administration services, provided by

8. THE PENSION FUND ACCOUNTS

delegation of function to 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:

	2017/18 £'000	2018/19 £'000
Administrative costs	1,152	1,268
Investment management costs	9,364	18,394
Oversight and governance costs	877	719
	11,393	20,381

The Code of Practice does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency and comparability, the Council opted from 2015/16 to disclose its pension fund management expenses in accordance with best practice outlined in the CIPFA guidance on LGPS management costs (July 2016). To further aid comparison a detailed breakdown for 2018/19 is provided for information in the next note.

Administration costs were £0.116m higher in 2018/19 than the previous year. This was primarily due to an increased staffing allocation to this section of the team to allow focus on administration aspects of the Fund together with the costs of the scheme member tracing exercise.

Investment management costs were £9.030m higher in 2018/19 than the previous year, for further details refer to Note 8.

Oversight and governance costs were £0.158m lower in 2018/19 than the previous year, for further details refer to Note 8.

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 2018/19 is provided below.

8. THE PENSION FUND ACCOUNTS

	2017/18 £'000	2018/19 £'000
Administrative costs:		
Pensions Administration	1,016	1,038
Employee costs	127	198
Legal advice	9	5
Other	-	27
	1,152	1,268
Investment Management costs:		
Fund management fees	3,584	4,719
Custody fees	93	107
Pooled fund costs including entry fees*	5,445	13,266
Transaction costs	242	302
	9,364	18,394
Oversight and governance costs:		
Employee costs	352	361
Pension fund committee	26	10
Pension Board	9	10
Investment consultancy fees	140	94
Performance monitoring service	27	30
Shareholder voting service	14	17
Actuarial fees	60	72
Audit fees	27	21
Legal and tax advice	29	21
Border to Coast Pensions Partnership	169	77
Other (including bank charges)	24	6
	877	719
	11,393	20,381

*Pooled fund costs including entry fees shown above are not invoiced costs, instead they are charged to the individual pooled fund, as such these costs have been estimated when required and adjusted from the change in market value and net income.

Variations on spend between years include:-

- Employee costs (including staff training and travel) – in 2018/19 the Fund reallocated staff from the oversight and governance section to the administration section to allow them to focus on administration aspects of the fund. Although there was no increase in staff time overall, the increased spend in year relates to two things; 2017/18 included a rebate of staff time and expenses received from the other Partner Funds for work undertaken during the early stages of the creation of the pool and in 2018/19 there is a necessary

8. THE PENSION FUND ACCOUNTS

increase in travel and associated costs required to support the ongoing development and transition of assets to Border to Coast.

- Fund Management fees – fees are paid based on the size of the Fund's portfolio and its performance. As the Fund's investments have returned 7.4% growth (net of fees and the impact of the nominal equity protection products) from March 2018, Fund management fees in 2018/19 have increased from the fees paid in 2017/18.
- Pooled fund costs and entry fees – key drivers of the increase in costs between 2017/18 and 2018/19 were:
 - Equity Protection: In April 2018, the Fund implemented an Equity Protection policy assisting the Fund in mitigating the risk of employer contributions increasing due to a significant downturn in equity markets before the 2019 Fund Valuation is completed. The premium paid for these products (£8.360m) is the primary explanation for the increase in costs between 2017/18 and 2018/19.
 - Fees on investments in alternatives: The objective of the Fund's strategic investment allocation to alternatives is to select a portfolio of alternative assets which aids cash flow and increases diversification and stability. Returns are indicating positive performances net of fees and this is anticipated to continue in the longer term. The growth of the portfolio of alternative pooled funds is ongoing and the resulting increased portfolio size has led to increased management fees of £3.493m in 2018/19 (£3.322m 2017/18) and the result of the positive investment returns has required the accrual of performance fees of £1.396m in 2018/19 (£1.668m 2017/18). By their nature, these pooled funds often carry an entry cost for a second stage investor into a live fund. In 2018/19 entry costs of £0.017m were incurred (£0.455m 2017/18), however as the valuation of the investments by March 2018 exceeded the price paid, the costs of entry had been recouped within a matter of months. These funds are viewed as long-term illiquid investments.
- Transaction costs – these costs occur on trades of shares and bonds and are payable to third party agents as brokerage fees; they are variable depending on investment manager purchases and sales. There were more of these transactions in 2018/19 than 2017/18, partially due to the transition of the UK equity portfolio to Border to Coast (approximately 500 transactions), resulting in a higher cost than paid in 2017/18.
- Investment consultancy fees – there has been a reduced need for the Fund to seek additional advice from external advisors to supplement resources to respond to the LGPS Pooling agenda due to the senior manager being in post for the full year. Additionally in the prior year there were increased costs associated with the Investment Strategy Review completion and advice related to the purchase of equity protection products.

8. THE PENSION FUND ACCOUNTS

- Border to Coast Pensions Partnership – there have been reduced costs in year that were related solely to the creation of the pooling company. The costs shown relate to the set up and development of the Fund's LGPS pooling company, up to the point at which the company began to transition investments into the pool; thereafter costs are included in Fund Management fees under the 'Investment Management costs' heading.

The Fund has reviewed the first submissions of cost transparency templates received from its investment managers and has incorporated additional disclosures of investment costs in the Fund's 2018/19 Annual Report (section 4.5.4). It is anticipated going forwards that the recently issued updated cost transparency template for 2019/20 will provide greater consistency and completeness in reporting by managers; this will enable the Fund to further enhance the reporting of 'hidden' investment costs in future years.

NOTE 9: NET INVESTMENT INCOME

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £52.434m (2017/18 £57.242m) net of £0.233m (2017/18: £0.239m) irrecoverable tax on dividends, and including stock lending income of £0.090m (2017/18: £0.068m), can be analysed as follows:

	2017/18 £'000	2018/19 £'000
Interest from fixed interest securities (corporate bonds)	6,970	7,030
UK equities dividends	12,067	10,570
Overseas equities dividends	9,940	9,684
Distributions from pooled investment vehicles	20,134	16,675
Net rental income from investment properties (see note 10b)	7,741	7,848
Interest on cash deposits	390	627
	57,242	52,434

In December 2018 the Fund transitioned from Schroders (UK equity segregated portfolio manager) to the Border to Coast Authorised Contractual Scheme (ACS) pooled UK equity fund. The Fund does not receive investment income on investments of pooled equity as the income received by the pooled fund instead increases the value of the unitised holdings, hence the reduction in UK equity dividends between 2017/18 and 2018/19.

8. THE PENSION FUND ACCOUNTS

'Distributions from pooled investment vehicles' relates to income earned from the Fund's alternatives portfolio. The £16.675m received in relation to 2018/19 consisted of income from infrastructure funds £7.393m (2017/18 £6.951m), pooled property funds £2.651m (2017/18 £2.942m), private loan and multi asset credit funds £2.442m (2017/18 £1.698m), opportunistic investments £4.168m (£8.278m) and other pooled investments £0.021m (2017/18 £0.265m). The decrease in amounts received between 2017/18 and 2018/19 was primarily due to the timing of distributed income from the opportunistic investments; this timing is often dependent on the investment stage of the underlying investments with higher returns later in the investment cycle.

8. THE PENSION FUND ACCOUNTS

NOTE 10: INVESTMENT ASSETS

	Notes	31 March 2018			31 March 2019		
		UK	Overseas	Total	UK	Overseas	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Investment Assets							
Equities							
Equities - quoted		311,732	503,151	814,883	36,781	574,520	611,301
Equities - unquoted					833		833
		311,732	503,151	814,883	37,614	574,520	612,134
Fixed interest securities							
Corporate bonds - quoted		154,734	6,377	161,111	164,494	6,417	170,911
		154,734	6,377	161,111	164,494	6,417	170,911
Pooled investment vehicles							
Pooled investments - quoted		6,539	4,005	10,544	-	4,829	4,829
Pooled investments - unquoted		728,472	574,967	1,303,439	1,053,858	647,642	1,701,500
	10(a)	735,011	578,972	1,313,983	1,053,858	652,471	1,706,329
Investment properties							
Freehold		137,800	-	137,800	125,180	-	125,180
Long leasehold		27,875	-	27,875	36,100	-	36,100
	10(b)	165,675	-	165,675	161,280	-	161,280
Derivative contracts	10(c)	2,332	-	2,332	268	-	268
Cash Deposits		40,694	40,155	80,849	22,798	21,562	44,360
Amounts receivable for sales *		2,642	-	2,642	5,820	-	5,820
Investment income accrued *		5,409	-	5,409	4,330	-	4,330
Property rental debtors *		648	-	648	780	-	780
		51,725	40,155	91,880	33,996	21,562	55,558
Subtotal investment assets		1,418,877	1,128,655	2,547,532	1,451,242	1,254,970	2,706,212
Investment liabilities							
Derivative contracts	10(c)	(58)	-	(58)	(5,437)	-	(5,437)
Amounts payable for purchases *		(1,982)	-	(1,982)	(708)	-	(708)
Property creditors *		(2,507)	-	(2,507)	(2,466)	-	(2,466)
Subtotal investment liabilities		(4,547)	-	(4,547)	(8,611)	-	(8,611)
Total Net Investments		1,414,330	1,128,655	2,542,985	1,442,631	1,254,970	2,697,601

* These current and long term assets / liabilities are not valued at 'Fair Value through profit and loss' and are therefore excluded from **Note 10(h)** - Fair Value Hierarchy.

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.

8. THE PENSION FUND ACCOUNTS

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 2019.

2018/19 has seen the transition of the Schroders UK equity segregated portfolio to transfer into the Border to Coast Authorised Contractual Scheme (ACS) pooled UK equity fund, hence the reduction in quoted UK equity, and increase in pooled investment vehicles since 2017/18.

NOTE 10(a): POOLED INVESTMENT VEHICLES

The Fund's largest holding is the unitised insurance policies with Legal and General totalling £915.226m, 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.

In April 2018 the Fund entered into a suite of Equity Protection options which are designed to protect the value of the Fund's UK, US and European equity portfolios from a significant fall in the value of the equity market indices. These options are derivatives however, as they are held by Legal and General Investment Management (LGIM) within a bespoke pooled vehicle (with Cumbria LGPS being the sole investor), they are included within unitised insurance policies in the table below. Further information on these options is included in note 10(c).

Border to Coast Pensions Partnership Ltd, the company created for the pooling of LGPS investment assets by twelve partner funds including Cumbria LGPS, launched its first investment funds in 2018/19. Cumbria LGPS transitioned from its actively managed UK equity portfolio with Schroders Investment Management into units in the Border to Coast UK Equity Fund in December 2018. As a pooled unquoted investment, this is shown in the following table as UK equities managed by the Border to Coast Pool.

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

8. THE PENSION FUND ACCOUNTS

	2017/18 £'000	2018/19 £'000
Pooled investment vehicles - managed by Border to Coast Pool		
UK equities	-	268,002
	-	268,002
Unitised insurance policies - unquoted		
UK equities	27,097	28,839
Overseas equities	360,035	387,003
UK index-linked securities	468,128	494,170
UK sterling liquidity fund	58,469	22,939
Equity protection derivatives	-	(14,243)
Equity protection cash balance	-	812
Equity protection accruals	-	(4,294)
	913,729	915,226
Unit trusts		
UK - quoted	6,539	-
	6,539	-
Other Managed funds		
Pooled property REITs - quoted	4,005	4,829
Pooled property funds - unquoted	76,216	78,372
Other managed funds - unquoted	313,494	439,900
	393,715	523,101
Total	1,313,983	1,706,329

The Fund is increasing its investment into infrastructure and other alternatives (unquoted pooled investments) with the objective of generating diversification and more stable and / or inflation protected income streams. These investments are included in the Other Managed Funds category in the table 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 2019 the portfolio valued at £161.280m included 25 properties ranging from £1.150m to £16.800m 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 diversification 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'.

8. THE PENSION FUND ACCOUNTS

However as these assets are illiquid and prices are not readily quantifiable. In this regard they are level 3 assets in the Fair Value analysis in **Notes 10(g) to (i)**.

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

	2017/18 £'000	2018/19 £'000
Rental income from investment property	8,093	8,308
Direct operating expenses arising from investment property	(352)	(460)
	7,741	7,848

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:

	2017/18 £'000	2018/19 £'000
Balance at the start of the year	161,190	165,675
Additions:		
Purchases	-	8,089
Subsequent expenditure	69	-
Disposals	(3,220)	(11,229)
Net gains/(losses) from fair value adjustments	7,636	(1,255)
Balance at the end of the year	165,675	161,280

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 (in

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addition to the figures published in the 2017/18 accounts we have restated those figures to take account of the non-cancellable lease periods only):

	2017/18 £'000	2017/18 Restated £'000	2018/19 £'000
Not later than one year	8,167	8,155	7,796
Later than one year and not later than five years	27,862	26,748	24,500
Later than five years	26,763	20,672	17,731
Total future lease payments due under existing contracts	62,792	55,575	50,027

To satisfy the requirements of IFRS9 Credit Losses, an individual targeted assessment has been performed to quantify possible credit losses (or bad debt provisions) on rental income, rather than adopting a matrix based collective assessment. Historical loss rates have been assessed to adjust forward looking information. A combination of the assessment of historic rental payment trends for individual occupiers by the managing agents, with the use of a credit check risk score based on company accounts, payment information and up to date news reports, gives an individual assessment of balances. Where a provision is recommended, it is for 100% of the arrear rather than on a probability-adjusted basis.

In comparison to an annual rental income figure of £8.308 million, and outstanding arrears of £0.430m (as at 31st March 2019), the approach has given rise to an allowance for credit loss for one former tenant which is 0.62% of the annual rental income). This targeted approach has resulted in no adjustments to the future minimum lease disclosure. We are comfortable that the level of provisioning is appropriately prudent in the context of the financial statements.

NOTE 10(c): DERIVATIVES

A derivative is a permitted investment under LGPS Investment Regulations. It is a contract between two or more parties whose value is derived from the performance of the underlying asset, for example a currency or an equity index such as the FTSE 100.

One way for pension funds 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. As open funds with a long term focus it is common for investors in LGPS to hedge 50% of their foreign currency exposure. This mitigates the worst effect that any adverse currency movements would have at the time of the realisation of the investment.

Cumbria LGPS has 50% of the investments denominated in overseas currencies hedged into sterling in accordance with the passive currency overlay programme. The purpose is to reduce the Fund's exposure to the fluctuations in foreign currency

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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 Aberdeen Standard Investments (was 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 held by Cumbria LGPS (shown in Note 10) can be summarised as follows:

31 March 2019			
Reconciliation to Note 10	Investment Asset / Unrealised Gain £'000	Investment Liability / Unrealised Loss £'000	Net Market Value £'000
Total Derivatives			
Forward currency contracts	106	(5,351)	(5,245)
Futures	162	(86)	76
Derivative Contracts Gain/(Loss)	268	(5,437)	(5,169)

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

Currency Bought		Currency Sold		2018/19	
Currency	Local Value 000's	Currency	Local Value 000's	Unrealised Gain Sterling £'000	Unrealised Loss Sterling £'000
Settlement within one month					
GBP	2,470	EUR	2,777	75	
GBP	4,075	USD	5,275	31	
Settlement one to six months					
GBP	330,343	USD	437,807		(4,304)
GBP	41,808	JPY	6,120,900		(731)
GBP	74,027	EUR	85,946		(316)
				106	(5,351)
Net forward currency contracts at 31 March 2019					(5,245)

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Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure	Market Value at 31 March 2018 £'000	Economic exposure	Market Value at 31 March 2019 £'000
Assets					
UK Fixed Interest	Less than one year	11,422	216	9,832	162
Overseas Fixed Interest	Less than one year	-	-	-	-
			216		162
Liabilities					
Overseas Fixed Interest	Less than one year	(4,621)	(56)	(3,548)	(86)
			(56)		(86)
Net Futures			160		76

Equity Protection Overlay Derivatives

A way for pension funds to reduce the risk of loss of value through adverse equity price movements is to purchase equity option contracts; this process is known as 'Equity Protection'.

In April 2018 the Fund entered into a suite of Equity Protection options which are designed to protect the value of the Fund's UK, US and European equity portfolios from a significant fall in the value of the equity market indices. These options are derivatives however, as they are held by Legal and General Investment Management (LGIM) within a bespoke pooled vehicle (with Cumbria LGPS being the sole investor), they are included within unitised insurance policies in note 10(a). The details are therefore disclosed below as a note only.

In simple terms, the contracts LGIM have entered into on behalf of the Fund generate a nominal return based on the current value of the index plus any increase up to a certain level, irrespective of the actual value expected at the end of the contract term and these values are reflected in the last of the following tables. The duration of the contract is until 31st March 2020.

The basis of valuing the options (which are "over-the-counter" derivatives) is the Black-Scholes model. Black-Scholes is a pricing model used to determine the fair price or theoretical value for a derivative option based on six variables such as volatility, type of option, underlying stock price, time, strike price, and risk-free rate.

Outstanding Over-the-counter options held in the bespoke equity protection pooled fund are as follows:

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Type	Expires	Put / call	Notional Holding £'000	Market Value at 31 March 2019 £'000
Assets				
UK Equity	31st March 2020	Put	409,986	9,017
Overseas Equity	31st March 2020	Put	806,617	17,635
				26,652
Liabilities				
UK Equity	31st March 2020	Put	(556,352)	(1,713)
UK Equity	31st March 2020	Call	(409,986)	(8,646)
Overseas Equity	31st March 2020	Put	(1,094,579)	(4,228)
Overseas Equity	31st March 2020	Call	(806,617)	(26,308)
				(40,895)
Net purchased / written				(14,243)

When an entity buys an **options** contract, it grants them the right, but not the obligation to buy or sell an underlying asset at a set price on or before a certain date. A **call option** gives the holder the right to buy stock, and a **put option** gives the holder the right to sell stock.

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 if appropriate, and cash transfers from and to the Administering Authority.

2018/19 has seen the transition of the Schroders UK equity segregated portfolio to transfer into the Authorised Contractual Scheme (ACS) pooled UK equity fund with Border to Coast, hence increasing both sales and purchases within UK equity, and purchase of pooled vehicles.

The table below reconciles the movements in investments and derivatives ('Total net investments') for the current year.

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2018/19:

Asset Class	Value at 1 April 2018 £'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 2019 £'000
Fixed interest securities (Corporate Bonds)	161,111	23,502	(13,359)	(1,276)	933	170,911
Equities						
UK equities	311,732	427,040	(687,835)	27,965	(41,288)	37,614
Overseas equities	503,151	182,893	(176,603)	26,388	38,691	574,520
	814,883	609,933	(864,438)	54,353	(2,597)	612,134
Pooled investment vehicles	913,729	352,028	(162,313)	18,230	61,554	1,183,228
Unit Trusts	6,539	-	(6,443)	3,809	(3,905)	-
Managed funds	393,715	150,427	(49,588)	11,446	17,101	523,101
Property (See Note 10b)	165,675	8,089	(11,229)	4,517	(5,772)	161,280
Derivatives (forward foreign exchange contracts, futures)	2,274	47,483	(25,964)	(21,518)	(7,444)	(5,169)
	2,457,926	1,191,462	(1,133,334)	69,561	59,870	2,645,485
Cash	80,849			(1,275)	85	44,360
Amounts receivable for sales	2,642					5,820
Investment income accrued	5,409					4,330
Property rental debtors	648					780
Amounts payable for purchases	(1,982)					(708)
Property creditors	(2,507)					(2,466)
Total Net Investments	2,542,985			68,286	59,955	2,697,601

Analysis of gains/(losses) for the year	2018/19 £'000
Realised - Profit and losses on disposal of investments	68,286
Unrealised - Changes in the market value of investments	59,955
	128,241

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

2017/18:

Asset Class	Value at 1 April 2017 £'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 2018 £'000
Fixed interest securities (Corporate Bonds)	158,742	17,441	(9,402)	(270)	(5,400)	161,111
Equities						
UK equities	304,023	54,306	(37,632)	11,737	(20,702)	311,732
Overseas equities	493,020	147,746	(156,657)	42,834	(23,792)	503,151
	797,043	202,052	(194,289)	54,571	(44,494)	814,883
Pooled investment vehicles	880,426	60,197	(40,000)	14,798	(1,692)	913,729
Unit Trusts	8,959	11	(3,129)	695	3	6,539
Managed funds	327,546	104,790	(52,513)	15,275	(1,383)	393,715
Property (See Note 10b)	161,190	69	(3,220)	(247)	7,883	165,675
Derivatives (forward foreign exchange contracts, futures)	8,023	16,996	(55,572)	38,575	(5,748)	2,274
	2,341,929	401,556	(358,125)	123,397	(50,831)	2,457,926
Cash	72,283			(5,929)	(3,986)	80,849
Amounts receivable for sales	2,382					2,642
Investment income accrued	5,044					5,409
Property rental debtors	619					648
Amounts payable for purchases	(2,754)					(1,982)
Property creditors	(2,768)					(2,507)
Total Net Investments	2,416,735			117,468	(54,817)	2,542,985

Analysis of gains/(losses) for the year	2017/18 £'000
Realised - Profit and losses on disposal of investments	117,468
Unrealised - Changes in the market value of investments	(54,817)
	62,651

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NOTE 10(e): INVESTMENTS ANALYSED BY EXTERNAL MANAGER

Manager	Asset Class	31 March 2018		31 March 2019	
		£'000	%	£'000	%
Investments Managed by Border to Coast Pensions Partnership Ltd					
Border to Coast UK Equity	Equities	-	0.0%	268,002	9.9%
	Managed by Pool	-	0.0%	268,002	9.9%
Investments Managed outside Border to Coast Pensions Partnership Ltd					
Legal & General Policy No. 1	Equities, bonds, cash	398,195	15.7%	401,853	15.0%
Legal & General Policy No. 2	Index-linked bonds	389,209	15.3%	388,496	14.4%
Legal & General Policy No. 3	Global equities	126,325	5.0%	124,877	4.6%
Legal & General Passive Currency	Currency overlay	2,018	0.1%	(5,352)	-0.2%
Loomis Sayles	Global equities	288,047	11.3%	333,604	12.4%
Nordea	Global equities	261,195	10.3%	294,517	10.9%
Aberdeen Standard Investments	UK corporate bonds	171,400	6.7%	178,252	6.6%
Aberdeen Standard Investments	Direct property	169,169	6.7%	163,091	6.0%
JP Morgan	Infrastructure	96,787	3.8%	121,907	4.5%
Insight Investments	Fixed income/cash	-	0.0%	60,029	2.2%
Partners Group	Infrastructure	39,410	1.6%	49,954	1.9%
Barings	Private Loan Fund	34,238	1.3%	42,130	1.5%
M&G	Property Fund	38,657	1.5%	39,867	1.5%
Aviva	Property Fund	36,809	1.4%	37,960	1.4%
Unigestion	Secondary Funds	30,110	1.2%	31,144	1.2%
Strategic cash allocation	Cash	56,836	2.2%	28,197	1.0%
SL Capital	Infrastructure	23,883	0.9%	26,538	1.0%
Partners Group MAC	Private Market Credit	26,148	1.0%	24,298	0.9%
SL Capital	Secondary Funds	17,957	0.7%	20,286	0.8%
BlackRock	Alternatives	21,744	0.9%	19,475	0.7%
Healthcare Royalty Partners	Royalties Fund	9,647	0.4%	17,788	0.7%
Pantheon	Private Equity Funds	-	0.0%	13,913	0.5%
M&G	Real Estate Debt	15,043	0.6%	12,897	0.5%
Sales outstanding receivable	Infrastructure	-	0.0%	2,370	0.1%
Border to Coast Ltd	Share capital	-	0.0%	833	0.0%
Aberdeen Asset Management	Indirect property	750	0.0%	546	0.0%
Schroders Investment Management	UK equities	289,398	11.4%	84	0.0%
Transition residual	Overseas/UK equities	10	0.0%	45	0.0%
	Outside Pool	2,542,985	100.0%	2,429,599	90.1%
Total Net Investments		2,542,985	100.0%	2,697,601	100.0%

Since 2012, actions to implement 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 reduce risk by improving diversification and to generate more stable and / or inflation protected income streams.

Cumbria LGPS transitioned from its actively managed UK equity portfolio with Schroders Investment Management to receive units in the Border to Coast UK Equity Fund in December 2018, a pooled unquoted investment, managed by the Border to Coast Pool.

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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, and the Fund's first investment with the Border to Coast Pensions Partnership pool.

The Legal and General holdings are unitised, index-tracking funds and are used as an efficient liquid 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.

In December 2018, Cumbria LGPS purchased units in the Border to Coast UK Equity Fund, a pooled unquoted investment managed internally by the Border to Coast Pool.

Holding	31 March 2018 £'000	% of Total Net Investments	31 March 2019 £'000	% of Total Net Investments
Border to Coast Pension Partnership Ltd - UK Equity	-	0.0%	268,002	9.9%
Investments managed by Border to Coast	-	0.0%	268,002	9.9%
Policy 1 Legal and General North America Index	151,261	5.9%	177,996	6.6%
Policy 1 Legal and General Over 5 Yr Index-Linked Gilts Index	87,620	3.4%	92,636	3.4%
Policy 1 Legal and General UK Equity Index	27,096	1.1%	28,839	1.1%
Policy 1 Legal and General Europe(Ex UK)Equity Index	38,664	1.5%	39,693	1.5%
Policy 1 Legal and General Japan Index	24,320	1.0%	24,100	0.9%
Policy 1 Legal and General Other Pacific Basin Index	19,465	0.8%	20,338	0.8%
Policy 1 Legal and General Sterling Liquidity Fund	49,769	2.0%	18,251	0.7%
Policy 1 Total	398,195	15.7%	401,853	15.0%
Policy 2 Legal and General Over 5 Yr Index-Linked Gilts Index	238,521	9.4%	155,433	5.8%
Policy 2 Legal and General Bespoke Equity Protection	150,688	5.9%	233,063	8.6%
Policy 2 Total	389,209	15.3%	388,496	14.4%
Policy 3 Legal and General FTSE World Equity Index	126,325	5.0%	124,877	4.6%
Investments managed by Legal and General	913,729	36.0%	915,226	34.0%
	913,729	36.0%	1,183,228	43.9%

Investments managed by external investment managers shown in Table 10(e) that exceed 5% and are not shown above, relate to segregated mandates where no one underlying holding is in excess of 5% of the total net assets of the fund.

NOTE 10(g): FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value.

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Description of Asset/Liability	Valuation hierarchy	Basis of Valuation	Observable and unobservable inputs	Key Sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and options in UK bonds*	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives*	Level 2	Market forward exchange rates at the year-end.	Exchange rate risk	Not required
UK and Overseas equity and bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Pooled investments - Level 2 UK & overseas equity, overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV-based pricing set on a forward pricing basis	Not required
Pooled investments - Level 3 hedge funds	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price published.	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Investment Properties: Freehold and leasehold properties	Level 3	Valued at fair value at the year-end using the investment method of valuation by independent valuers CBRE Ltd in accordance with the <i>RICS Valuation Global Standards 2017</i> (incorporating the International Valuation Standards) and the UK national supplement 2018 ("the Red Book").	Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.
Private/Unquoted equity (Pooled funds in Alternative Assets)	Level 3	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.	Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

* Futures, Derivatives and Options can be either Assets or Liabilities

Having analysed historical data and current market trends, the Fund has determined that the valuation methods described above for the Level 3 investments are likely to

8. THE PENSION FUND ACCOUNTS

be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of Level 3 investments held at 31 March 2019.

Fair Value – Sensitivity of Assets values at Level 3

	Assessed valuation range (+/-)	Value at 31 March 2019 £'000	Value on increase £'000	Value on decrease £'000
Alternatives - Infrastructure	5%	198,398	208,120	188,677
Alternatives - Other	12%	319,874	358,898	280,849
Freehold and leasehold property	9%	161,280	175,795	146,765
Total		679,552	742,813	616,291

NOTE 10(h): FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair value. Transfers between levels are recognised in the year in which they occur.

To show the liquidity of the assets the Fund holds, under IFRS the valuation of investments 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 for illiquidity through higher investment returns.

The actuarial valuation of the Fund projects that liabilities exceed assets (**note 23**), therefore there is a need to generate excess returns on investments 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 benefit of it to the Fund, merely how readily it can be realised as cash if required.

Level 1: 31% of Total Investments (2017/18: 42%)

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 are mainly quoted equity shares, quoted fixed interest securities,

8. THE PENSION FUND ACCOUNTS

quoted index linked securities, cash and unit trusts that can be freely traded in active markets.

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

The proportion of assets at level 1 has decreased in 2018/19 following the transition of the Schroders UK equity segregated portfolio into the Border to Coast Authorised Contractual Scheme (ACS) pooled UK equity fund. This transition reduced quoted UK equity (level 1), and increased pooled investment vehicles (level 2).

Level 2: 44% of Total Investments (2017/18: 36%)

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value, the techniques used are based significantly on observable market data.

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.

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: 25% of Total Investments (2017/18: 22%)

Assets and liabilities at level 3 are those where quoted market prices are not available and at least one input that could have a significant effect on the valuation is not based on observable market data.

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.

Such investments include unquoted equity investments, limited partnerships and property, 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), (d) and (f). 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 tables provide 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. Those current & long term assets/liabilities detailed in Note 10 -

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Investment Assets which are not measured at 'fair value through profit and loss' have not been included in this or the following table.

	31 March 2018				31 March 2019			
	Quoted market price	Using observable inputs	With significant unobservable inputs	Total £'000	Quoted market price	Using observable inputs	With significant unobservable inputs	Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000		Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial assets at fair value through profit and loss								
Equities - quoted	814,883	-	-	814,883	611,301	-	-	611,301
Equities - unquoted	-	-	-	-	-	-	833	833
Fixed interest securities- Corporate bonds - quoted	161,111	-	-	161,111	170,911	-	-	170,911
Pooled investments - quoted	10,544	-	-	10,544	4,829	-	-	4,829
Pooled investments - unquoted	-	913,729	389,710	1,303,439	-	1,183,228	518,272	1,701,500
Derivative contracts	-	2,332	-	2,332	-	268	-	268
Cash Deposits	98,587	-	-	98,587	47,124	-	-	47,124
Total Financial assets at fair value through profit and loss	1,085,125	916,061	389,710	2,390,896	834,165	1,183,496	519,105	2,536,766
Investment properties (Non-financial assets) at fair value through profit and loss	-	-	165,675	165,675	-	-	161,280	161,280
Financial liabilities (Derivative contracts) at fair value through profit and loss	-	(58)	-	(58)	-	(5,437)	-	(5,437)
Total Investments at Fair Value	1,085,125	916,003	555,385	2,556,513	834,165	1,178,059	680,385	2,692,609
Percentage of Total Investment:	42%	36%	22%	100%	31%	44%	25%	100%

NOTE 10(i): RECONCILIATION OF FAIR VALUE MEASUREMENT WITHIN LEVEL 3

The following table sets out the reasons for movement in the valuations within the Fund's assets categorised at level 3. More information regarding transfers is provided below the table as appropriate. Unrealised and realised gains and losses are

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recognised in the 'profit and losses on disposal and changes in market value of investments' line of the Fund Account.

Period 2018/19	Market value 1 April 2018 £'000	Transfers into level 3 £'000	Transfers out of level 3 £'000	Purchases during the year and derivatives payments £'000	Sales during the year and derivatives receipts £'000	Realised gains/(losses) £'000	Unrealised gains/(losses) £'000	Market value 31 March 2019 £'000
Unquoted Equities	-	-	-	833	-	-	-	833
Private/Unquoted equity (Pooled funds in Alternative Assets)	389,710	-	-	147,552	(46,627)	11,281	16,356	518,272
Investment Properties	165,675	-	-	8,089	(11,229)	4,517	(5,772)	161,280
	555,385	-	-	156,474	(57,856)	15,798	10,584	680,385

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 2018 £'000	31 March 2019 £'000
Financial Instruments	2,393,712	2,538,341
Statutory debts / liabilities & provisions	4,070	3,139
Investment Property	165,675	161,280
Net Assets of the Fund	2,563,457	2,702,760

NOTE 11(a): CLASSIFICATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

The following table analyses the carrying amount of financial instruments by category and net asset statement heading. No financial instruments were reclassified during the accounting period to 31st March 2019.

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	31 March 2018				31 March 2019			
	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Total	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CLASSIFICATION								
Financial Assets								
Investments								
Equities	814,883	-	-	814,883	612,134	-	-	612,134
Fixed interest securities (corporate bonds)	161,111	-	-	161,111	170,911	-	-	170,911
Pooled investment vehicles	1,313,983	-	-	1,313,983	1,706,329	-	-	1,706,329
Derivative contracts	2,332	-	-	2,332	268	-	-	268
Cash deposits	-	98,587	-	98,587	-	47,124	-	47,124
Investment receivables/debtors	-	8,699	-	8,699	-	10,930	-	10,930
Current & long-term assets	-	319	-	319	-	691	-	691
	2,292,309	107,605	-	2,399,914	2,489,642	58,745	-	2,548,387
Financial Liabilities								
Derivative contracts	(58)	-	-	(58)	(5,437)	-	-	(5,437)
Investment payables/creditors	-	-	(4,489)	(4,489)	-	-	(3,174)	(3,174)
Current/long-term liabilities	-	-	(1,655)	(1,655)	-	-	(1,435)	(1,435)
Total Financial Instruments	2,292,251	107,605	(6,144)	2,393,712	2,484,205	58,745	(4,609)	2,538,341
ANALYSIS OF NET GAINS AND LOSSES FOR YEAR ENDED 31st MARCH								
Financial Assets	55,073	-	-	55,073	134,933	-	-	134,933
Financial Liabilities	(58)	-	-	(58)	(5,437)	-	-	(5,437)
Total Net Gains/(Losses)				55,015				129,496

The values shown in the above table for 'Assets at amortised cost' and 'Financial liabilities at amortised cost' are equivalent to the fair value.

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 2018 £'000	31 March 2019 £'000
Long Term Debtors		
Long term debtors - contributions	-	-
Long term debtors - employer exit	657	328
Total Long Term Assets	657	328

'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 are 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'

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(see Note 12(b)) and the remainder of £0.328m 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 2018 £'000	31 March 2019 £'000
Cash balances	17,738	2,764
Current Debtors		
Contributions due	3,449	2,796
Employer exit from scheme due < 1 year	329	329
Miscellaneous	771	1,167
Total Current Debtors	4,549	4,292
Total Current Assets	22,287	7,056

Cash balances held by the Administering Authority are variable as the need arises to have cash available for deployment into new investments.

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 2018 £'000	31 March 2019 £'000
Long term Creditors		
Interest provision on long-term debt	87	-
Total Long term Liabilities	87	-

The long-term interest provision liability ended in 2018/19, being related to a debt received in ten annual instalments from the Ministry of Justice in transferring the Cumbria Magistrates Courts to central government. The payments end in April 2020.

8. THE PENSION FUND ACCOUNTS**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 2018 £'000	31 March 2019 £'000
Current Creditors		
Investment Managers fees	927	900
Tax payable	651	703
Interest provision on long-term debt	79	87
Miscellaneous	728	535
Total Current Liabilities	2,385	2,225

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.

The following table presents a summary of financial risks to provide an overview of the different types of risks that apply to the assets categories held by the Fund, with the corresponding values of those assets to provide context. The darkness of each marker against the asset categories indicates the varying degree to which the respective risk affects the different assets and thereby allow for comparison.

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Summary of Financial Risks	Credit Risk	Market Risk				2017/18 £'000	2018/19 £'000
		Foreign Exchange	Interest rate	Liquidity	Other risks		
UK Equities	●	●	●	○	●	345,368	334,455
Overseas Equities	●	●	●	○	●	867,191	966,352
UK Bonds	●	●	●	○	●	154,734	164,494
Overseas Bonds	●	●	●	○	●	6,377	6,417
Index Linked Gilts	○	○	●	○	●	468,128	494,170
Property *	●	○	●	●	●	165,675	161,280
Alternative Investments	●	●	●	●	●	389,710	518,272
Derivatives**	●	●	○	○	●	2,274	(23,706)
UK Cash	●	○	●	○	●	116,901	49,313
Overseas Cash	●	●	●	○	●	40,155	21,562
Total Investments at Fair Value						2,556,513	2,692,609

In the above table the risks noted effect the asset class either:

○ Minimally ● Partially ● Significantly

* Property is not a Financial instrument, it has been included above to provide a complete picture of investment assets.

** Derivatives shown above include Equity protection options detailed in Note 10c together with associated accruals.

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 2016² 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 on the Cumbria LGPS website under 'Key Cumbria LGPS Documents'.

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 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. These are detailed in the Fund's Investment Strategy Statement which was last reviewed in March 2019.

The Investment Strategy Statement (ISS) and the Cash Investment Policy can both be found in the Fund Policy Document published on-line, on the Cumbria LGPS website under 'Key Cumbria LGPS Documents'.

² Implemented in November 2016 to update the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2009.

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The Fund keeps its Investment Strategy under continual review. Local Government Pension Schemes have a long term liability profile, and their investment strategy should 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.

The Fund underwent a Strategic Investment Review in 2017/18, the main conclusion of this review was that “the Fund’s investment strategy is in good shape with no material changes required”. A further recommendation was made to consider options for banking some of the funding level improvements, and following significant work in 2017/18, an ‘equity protection’ overlay was in place from early April 2018. This brings the Fund protection from falls of more than 5% in the value of its equity from 4th April 2018 (the date the protection was purchased) until 31st March 2020 – the date at which the 2019 Actuarial Valuation is required to be formally completed. This protection is aimed at mitigating the risk of significant increases in employer contribution rates increasing for the period of April 2020 to March 2023.

A full Strategic Investment Review will be undertaken in 2019/20 following the results of the Triennial Actuarial Valuation of the Fund.

The Pensions Committee review the total Fund investment performance against its bespoke total benchmark return. Individual managers’ performance is monitored by the Investment Sub Group and reported by exception to the Pensions Committee quarterly, enabling 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 6 years it has been in place. The process continues to evolve 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.

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.

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Through review of annual internal control reports from the Fund's external Investment Managers 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 2019 were £2.764m (2017/18: £17.738m) within current assets (see Note 12(b)), and £44.360m (2017/18: £80.849m) shown as cash within investments (see Note 10). In addition to this, in 2018/19 £22.939m (2017/18: £58.469m) of the Fund's holding in unitised insurance policies shown in Note 10a under pooled investments together with £0.812m (2017/18: £nil), relating to the Equity protection cash balance, was ultimately held in the passive manager's money market fund (Legal and General) and as such is included below. These funds were held in cash awaiting drawdowns for new investments and as collateral for the equity protection overlay. The credit ratings of the accounts and funds were as follows:

Cash and Cash Equivalents	Rating at 31 March 2019	Balances as at 31 March 2018	Balances as at 31 March 2019
Money Market Funds			
SSGA GBP Liquidity Fund	AAA	28,582	15,708
SSGA EUR Liquidity Fund	AAA	20,575	15,862
SSGA USD Liquidity Fund	AAA	14,884	2,409
Legal & General Sterling Liquidity Fund	AAA	58,469	22,939
Aberdeen Standard Sterling Liquidity Fund	AAA	8,905	1,502
Federated Short Term Prime Fund	AAA	-	1,003
Goldman Sachs Sterling Reserves Fund	AAA	8,602	-
Standard Life Euro Liquidity Fund	AAA	131	111
Bank deposit accounts			
National Westminster Bank	A+	231	259
Bank current accounts			
State Street Bank & Trust	AA-	4,795	3,475
Barclays Bank	A+	5,353	3,497
Northern Trust	AA-	-	812
Short Term Deposit			
Cash Collateral Swaps		(131)	(110)
The Bank of New York Mellon call account	AA	6,660	3,408
Total		157,056	70,875

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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 2016. Details can be found in the Fund's Investment Strategy Statement (ISS). 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 Investment Strategy includes alternative asset classes (e.g. infrastructure, real estate debt, secondaries, royalties) which the Fund is now investing in. In addition to mitigate against the impact of equity market falls, the Fund implemented an 'equity protection' overlay in April 2018 to be in place until March 2020.

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 the Consumer Price Index (CPI) (which affect the value placed on the Fund's liabilities). It should be noted that, the valuation of liabilities was based on a CPI+ model in the 2016 actuarial valuation. Prior to this, projected bond yield was used to assess the value of 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.

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Market Risk - Sensitivity Analysis	2018/19 £'000	% Change	Value on Increase	Value on Decrease
UK Equities	334,455	9%	364,556	304,354
Overseas Equities	966,352	10%	1,062,987	869,717
Fixed interest securities (corporate bonds)	170,911	6%	181,166	160,656
Index Linked Gilts	494,170	12%	553,470	434,870
Alternatives - Infrastructure	198,398	5%	208,318	188,479
Alternatives - Other	319,874	12%	358,258	281,489
Property	161,280	3%	166,118	156,442
Cash	70,875	1%	71,584	70,166
	2,716,315		2,966,457	2,466,173

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 2019, the Fund had overseas investments (excluding forward foreign exchange contract) of £1,233.408m and £21.562m cash denominated in currencies other than sterling. The impact of a 9% movement in the value of foreign currencies against sterling is summarised in the table below and would be to increase (or decrease) the fund value by approximately £112.970m, or 4.2% of the Fund's total value. To assess the risk the Fund is exposed to as a result of holding these currencies, taking into account information provided by the Fund's performance monitoring advisor (State Street Investment Analytics), it is considered that a 9% movement is a reasonable measure to apply across the basket of currencies.

Foreign Exchange - Sensitivity Analysis	2018/19 £'000	% Change	Value on Increase	Value on Decrease
US Dollar denominated assets	824,994	9%	899,243	750,745
European currency denominated assets	228,530	9%	249,098	207,962
Other currency denominated assets	201,447	9%	219,577	183,317
	1,254,971		1,367,918	1,142,024

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

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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 2019, 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.

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. Interest rates increased in November 2017 from their historic low of 0.25% to 0.50% and subsequently increased to 0.75% in August 2018, the pace and rate of change over the past few years has been slow and measured. The real interest rate risk is that rates will rise further, causing the value of bonds and bond funds to fall. Interest rates changes if they occur would be expected to continue to be infrequent and minor in nature and we would expect it to take several months for a rate change to work its way through into prices.

The Fund's direct exposure to interest rate movements as at 31st March 2019 and 31st March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Assets exposed to interest rate risk	31 March 2018 £'000	31 March 2019 £'000
Fixed interest securities (including pooled investments)	629,239	665,081
Cash and cash equivalents	16,908	11,341
Money market funds and pooled cash vehicles	140,148	59,534
	786,295	735,956

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.

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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 from contributions and investment than it requires to fulfil all obligations).

In 2018/19, as in past years, the Fund experienced a contribution cash deficit, i.e. the income received from contributions from members and employers was less than payments paid to members, this is expected in years that are not at the start of the valuation cycle where 'up-front' contributions are often made by some of the larger employers.

In 2017/18 the Fund had a surplus of £6.671m, which is net of the £24.959m prepayment for the following years (2018/19 and 2019/20). This was primarily due to a number of employers paying historic pension deficits early as detailed in Note 3.

On advice from the Fund's Actuary it is projected that the Fund will remain cash positive (including yield from investments) for the medium term. However in the medium term, in light of the continual pressure on local government budgets and the resultant workforce reductions, this will be kept under active review and reassessed in the Triennial Actuarial Valuation.

Note 10(h) explains the Fair Value hierarchy and how the Fund holds a large value of very liquid securities which could be promptly realised if required (levels 1 and 2). As at 31st March 2019 the value of assets which could be converted to cash within three months, without significant loss to the Fund, is £2,012.224m, i.e. 75% of net assets (31st March 2018 £2,001.128m, 78%). The value of the illiquid assets including investment properties was £680.385m which represented 25% of net assets (31st March 2018 £555.385m, 22%).

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 matures as outlined in the table below:

Maturity Risk - Long term liabilities	31 March 2018 £'000	31 March 2019 £'000
Due 1 to 2 years	87	-
Due 2 to 5 years	-	-
Due 5 to 10 years	-	-
Total Long term liabilities	87	-

Counterparty Risk

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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. £5.169m loss on the currency derivatives at 31st March 2019 (see note 10c).

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.

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,

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is invested in unquoted, unitised, index-tracking funds, used as an efficient liquid 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. As indicated in **Note 9** the Fund is increasing its allocation to unquoted pooled investment vehicles including infrastructure, pooled property funds, private loan funds, opportunistic investments and other pooled investments. These provide 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 pooled 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.

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The unquoted investments held at 31st March 2019 are as follows:

Asset Class	2017/18 £'000	2018/19 £'000	Manager	Holding Details
Pooled investment vehicles				
Managed by Pool	-	268,002	Border to Coast	UK equity fund.
Unitised insurance policies	913,729	915,226	Legal and General	Index tracking funds.
Other managed funds	96,787	121,907	JP Morgan	Infrastructure fund.
	-	60,029	Insight	Fixed Income funds.
	39,410	49,954	Partners Grp	Infrastructure fund.
	34,238	42,130	Barings	Global private loan fund.
	38,657	39,867	M&G	Long-lease property fund.
	36,809	37,960	Aviva	Long-lease property fund.
	30,110	31,144	Unigestion	Secondary private equity funds
	23,883	26,538	SL Capital	Infrastructure fund.
	26,148	24,298	Partners Grp	Multi Asset Credit
	17,957	20,286	SL Capital	Secondary private equity funds
	20,270	19,015	BlackRock	BlackRock in-house funds.
	9,647	17,788	HRP	Healthcare Royalties Partners Fund.
		13,913	Pantheon	Private Equity funds.
	15,043	12,897	M&G	Real estate debt funds.
	750	546	Aberdeen	Overseas property funds (ex-BlackRock).
UK equity unquoted	-	833	Border to Coast	Company share capital.
	1,303,438	1,702,333		

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(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 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:

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	2017/18 £'000	2018/19 £'000
Standard Life	958	1,003
Scottish Widows	1,146	1,128
Equitable Life	684	671
Prudential	936	1,235
Total AVCs	3,724	4,037

AVC contributions of £0.685m were paid directly from employees pay to the providers during the year (2017/18: £0.504m).

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. 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.

Border to Coast Pension Partnership Ltd (Border to Coast)

As detailed in section 1 (d) of the accounts, in 2017/18 the Fund became a partner in Border to Coast as its chosen route to pool investment assets across the LGPS. Border to Coast is the organisation set up to run pooled LGPS investments for the Fund and 11 other Pension Funds. The company is a private limited company limited by shares and its company number is 10795539. Border to Coast was incorporated in May 2017 and issued 12 £1 A Ordinary shares. The shares have full voting rights, dividend and capital distribution rights. Cumbria County Council as Administering Authority for the Cumbria Local Government Pension Scheme holds £1 of A Ordinary share capital. For

8. THE PENSION FUND ACCOUNTS

accounting purposes this holding is included and reported within the Cumbria LGPS Annual Report and Accounts.

There are no material transactions in respect of related parties requiring separate reporting for 2018/19.

Senior employees of the main Employer organisations within the Cumbria Local Government Pension Scheme (LGPS), Members of the Cumbria Pensions Committee and Cumbria Local Pensions Board, and senior officers with significant influence on the Fund were asked to complete a declaration on related parties. An examination of the returns for 2018/19 reveals that there were no material transactions between the members/officers and their families affecting involvement with the Fund. 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 achieved in 2018/19.

Key Management Personnel

Paragraph 3.9.4.4 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 17 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 2018/19 (see Note 12 to those statements).

In the interests of transparency the Fund has incorporated disclosure of the remuneration of Senior Officers employed by Cumbria County Council and elected Members 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 below table

- Salary - includes salary in respect of the post and other payments received by the officer, for example, allowances for special duties.

8. THE PENSION FUND ACCOUNTS

- Benefits in Kind – includes expense allowances liable for taxation including for example, travel and mileage expenses. For 2018/19 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 2018/19
- Cumbria County Council's Employer's Future Service Rate – LGPS 14.9% (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 2018/19 on Cumbria LGPS specific work.
- During 2018/19, in addition to the Remuneration of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS, one officer (1FTE) (2017/18:1FTE) received remuneration in the £55,000 - £59,999 range however the remuneration of this Officer in respect of work undertaken on behalf of the Fund was less than £50,000 during the year.
- From May 2017, the Chair of the Cumbria Pensions Committee has been entitled to a special responsibility allowance. In 2018/19 this allowance was £7,018. This cost is charged to Cumbria LGPS.
- Other Members of the Pensions Committee and Local Pension Board are not remunerated for their attendance.

8. THE PENSION FUND ACCOUNTS

2018/19 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 £
Director of Finance (s.151 Officer) (previously Assistant Director of Finance)	12,469	12,469	1,858	14,327
Senior Manager – Pensions & Financial Services (Deputy s.151 Officer - LGPS)	48,135	48,135	7,172	55,307
	60,604	60,604	9,030	69,634

2017/18 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 £
Director of Finance (s.151 Officer) (previously Assistant Director of Finance)	11,706	11,706	1,744	13,450
Senior Manager – Pensions & Financial Services (Deputy s.151 Officer - LGPS):				
1 st April 2017 - 31 st December 2017	35,937	35,937	5,355	41,292
5 th March 2018 - 31 st March 2018	<u>3,545</u>	<u>3,545</u>	<u>528</u>	<u>4,073</u>
Senior Manager total	39,482	39,482	5,883	45,365
	51,188	51,188	7,627	58,815

8. THE PENSION FUND ACCOUNTS

NOTE 17: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There are no outstanding contractual commitments at 31st March 2019.

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 2018/19. The estimated value of claims still outstanding is £4.002m (value in GBP at 31st March 2019, 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 2018/19 and progress has slowed for Fokus Bank (withholding tax) claims in France, Germany and Italy 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 settlements previously received from other European countries such as the Netherlands 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. The total claim value is in excess of £0.914m, although no accrual has been 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 £0.471m, 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

8. THE PENSION FUND ACCOUNTS

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 2018/19 are considered to be recoverable with no further impairment beyond the existing provision for credit losses or bad and doubtful debts.

There were no impairments of investments during 2018/19.

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 £0.034m of debtors aged between two and six months (£0.002m 2017/18). Debtors aged greater than six months totalled £0.040m as at 31st March 2019 (£0.017m 31st March 2018).

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 how much can be on loan is 33%.

The value of securities on loan as at 31st March 2019 has reduced in comparison to prior years primarily following the transition of assets away from a segregated mandate with Schroders where the Fund is the asset owner and can therefore stock lend; to a unitised holding of UK Equity with Border to Coast where the Investments Manager is the asset owner. Within the Border to Coast UK equity sub-fund that the Fund has subscribed to, Border to Coast do actively participate in stock lending and the income from this forms part of the return on that holding.

Securities on loan at the 31st March 2019 of £9.232m (2017/18: £54.618m) are included in the net assets statement to reflect the Fund's continuing economic interest in the securities, and consist of £0.150m UK equities and £9.082m overseas equities (2017/18: £45.657m UK equities, £5.568m overseas equities and £3.393m UK corporate bonds). The related collateral totalled £9.483m (2017/18: £57.651m), consisting £9.326m overseas bonds and £0.157m UK equities (2017/18: £32.327m overseas bonds, £22.753m UK equities and £2.571m UK bonds).

For the year to 31st March 2019, the Fund earned income of £0.090m (2017/18 £0.068m) through stock lending of the various assets (as detailed in **Note 9**).

8. THE PENSION FUND ACCOUNTS

NOTE 21: EVENTS AFTER THE REPORTING DATE

In light of the progression, during July 2019, of the McCloud/Sargeant Court case (relating to the transitional provisions of the new Firefighters and Judicial Pension Schemes) and the possible future effect of the judgement on other public service schemes (including the LGPS) the Fund's liabilities have been re-assessed. At this stage the full details of the implications for the LGPS are unclear. However, in recognition of the importance of the judgement and the anticipated retrospective application of any related remedy, it is considered prudent to include an estimate of the impact on the present value of past service liabilities of the Fund in the amounts disclosed in Note 23.

There have been no other material events after the reporting date that are required to be taken into account in the financial statements.

The Fund's Investment Strategy 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).

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, and Fair Value narrative in notes 10(g) and 10 (h).

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	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'	For every 1% increase in market value, the value of the Fund will increase by approx. £27.028m, with a decrease having the opposite effect. Level 3 investments – often income will be inflation linked e.g. RPI uplifts,

8. THE PENSION FUND ACCOUNTS

	<p>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>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 £53m increase in deficit shortfall as identified in the 2016 valuation. The Actuarial Valuation at March 2016 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.
Allowance for credit losses / 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.

Investment in our asset pooling company – Border to Coast Pensions Partnership Ltd

Border to Coast is the organisation set up to run pooled LGPS investments for 12 Pensions Funds including Cumbria LGPS. The company is a private limited company limited by shares and its company number is 10795539. Border to Coast was incorporated in May 2017 and issued 12 £1 'A Ordinary' shares. The shares have full voting rights, dividend and capital distribution rights. Cumbria County Council, as Administering Authority for the Cumbria Local Government Pension Scheme, holds £1 of 'A Ordinary' share capital. For accounting purposes this holding is included and reported within the Cumbria LGPS Annual Report and Accounts.

This investment has been valued at cost on the basis that fair value as at 31st March 2019 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership Ltd became licensed to trade in May 2018;
- No published trading results are as yet available, which would allow fair value to be calculated on a net asset basis or enable the accuracy of profit and cash

8. THE PENSION FUND ACCOUNTS

flow projections contained in the company's business plan to be assessed with confidence;

- There is no intention for the company to be profit making and therefore no dividend to shareholders has been declared.

Directly held property

The Fund's property portfolio includes a number of directly owned properties which are leased commercially to various tenants with a variety of rental periods. The Fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by IAS 7 and the Code, therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account on a accruals basis, over the life of the lease, even if this does not match the pattern of payments (eg if there is a premium paid at the commencement of the lease).

NOTE 23: ACTUARIAL POSITION OF THE FUND

The Fund Actuary assesses the valuation of the Cumbria Local Government Pension Scheme as at 31st March 2016 to determine the contribution rates with effect from 1st April 2017 to 31st March 2020. A valuation estimate based on similar actuarial assumptions was also carried out at 31st March 2018 and 31st March 2019.

The full Actuarial Valuation Report as at 31st March 2016 is available on the **Cumbria LGPS** website under 'Key Cumbria LGPS Documents'. Once published the new Actuarial Valuation Report 2019 will also be made available on the Council's website.

The Scheme Actuary is also required by the Local Government Pension Scheme (Administration) Regulations 2013 (as amended) to present a statement detailing 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 calculation of the liabilities in compliance with IAS 19 uses different, and more prudent, assumptions than that used for the valuation basis. The table below details the valuation of the assets and liabilities of the Fund using both the valuation basis and the IAS 19 methodology.

8. THE PENSION FUND ACCOUNTS

	31 March 2018 £'m	31 March 2019 £'m
Valuation Basis		
Present value of past service liabilities	(2,618)	(2,745)
Net assets of the Fund	2,563	2,703
Net liability (Valuation Basis)	(55)	(42)
IAS 19 Basis		
Present value of past service liabilities	(3,245)	(3,553)
Net assets of the Fund	2,563	2,703
Net liability (IAS 19 Basis)	(682)	(850)

The statement from the Scheme Actuary as required by the Local Government Pension Scheme (Administration) Regulations 2013 (as amended) and in compliance with IAS 26 and on the basis of IAS19 is presented below.

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

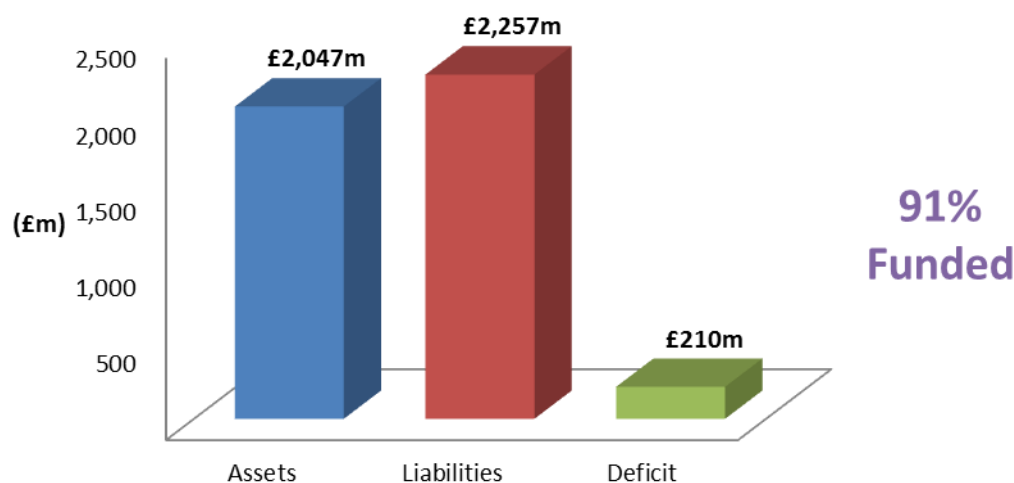
ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 - STATEMENT BY THE CONSULTING ACTUARY

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

An actuarial valuation of the Cumbria Local Government Pension Scheme was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £2,047 million represented 91% of the Fund's past service liabilities of £2,257 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £210 million.

8. THE PENSION FUND ACCOUNTS



At 31 March 2016

The valuation also showed that a Primary contribution rate of 15.3% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At the most recent actuarial valuation the average deficit recovery period was 15 years, and the total initial recovery payment (the "Secondary rate") for 2019/20 is approximately £16.0 million (this allows for some employers to phase in any increases). For all employers, the Secondary rate will increase at 2.2% per annum, except where phasing has been applied. With the agreement of the Administering Authority employers could also opt to pay some of their employer contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

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 Fund 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.

8. THE PENSION FUND ACCOUNTS

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

	For past service liabilities (Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.2% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.2% per annum	2.2% per annum

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

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

IAS 26 requires the present value of the Fund'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 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.1% per annum	2.2% per annum
Rate of pay increases*	3.6% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.2% per annum	2.3% per annum

* includes a corresponding allowance to that made in the latest formal 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 2017.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both of these factors served to increase the liabilities over the year.

8. THE PENSION FUND ACCOUNTS

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £3,245 million. Interest over the year increased the liabilities by c£85 million, and net benefits accrued/paid over the period also increased the liabilities by c£20 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). We have also included an amount of £18 million by way of an estimate of the effect of the McCloud judgement (see note below for further details). There was an increase in liabilities of £185 million due to "actuarial gains" (i.e. the effects of the changes in actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £3,553 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangements will almost certainly be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is unclear what the extent of any potential remedial action might be.

We have carried out some costings of the potential effect of McCloud as at 31 March 2019, based on the individual member data as supplied to us for the 2016 actuarial valuation, and this results in an additional liability of £18 million using the IAS26 assumptions outlined above. The approach to the calculations is as instructed by the administering authority after consideration of the categories of members potentially affected, but in very broad terms calculates the cost of applying a "final salary underpin" (on a member by member basis) to those active members who joined the Fund before 1 April 2012 and who would not otherwise have benefited from the underpin.

GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that "public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation,

8. THE PENSION FUND ACCOUNTS

when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

John Livesey
Fellow of the Institute and Faculty
of Actuaries

Mark Wilson
Fellow of the Institute and Faculty
of Actuaries

Mercer Limited
July 2019

NOTE 24: ACCOUNTING STANDARDS ISSUED BUT 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 have been no such accounting standards issued that would materially impact on the 2018/19 financial statements.

NOTE 25: PARTICIPATING EMPLOYERS OF THE FUND

As at 31st March 2019 the scheduled and admitted bodies within the Cumbria Local Government Pension Scheme were:

8. THE PENSION FUND ACCOUNTS

Employers of the Fund as at 31 March 2019 (total 127)		
Scheduled Scheme Employers (13)	Scheduled Bodies - Academies (cont)	Admitted Bodies Transferee (18)
Cumbria County Council Allerdale Borough Council Barrow Borough Council Carlisle City Council Copeland Borough Council Eden District Council South Lakeland District Council Cumbria Chief Constable Cumbria Police & Crime Commissioner Furness College Kendal College Further Educ Lake District National Park Authority Lakes College (West Cumbria)	Great Corby Academy James Rennie Academy (New) Kendal MAT - Castle Park Academy Keswick Academy Kirkbie Kendal Academy Kirkby Stephen Academy Northside Academy Penny Bridge Academy Queen Elizabeth Grammar Academy Richard Rose Academies Seaton Academy Settlebeck High Academy Stanwix School Academy Stramongate Academy The Queen Katherine School Academy Trinity Academy Walney Academy West Lakes Academy	Bulloughs - Solway Carlisle Leisure Ltd Carlisle Leisure Allerdale Carlisle Mencap - Huntley Ave Carlisle Mencap - Hart St Caterlink - W/Lakes Caterlink - WHT FCC Environment Greenwich Leisure (Copeland) Greenwich Leisure (South Lakes) Life Leisure (New) Mellors Catering - Appleby Mellors Catering - Kirkby Stephen Mellors Catering Services - Rockcliffe People First SLS (Cumbria) Ltd - QK SLS (Cumbria) Ltd - StH Tullie House Trust
Scheduled Resolution Bodies (15)	Inspired Learning MAT (one employer): Parkside GGI Academy Victoria Primary Academy Yarlsdale Primary Academy	Admitted Bodies Community (16)
Aspatria Town Council Cleator Moor Town Council Cockermouth Town Council Cumbria Waste Management Egremont Town Council Grange Town Council Kendal Town Council Keswick Town Council Maryport Town Council Orian Solutions Penrith Town Council Ulverston Town Council Whitehaven Town Council Wigton Town Council Workington Town Council	The Good Shepherd MAT (one employer): Ambleside Primary Academy Braithwaite Primary Academy Dean Academy (New) Lazonby Academy Lorton Academy Whitfield Academy	Commission for Social Care Inspection Cumbria Cerebral Palsy Cumbria Deaf Vision Eden Housing Association Glenmore Trust Harraby Community Centre Higham Hall Home Group (Copeland) Kendal Brewery Arts Centre Trust Ltd Longtown Memorial Hall Community Centre Morton Community Centre Oaklea Trust Soundwave South Lakes Housing West House Wigton Joint Burial Committee
Scheduled Bodies - Academy employers (43)	Cumbria Education Trust (one employer)	Admitted Bodies No Actives (10)
(number of academies 57)	Longtown Academy Tebay Academy The Workington Academy Whitehaven Academy William Howard Academy Yanwath Academy Yewdale Academy	Cumbria Training Partnership Direct Training Services Egremont & District Pool Trust Henry Lonsdale Trust Kendal Citizens Advice Lake District Cheshire Homes Lakeland Arts Trust NRCS Ltd (Neighbourhood Revitalisation) Project Homeless Troutbeck Bridge Swimming Pool
Appleby Grammar Academy Arnsdale National CofE Academy Bassenthwaite Academy (New) Broughton Primary Academy Burton Morewood Primary Academy Caldew Academy Cartmel Priory Academy Castle Carrock Academy Chetwynd School Academy Cockermouth Academy Crosby on Eden Academy Dallam Academy Dearham Primary Academy Eaglesfield Paddle Academy Energy Coast UTC Fairfield Primary Academy Flimby Academy (New) Furness Academy George Hastwell School Academy Ghyllside Academy Gilsland Academy	Lunesdale MAT (one employer) Queen Elizabeth Academy Queen Elizabeth Studio School	
	Scheduled Bodies No Actives (12)	
	Brampton Parish Council Charlotte Mason College Cumbria Institute of the Arts Cumbria Primary Teacher Training Cumbria Sea Fisheries Dept Constit Affairs (Cumbria Magistrates) Health Authority Millom Town Council Port of Workington Practical Alternatives to Custody (Ltd) Seaton Parish Council Water Authority	

9. OTHER STATEMENTS AND INFORMATION**9 OTHER STATEMENTS AND INFORMATION****9.1 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:

9.1.1 Fund assets as at the reporting date:

31st March 2019	UK	Non-UK	Global**	Total
	£m	£m	£m	£m
Equities	329.6	(8.1)	961.5	1,283.0
Bonds	658.7	6.4	-	665.1
Property (direct holdings)	161.3	-	-	161.3
Alternatives*	260.2	260.6	-	520.8
Cash and cash equivalents	45.8	21.6	-	67.4
Other ***	-	-	-	-
Total	1,455.6	280.5	961.5	2,697.6

Comparatives:

31st March 2018	UK	Non-UK	Global**	Total
	£m	£m	£m	£m
Equities	345.4	4.0	863.2	1,212.6
Bonds	622.9	6.4	-	629.3
Property (direct holdings)	165.7	-	-	165.7
Alternatives*	181.0	214.9	-	395.9
Cash and cash equivalents	99.3	40.2	-	139.5
Other ***	-	-	-	-
Total	1,414.3	265.5	863.2	2,543.0

9.1.2 Investment income accrued during the reporting date:

31st March 2019	UK	Non-UK	Global**	Total
	£m	£m	£m	£m
Equities	10.6	9.7	-	20.3
Bonds	6.8	0.2	-	7.0
Property (direct holdings)	7.8	-	-	7.8
Alternatives*	3.1	2.7	10.9	16.7
Cash	0.1	0.5	-	0.6
Other***	-	-	-	-
Total	28.4	13.1	10.9	52.4

9. OTHER STATEMENTS AND INFORMATION

Comparatives:

31 st March 2018	UK	Non-UK	Global**	Total
	£m	£m	£m	£m
Equities	12.1	9.9	-	22.0
Bonds	6.8	0.2	-	7.0
Property (direct holdings)	7.7	-	-	7.7
Alternatives*	5.3	6.4	8.4	20.1
Cash	0.1	0.3	-	0.4
Other***				-
Total	32.0	16.8	8.4	57.2

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.

9. OTHER STATEMENTS AND INFORMATION

9.2 AUDITOR'S OPINION



Independent auditor's report to the members of Cumbria County Council on the consistency of the pension scheme financial statements of Cumbria Local Government Pension Scheme included in the Pension Scheme Annual Report

Opinion

The pension scheme financial statements of Cumbria Local Government Pension Scheme (the 'pension scheme') administered by Cumbria County Council (the "Authority") for the year ended 31 March 2019 which comprise the Pension Fund Account for the year ended 31 March 2019, the Net Assets Statement as at 31 March 2019 and the notes to the financial statements, including a summary of significant accounting policies are derived from the audited pension scheme financial statements for the year ended 31 March 2019 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension scheme financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19 and applicable law.

Pension Scheme Annual Report - Pension scheme financial statements

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 and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension scheme financial statements in the Statement of Accounts in our report dated 30 July 2019.

Director of Finance's 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 of the Authority is responsible for the preparation of the pension scheme financial statements, which must include the Fund Account, the Net Assets Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension scheme financial statements in both the 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 2018/19.

9. OTHER STATEMENTS AND INFORMATION

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension scheme financial statements in the Pension Scheme Annual Report are consistent, in all material respects, with the audited pension scheme financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Who we are reporting to

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 Authority's members 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.

Gareth Kelly

Gareth Kelly
for and on behalf of Grant Thornton UK LLP, Local Auditor

Glasgow

30th July 2019

APPENDIX A: FUND POLICY DOCUMENT

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME**FUND POLICY DOCUMENT**

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Amended September 2019

APPENDIX A - 1. INTRODUCTION

1 INTRODUCTION

The Cumbria Local Government Pension Scheme is part of the Local Government Pension Scheme. The scheme is a funded pension scheme, which means that funds are set aside to meet future retirement needs of scheme members. The scheme is a statutory pension scheme governed by the Superannuation Act 1972, the Public Services Pensions Act 2013, the Local Government Pension Scheme Regulations 2013 (as amended), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 and the Local Government Pensions Scheme (Management and Investment of Funds) regulations 2016 (as amended). Under these regulations Cumbria County Council is required to provide an administration service for the scheme within the geographical area of Cumbria.

The County Council administers the pension scheme on behalf of the majority of local government employees in Cumbria, further and higher education colleges, some voluntary and other non-profit making organisations, and a number of 'Admitted Bodies', i.e. organisations that have entered into an admission agreement with the County Council to participate in the Pension Fund.

The scheme is open to all local government employees within the County who are not covered by alternative pension arrangements. The main categories of employees covered by alternative arrangements are teachers, Fire Service uniformed personnel and police officers.

Governance

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 Pensions Board, Cumbria Pensions Committee & Investment Sub-Group, Cumbria Pensions Forum, Advisers and Officers.

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

The purpose of each is summarised as follows:

2 Governance Policy Statement – sets out the roles and responsibilities and reports compliance against a set of best practice principles.

3 Administration Strategy & Communications Policy – details the formal arrangements for pensions and benefits administration for the Scheme, and the communications with members, employers and pensioners.

APPENDIX A - 1. INTRODUCTION

4 Investment Strategy Statement – details how the Fund’s assets are invested, the fund managers and benchmarks, and the Fund’s compliance with updated Myners Principles and the Financial Reporting Council’s UK Stewardship Code.

5 Cash Investment Policy – the management of the pension fund cash, bank account and investment of surplus cash.

6 Funding Strategy Statement – identifies how the Scheme’s pension liabilities will be funded in the longer term and addresses solvency issues.

7 Admissions and Termination Policy – details the policy on employer admissions and the methodology on cessation from the Scheme.

8 Discretions Policy – detailing the policy regarding the exercise of certain discretions to assist in the management of the Scheme.

9 Training Policy – sets out the policy concerning the training and development of members of all committees and officers responsible for management of the Scheme.

10 Policy & Procedure on Reporting breaches of the law – sets out the policy and procedures to be followed by persons involved with the Cumbria LGPS in relation to reporting breaches of the law.

11 Internal Controls and Risk Management – sets out the policy approach within the Cumbria LGPS in relation to internal controls and risk management procedures that seek to protect the Fund from adverse risk.

Cumbria Pensions Committee

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

The committee has 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, 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 scheme actuary Mercers, and by other consultants and lawyers for investment management services.

APPENDIX A - 1. INTRODUCTION

Cumbria Pensions Investment Sub Group

The dedicated Investment Sub Group advises the Section 151 Officer in the exercise of their delegated powers to appoint / terminate investment managers with holdings of less than 5% of the Fund, thus speeding up decision making. This enables limited Committee agenda time to be focussed 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 investment managers (under 5%) 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.

Cumbria Pensions Board

The Board is constituted under the Public Service Pension Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014. It has been required since 1 April 2015, and has been 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.

Cumbria Pensions Forum

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

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

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 7th March 2019.

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:

2.1 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") which includes its involvement in the Border to Coast Pensions Partnership Ltd (Border to Coast) as the Council's approved Pension Pool.

These responsibilities will include, but not be limited to:

- To submit the Pension Fund Accounts to the Council in line with current financial standing orders.
- 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 the desirability of maintaining as nearly constant a common contribution rate as possible and the requirement to secure the solvency of the Pension Fund.
- To approve the investment or disinvestment in any assets of the portfolio where the assets meet the criteria set out in the Fund's asset allocation strategy.
- 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

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

Terminations Policy, Administration and Communications Policy, Discretions Policy, Investment Strategy Statement and the Cash Investment Policy).

- To annually review the Investment Strategy Statement and oversee the performance of all investment managers in the delivery of the Investment Strategy.
- To oversee compliance by the Council in its capacity as shareholder of Border to Coast and to determine the Council's position as shareholder on decisions of the company that are reserved to the shareholders.
- 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 Forum, Border to Coast Joint Committee, Investment Sub Group and the Cumbria Local Pension Board.
- To 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 to 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

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

- 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 Fund's 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; investment consultants etc. These contracts are to be awarded through the Council's normal procurement process and once appointed will be managed on behalf of the Committee by 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.

2.2 Terms of reference of the Investment Sub Group

The Constitution of the Investment Sub Group is:

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

Functions

To operate within the remit of the Cumbria Local Government Pension Scheme Investment Strategy and Investment Strategy Statement (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 to Pensions Committee 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 (including assets held by Border to Coast) 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 investment or disinvestment in any assets with a value of less than 5% of the portfolio where the assets meet the criteria set out in the Fund's asset allocation strategy;
 - 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 to the Fund (or Investment Consultants at the invitation of the Investment Sub Group if the independent advisors are unable to attend).

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

At any meeting where consideration by the Investment Sub Group of a recommendation to invest or disinvest in assets of the Fund or change an investment manager is undertaken the following must be available:-

- at least two of the three elected members
- at least one of either the Section 151 Officer or the Senior Manager with the responsibility for the Pensions Fund.
- at least one external advisor

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

- 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.

2.3 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 relating 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

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

Equal representation between Fund employers and Fund members is required. The Cumbria Local Pension Board will comprise three fund member representatives and three fund employer representatives.

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 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.

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 considered.

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.

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 knowledge capacity – the administering authority must ensure that each person appointed to the Board has the relevant knowledge 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 sufficient training etc. to enable them to continue to fulfil the knowledge 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, with at least one member representing employers and at least one member representing scheme members.
- 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.

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

- 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.

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

Substitution

- Substitutes are permitted and sufficient substitutes will be appointed to ensure that the representation described above can be maintained whenever a substitution is required.
- In recognition of the requirements relating to relevant knowledge and capacity, substitutes must be subject to the same appointment process as Board members detailed above and the relevant knowledge and capacity requirements. Each substitute will be appointed for a four year term (or, in the case of elected members for the remainder of their current term of office) and there is no limit on the number of times the substitute can seek to be reappointed.
- Reimbursement of reasonable travel expenses for attendance at meetings and training sessions will be in line with the County Council's agreed policies and rates for elected members. All such costs will be met directly by the Pension Fund.

2.4 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:

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

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

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

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

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

The Director of 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 Constitution 'Part 3 – Delegation to Officers' refers.

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

In addition to these functions the Director of Finance (Section 151 Officer) has authority in respect of the Cumbria Local Government Pension Scheme for the following to:

- 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.
- In consultation with Members of the Investment Sub-Group (if any) of the Pensions Committee:
 - Appoint or terminate the contracts of investment managers with holdings of less than 5% of the portfolio of the Cumbria Local Government Pensions Fund;
 - Approve the investment or disinvestment in any assets with a value of less than 5% of the portfolio, where the assets meet the criteria set out in the Fund's asset allocation strategy;
 - Establish and review performance benchmarks and targets for investment.
- Subject to the above, to commence 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, variation 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 Director of Finance has the authority to sign, for the purposes of the local Government Contracts Act 1997, each certificate given under the Act.

2.6 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.

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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 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.

2.8 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).

<u>Principle</u>	<u>Compliance</u>	
Principle A – Structure	Not Compliant	Fully Compliant
<p>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.</p> <p>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.</p>		<p>✓</p> <p>✓</p> <p>✓</p>

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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 :- 1. employing authorities (including non-Fund employers, e.g. admitted bodies); 2. Fund members (including deferred and pensioner Fund members), 3. independent professional observers, and 4. 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		

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

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.		✓

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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.		✓

APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY – PART A: BACKGROUND, PURPOSE & REVIEW

3 ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY

Part A: Background, Purpose and Review

1. Background

- a. 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).
- b. 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:
 - i. The Director of Finance (Section 151 Officer); and
 - ii. Lancashire County Council (LCC) who provide this service through Local Pensions Partnership under the operating name of Your Pension Service (YPS).
- c. The Administration Strategy (Parts B & C) is set out so as to illustrate the Fund's core responsibilities and whom they sit with.
- d. The Communication Policy (Part D) is the overarching policy for the Cumbria Pension Fund.

2. Purpose

- a. **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.'

APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY – PART A: BACKGROUND, PURPOSE & REVIEW

- b. **Communications Policy:** Regulation 61 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

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

APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY – PART B: ADMINISTERING AUTHORITY / YOUR PENSION SERVICE UNDERTAKINGS

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

1. Liaison and Communication

- 1.1. The Fund has staff dedicated to the provision of Pensions Administration within the core Pensions Team. Additionally staff at Your Pension Service (YPS) provide Administration services for the Fund. YPS 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 • Annual pension 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

APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY – PART B: ADMINISTERING AUTHORITY / YOUR PENSION SERVICE UNDERTAKINGS

Activity	Main contact
1.8. Carry out annual employer visits for employers with more than 100 members.	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 Investment Strategy Statement. 	Core team
1.12. Undertake 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

**APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY
– PART B: ADMINISTERING AUTHORITY / YOUR PENSION SERVICE
UNDERTAKINGS**

Activity	Main contact
2.6. Provide information as required to Core team in relation to quarterly and annual HMRC event reporting.	YPS
2.7. Complete quarterly and annual event reporting and payment of tax in accordance with HMRC requirements.	Core team
2.8. Process pensioner payroll year end routines and comply with HMRC PAYE legislation.	YPS
2.9. Update systems and member records each year.	YPS
2.10. 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 and Core team
2.11. Reconcile contributions and update fund member personal and financial data received from employers in the LGPS2014 Data Collection File every pay period.	YPS and core team
2.12. Create member records for all new starters admitted to the LGPS. Send a welcome letter to all members, by email if possible.	YPS
2.13. Apply any retrospective adjustments to career average pay and accrual rates as informed by employers.	YPS
2.14. Update and maintain a member's record for any changes received in their circumstances.	YPS
2.15. Update member records in line with absence notifications, and set up APC arrangements to cover lost benefits as appropriate.	YPS
2.16. Provide every active, deferred and pension credit member a benefit statement each year.	YPS
2.17. Provide all members earning £85,000 or more per annum, or on member requests, with annual pension saving statements and information regarding Annual Allowance tax implications.	YPS
2.18. Implement Mandatory and Voluntary Scheme Pays at a member's request in accordance with the approved policy.	YPS
2.19. Process early leavers (deferred benefits / refunds) within 15	YPS

**APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY
– PART B: ADMINISTERING AUTHORITY / YOUR PENSION SERVICE
UNDERTAKINGS**

Activity	Main contact
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.	
2.20. Arrange payment of retirement benefits and create a new record for ongoing pension scheme membership if applicable	YPS
2.21. Calculate and pay benefits within 10 working days of receipt of notification or date of entitlement, whichever is the latter.	YPS
2.22. Arrange to make pension payments on the last banking day of each month.	YPS
2.23. Make payment of compensatory added years pensions as agreed on behalf of the employer in connection with redundancy retirements.	YPS
2.24. Apply Pensions Increases to pensions on the due date.	YPS
2.25. Implement changes in pensioner's circumstances within 10 working days of the receipt of the information.	YPS
2.26. Implement changes in spouse / dependants circumstances.	YPS
2.27. Make payments to the member's estate / nominated beneficiary within one month of receipt of the required documentation.	YPS
2.28. Produce and distribute P60s to pensioners by the 31st May each year.	YPS
2.29. Produce monthly reports and invoices for Pension strain costs to be recovered from employers.	YPS and core team
2.30. Raise invoices on at least a quarterly basis to employers to recover payments of compensatory added years pensions arising from redundancy retirements.	Core team
2.31. Comply with the principal regulations (as amended from time to time) relevant to this Pension Administration Strategy Statement.	Core team
2.32. Prepare the Annual Report and Accounts of the Cumbria Pension Fund.	Core team

APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY – PART B: ADMINISTERING AUTHORITY / YOUR PENSION SERVICE UNDERTAKINGS

Activity	Main contact
2.33. Ensure the appropriate policies, including the Funding Strategy Statement and the Investment Strategy Statement, 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 Regulator³ 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 website⁴ 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%

³ Paragraph 42 of Code of Practice no.14: 'Governance and administration of public service pension schemes

⁴ <http://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=150>

APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY – PART B: ADMINISTERING AUTHORITY / YOUR PENSION SERVICE UNDERTAKINGS

Provide leaver statement within 15 days	90%
Amend personal records within 10 working days	90%

APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY – Part C: EMPLOYER UNDERTAKINGS

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 annual returns as required 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

3.1. Contributions

APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY

– Part C: EMPLOYER UNDERTAKINGS

- 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 financial penalty against the employer, and may result in a breach report to the Pensions Regulator.
- 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 quarter. 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 1.4.1974 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

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– Part C: EMPLOYER UNDERTAKINGS

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).

APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY

– Part C: EMPLOYER UNDERTAKINGS

- 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

APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY – Part C: EMPLOYER UNDERTAKINGS

than 5 working days after the final payment of salary following the date of termination.

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. With the exception of Cumbria County Council, 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 to the Pensions Regulator.

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

APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY

– Part C: EMPLOYER UNDERTAKINGS

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 and commit to promote member self service to their active members.
- 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 General Data Protection Regulations from May 2018 implemented under the Data Protection Act 2018 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.
- 5.3. **New Employers** – In addition to any actuarial or legal fees payable by new employers and admission bodies the Authority will charge a flat rate administration charge of £250 towards the costs involved. This also includes newly converted academies joining Multi Academy Trusts (MAT) or those leaving MATs and entering into alternative arrangements.

6. Other Matters

**APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY
– Part C: EMPLOYER UNDERTAKINGS**

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

APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY

– Part D: COMMUNICATION POLICY

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

**APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY
– Part D: COMMUNICATION POLICY**

Information	Stakeholder*	Format	Frequency	Method of distribution
				Email / internet / mail
Employer Updates	Employer	Website, online	As required	Email, website
Pensioner payslips/P60's	Member	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.

*** Investment Decision queries – will be responded to in line with the Fund's stated positions as detailed in the Investment Strategy Statement (ISS) (in particular sections 4.7 Responsible Investing, Stewardship and Corporate Governance and Annex A Investment Beliefs). Such queries will be responded to in accordance with the Administering Authority's Freedom of Information procedures.

APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY – Part D: COMMUNICATION POLICY

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 2018
General Data Protection Regulations 2018
Income Tax (Earning and Pensions) Act 2003 [c.1]

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

4 INVESTMENT STRATEGY STATEMENT

4.1 Introduction

The principal powers under which an LGPS invests are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations require an Administering Authority to prepare, maintain and publish an Investment Strategy Statement (ISS). The aim of the ISS being to formulate a policy for the investment of its Fund money, which must be in accordance with guidance issued by the Secretary of State. The latest version was agreed by Pension Committee on 7th March 2019.

The Investment Strategy Statement (ISS) outlines the Fund's investment strategy, and how the investment 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 risks will be managed with regard to the underlying pension liabilities.

The Administering Authority has consulted with appropriate persons in preparing the ISS (such as investment advisors and the actuary) and taken and acted on any advice received. The Pension Committee agrees to ensure the ISS will be kept under review and updated when necessary, but as a minimum reviewed annually and published in the Annual Report.

The Authority will invest in accordance with its investment strategy, any Fund money that is not needed immediately to make payments from the Fund. Any deviations from the agreed strategy will be reported to the Pension Committee, the Pensions Board and the Section 151 Officer so that appropriate corrective actions can be undertaken.

The ISS covers the following:

- Background
- Approach to investment
- Types of investments and limits
- Approach to risk
- Approach to pooling
- Policy on responsible investing and corporate governance
- Policy on exercise of rights
- Compliance of Cumbria Fund with the Updated Myners Principles
- Cumbria LGPS Investment Beliefs
- Compliance with the UK Stewardship Code.

4.2 Background

The Cumbria Pensions Committee is delegated to exercise 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.

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

4.2.1 Cumbria Pensions Investment Sub Group (ISG)

The Investment Sub Group; is delegated to undertake tactical asset allocation decisions within the agreed asset strategy, in this way it directly supports the wider remit of the full Committee. Operating protocols between the two groups will include procedures on how detailed monitoring will be undertaken and reporting structures between the two groups. The Investment Sub Group will 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 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.

4.2.2 The investment objectives of the Fund

- The long-term objective is for the Fund to achieve and maintain a funding level of 100% over a maximum fund recovery period of sixteen years from April 2017. This target will be reviewed following each triennial actuarial valuation and consultation with Fund employers.
- The investment objective is to achieve an investment return to match the actuary's long term assumptions for future service of CPI+2.75% and past service of CPI+2.0% over a sixteen year period from April 2017. This gives a combined minimum required return of CPI +2.5%.
- The Fund will target an outperformance of this over 10 years, within a diversified portfolio to stabilise returns and reduce volatility throughout the period. On advice from the ISG the outperformance target will be reviewed periodically by the Committee.
- The actuarial funding 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 combined manager target investment return for the Fund as a whole is 0.6% per annum ahead of the Fund's customised benchmark return over rolling five-year periods.

4.3 Approach to investment

The Pension Committee is charged with the responsibility for the governance and stewardship of the Fund. The Fund has adopted a prudent, risk aware investment strategy, which is kept continually under review through an annual evaluation of the Funding Strategy. Asset allocation decisions are taken in the best long term interest of Fund employers and member beneficiaries.

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

The Fund's Statement of Investment Beliefs is included at Annex A to this policy and the overarching objective is to manage a sustainable and solvent Local Government pension fund on behalf of current and future members of the fund.

In line with the above overall objective, the Fund will invest money in a wide variety of investments, having assessed the suitability of particular investments; the investment objectives, the impact of different economic scenarios on achieving required total Fund returns, and the resulting diversity across the whole Fund.

Prior to any such decisions being made the Fund will take appropriate external independent advice.

4.3.1 Strategy Review

A full Strategic Investment Review will normally be undertaken by the Fund every three to five years by specialist professional advisors. The investment strategy (including the core investment objectives and asset allocations) will be sufficiently flexible to meet longer term prevailing market conditions and address any short term cashflow requirements. Interim reviews may be undertaken to ensure that the Strategy remains appropriate.

4.3.2 The Strategic Benchmark

The Fund will operate a fund-specific benchmark for the investment portfolio, with long-term allocations to the various investment asset classes, which reflect the circumstances of the Fund. As the Fund has adopted a fund-specific benchmark, it is not appropriate to compare the Fund directly with external comparators. Nevertheless, regard will be paid to them over the longer term to ensure the Fund's targets and actual returns remain comparative to other similar funds.

4.4 Types of investments and limits

The Fund will hold a range of asset classes as set out in the table below. These will be reviewed continually in light of market conditions and new investment products. As is appropriate all asset classes and products will be kept under continual review.

In addition to considering the benefits of individual products and asset classes for introduction into the strategy, consideration will be given to how the inclusion affects the overall risk/return characteristics of the total portfolio. Before any investment decisions are made by either the Investment Sub Group or the Pension Committee, full professional advice will be sought. If there are any instances where advice received is not to be acted upon, full reporting to both the Committee and the Pensions Board will occur.

The Fund will set and publish targeted strategic asset allocation, the advisory ranges, and the maximum percentage of the total value of all investments of fund money that can be invested in particular classes of investment.

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

The current ranges (March 2019) are shown below.

Asset/Investment	Targeted Strategic Asset Allocation %	Advisory Range	Limit (maximum %)
Equity:			
-UK	10%	9 – 13%	20%
-Global Other	20%	20 – 25%	30%
-Global Low Volatility	10%	10 – 12%	20%
Alternatives:			
- Infrastructure	9%	5 – 10%	19%
- Opportunistic *	9%	5 – 10%	19%
Property	9%	8 – 10%	19%
Growth total	67.0%		
UK Gilts	0%	0%	10%
Corp Bonds	7%	6 – 8%	17%
IL Bonds	17%	17 – 21%	27%
Other Defensive **	7%	3 – 7%	17%
Strategic Cash	2%	2 – 10%	20%
Defensive total	33.0%		
	100.0%		

* the 'opportunistic' allocation seeks to generate a return from a portfolio of assets in such a way as to bring diversification from listed markets and the economic cycle, to give access to illiquidity and complexity premia, and also to be cashflow generative for the Fund.

** the 'other defensive' allocation aims for capital preservation, a stable income stream, low volatility, and a return higher than a corporate bond return.

The Fund has a passive currency overlay program hedging 50% of the equity investments denominated in overseas currencies into sterling, to reduce the Fund's exposure to the fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets.

No more than 5% of the Fund will be invested in entities which are connected with the Administering Authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007. The current strategy has no such investments.

4.5 Risk

4.5.1 Risk Management and reporting

Risk management is the process by which the Administering Authority systematically identifies and addresses the risks associated with its Pension Fund activities; it is a

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

key element of good governance for any organisation. Officers of the Fund maintain the Cumbria LGPS risk register (details of the format of the register and the methodology for measurement of risk can be found in the Internal Control & Risk Management Policy). This is a dynamic document and will be reviewed at every Pension Committee meeting. The report will incorporate details of the major risks facing the Fund and include a traffic light scoring system to categorise the anticipated likelihood and impact of each risk. Members are charged with actively monitoring progress in relation to controls and actions taken to mitigate risk. Between meetings should any major risk emerge this will be escalated by Fund Officers immediately to the Chair, Vice Chair and s151 Officer.

4.5.2 Appetite for Risk

The Fund's appetite for risk when taking investment decisions will be driven by local factors. The Pension Committee has determined the current risk appetite is to minimise overall portfolio risk while delivering the target returns through the diversified portfolio.

The Fund's appetite for risk is conservative, based on achieving a long term stable strategy. In constructing a well-diversified portfolio, the following high level risks and factors will be considered:

- Volatility of financial markets, the Fund may consider the use of equity protection to mitigate the risk of significant equity market falls;
- Prevailing market conditions;
- Political risks, particularly in terms of interest rates and inflation;
- Diversification across the asset classes spreads the risk associated with any particular form of investment;
- Employing different active fund managers and also by using passive and other pooled funds spreads the investment risks further;
- Manager's performance targets are set to avoid undue exposure to risk;
- For each manager, reviewing the achieved variation in investment return from the benchmark, and also the forecast range of return for the future;
- Liquidity risk (not having monies available to make pension payments to members as they fall due) - the overall cash flow position of the Fund is constantly reviewed, and also considered in reviews of the investment strategy;

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

- Foreign exchange risk (the risk of loss arising from exchange rate movements of foreign currencies) - the passive currency overlay program hedges 50% of the investments denominated in overseas currencies into sterling to reduce the Fund's exposure to the fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets;
- Consideration will be given to appropriate government guidance on international policy matters.

4.6 Pooling

In order to satisfy the requirements of the "Local Government Pension Scheme: Investment Reform and Guidance" issued by the Department for Communities and Local Government ("DCLG" – now the Ministry of Housing, Communities and Local Government or "MHCLG") in November 2015, Cumbria County Council has elected to become a shareholder in Border to Coast Pensions Partnership Ltd (Border to Coast). Border to Coast is an FCA-regulated Operator and Alternative Investment Fund Manager ("AIFM"), being operational from June 2018.

Border to Coast is a partnership of the following funds:

- Bedfordshire Pension Fund
- Cumbria LGPS
- Durham Pension Fund
- East Riding Pension Fund
- Lincolnshire Pension Fund
- North Yorkshire Pension Fund
- Northumberland Pension Fund
- South Yorkshire Pension Fund
- South Yorkshire Passenger Transport Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund
- Warwickshire Pension Fund

The Border to Coast collaboration has combined asset base of over £46 billion as at 31 March 2018.

The core beliefs of the Border to Coast are as follows:

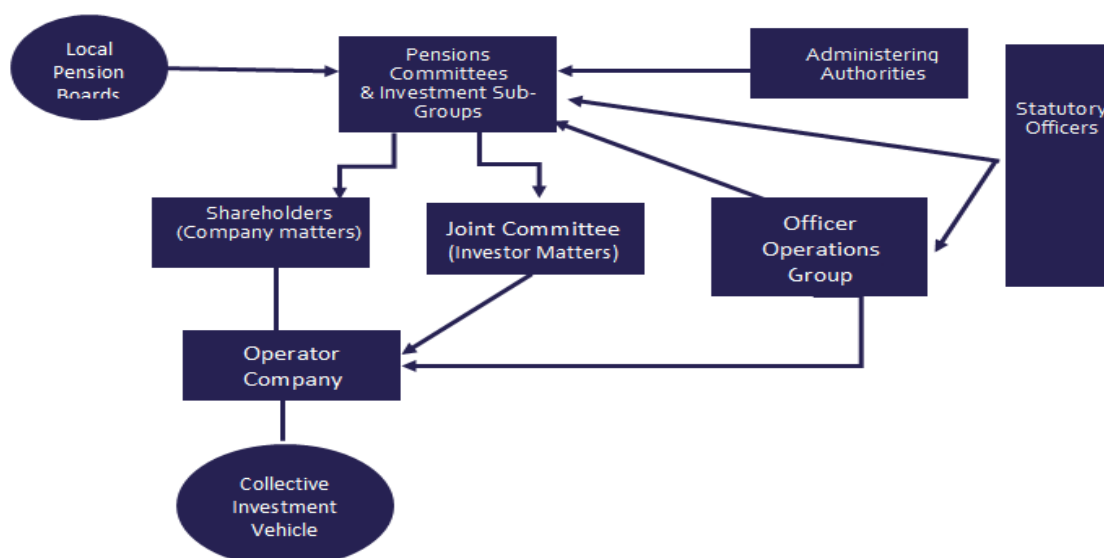
- a) One Partner Fund, one vote for all participating funds regardless of Fund size.
- b) Asset allocation strategy remains a decision for each Partner Fund. This is necessary to enable Partner Funds to demonstrate that they are exercising their democratic and fiduciary duty.
- c) The Border to Coast Pool's role is to independently and professionally deliver Partner Funds asset allocation choices. It will make decisions relating to and monitor the investment managers (including employees of the Border to Coast Pool) who manage the administering authorities' "fund money". The aim of pooling assets for the Partner Funds being to maximise the long-term net of

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

fees investment returns attributable to each of the Partner Funds. All Partner Funds accept that if savings are to be achieved, changes will be required through the rationalisation and standardisation of processes.

- d) There will be clear segregation between duties undertaken by the Partner Funds and duties undertaken by the Border to Coast Ltd. This will ensure both that the fiduciary duty and democratic responsibility of the Partner Funds can be maintained, whilst achieving the cost benefits and expanded professionalisation of the investment functions through scale.

The diagram below details the governance structure of Border to Coast and how it is envisaged it will interact with the various governance arrangements within the Partner Funds:



Cumbria LGPS will hold Border to Coast to account through the following mechanisms:

- Having a representative on the Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of Border to Coast.
- A representative on the Joint Committee who will monitor and oversee the investment operations of Border to Coast.
- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group.

Cumbria LGPS will retain the decision making powers regarding investment strategy and asset allocation, and will delegate the investment management function to Border to Coast.

It is anticipated that a significant proportion of the Fund's investments will be made through Border to Coast. Where it is not practical or cost effective for assets to be transferred into the pool they will continue to be managed at the Fund level. This is expected to predominantly include unquoted investments such as limited partnerships

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

and property. Whilst these assets are unlikely to be transferred in the short-term, it is expected that once these investments mature the proceeds will be reinvested into Border to Coast-held investments.

The Fund will undertake due diligence before and during the transition of assets to Border to Coast to ensure the interests of Cumbria LGPS are upheld.

The Fund will perform an annual review of assets that are determined to be held outside the pool to ensure that it continues to demonstrate value for money. Following this review it will submit a report on the progress of asset transfers to the Scheme Advisory Board, in line with the guidance.

4.7 Responsible Investing, Stewardship and Corporate Governance

Responsible investment aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns and is part of the investor's fiduciary duty.

The overriding objective of the Fund is to obtain its stated risk adjusted performance targets. It also aims 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.

The investment guidelines issued to managers of the Cumbria Fund's investments stress the overriding importance of financial considerations in selecting investments. ESG issues can have a material impact on the value of financial assets and are considered across all asset classes 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. Where, however, two investments are evenly balanced ESG considerations could be a deciding factor.

The Fund as a shareholder of the companies in which we either directly or indirectly own assets; seeks to uphold the principles of good stewardship and thereby aims to promote the long term success of companies in such a way that as one of the ultimate providers of capital we also prosper. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance.

The Fund's commitment to responsible investment is communicated by its compliance with the Financial Reporting Council's (FRC) UK Stewardship code, a statement of compliance is included as Annex B to this policy and this has been accepted as Tier 1 for Asset Owners by the FRC and is published online.

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

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

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. See 4.8 for further details on the Policy regarding exercise of voting rights.

Engagement is key in enabling administering authorities as long term shareholders to exert a positive influence on companies to promote strong governance, manage risk, increase accountability and drive improvements in the management of ESG issues.

Cumbria is a member of the Local Authority Pensions Fund Forum (LAPFF), a collaborative shareholder engagement group which brings together 80 local authority pension funds from across the UK with combined assets of approximately £250 billion, in addition majority of LGPS Pools have joined the forum. 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.

Border to Coast became operational from July 2018 and all Partner Funds have committed to use the company to fulfil its obligation to pool LGPS assets. The funds have therefore collaborated to create the Border to Coast Responsible Investment Policy to allow for the Pool to exercise collective shareholder voting rights effectively through leveraging the benefits of scale. All Funds have agreed to align their individual Responsible Investment policies to be broadly aligned to that of Border to Coast, this should not create material changes to any Fund’s policy as the Funds are likeminded and the policy was created with reference to the 12 existing policies. The annual review of the Border to Coast policy will be timed to allow the partner funds to both input into the review process and then allow for continued alignment to the individual Fund’s policy.

4.8 Policy on exercise of rights

The responsibility for the exercise of voting rights is currently delegated to the investment managers, however Cumbria LGPS have the opportunity to override votes if considered appropriate. 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 deemed to be controversial the manager should liaise with the authority as appropriate. Investment managers need not vote on routine issues.

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

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

The Pensions Committee will be kept informed on relevant corporate governance issues arising during the period. As part of the Annual Report there will be full disclosure of voting activity.

In endeavouring to invest in the best financial interests of the beneficiaries, the Members have 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 Responsible Investment, and ESG issues.

All investment managers are required to adhere to the Stewardship Code.

4.8.1 Other rights

Responsibility for actioning any other rights within the portfolio is delegated to the investment managers, i.e. stock splits, rights, scrip dividends or other share entitlements. Investment managers are expected to approach this with the same care and attention as other matters which influence investment decisions and in the best financial interest of the Fund. Exercise of such discretions will be reviewed quarterly during the manager engagement reviews.

4.9 Compliance of Cumbria Fund with the Updated Myners Principles

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 the United Kingdom.</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>		

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

The formation of a dedicated Investment Sub Group allows delegation of some investment manager monitoring and appointments, thus speeding up decision making. This released limited Committee agenda time and allows 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.

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.

The Pension Committee have their skills and experience developed through training events, external seminars and fund manager visits on a regular basis.

A team of professional investment and support staff is provided. Officers of the Council provide advice on a day-to-day basis. The Pension Committee Chair and Members can contact officers and independent advisers on an ad hoc basis as and when required.

Expert consultants and Actuaries are also used by the fund as required.

There is a forward looking business plan and progress is regularly evaluated. This includes a three-yearly strategic investment review, following the Actuarial Valuation.

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>The investment objectives are detailed in the Investment Strategy Statement, and the Funding Strategy Statement details the funding objectives. Both are updated as required.</p> <p>The Fund has its own investment benchmark although regard is paid to peer performance to comply with Best Value methodology. The Fund's liability profile will</p>		

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

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.

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>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 scheme members. 		✓ ✓
<p>To ensure independence and oversight the Fund will use an external performance measurement service. This is currently supplied by State Street Performance Services. Investment performance will be reported to the Pension Committee each quarter, and as a minimum there will be an Annual Performance Review with the Funds external performance monitoring services.</p>		

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

Ongoing performance contribution will be reviewed quarterly in addition to the annual and longer-term investment performance being 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.

Investment Managers are constantly under review, with Officers and Advisers informing the ISG and escalating any issues immediately. Officers and Advisers will meet with managers (holding greater than 3% of the total Fund investments including future commitments i.e. £80m at March 2019) formally at least annually and report their findings from these meetings to the ISG.

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 (holding up to 5% of the portfolio).

The ISG is responsible for the establishment and review of performance benchmarks and targets for investment. The ISG will receive a quarterly report on every manager covering performance results and a broad range of metrics, and should there be any items of concern escalate matters to the full Committee.

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 Investment Sub Group.

The Pensions Committee members will be surveyed regularly for their views on quality of advice given by the Investment Advisers.

Effectiveness of Pension Committee decisions, such as strategy and manager selection, will be discussed in the Annual Report and Accounts.

Principle 5 : Responsible Ownership	Not Compliant	Fully Compliant
<p>Administering authorities should:</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 Investment Strategy Statement; and • report periodically to Fund members on the discharge of such responsibilities. 		<p>✓</p> <p>✓</p> <p>✓</p>

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

Voting at Company meetings will be delegated to investment managers. Reporting will be required on a quarterly basis, and will be incorporated into the quarterly monitoring of the Fund by the Pension Committee.

The Fund completed a statement of compliance with the Financial Reporting Council's (FRC) Stewardship Code which was assessed as compliant as a Tier 1 Asset Owner, this statement is published online as Annex B to this Policy.

All investment managers are also required to adhere to the Stewardship Code.

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 Investment Strategy Statement (ISS) includes:</p> <ul style="list-style-type: none"> • The Fund's Statement of Investment Beliefs (Annex A) • The Fund's investment objective, • The Fund's approach to investment and risks, • The types of investments and limits. <p>The ISS (previously the Statement of Investment Principles) will be included in the Fund's Annual Report; these are publically available on the County Council's website.</p> <p>Investment performance is included in the Annual Report.</p> <p>The Cumbria LGPS Pensions Board will be given full access to all Pension Committee papers, and are provided with briefing sessions and training presentations appropriate to their ongoing business. In additional they will also be offered the opportunity to join all training sessions provided for the Full Committee.</p> <p>The Cumbria Pensions Forum meets to inform and consult on wider pensions issues; the members will receive the Annual Report, and have access to the public Pension Committee papers.</p> <p>The Pension Committee Minutes and Agenda will be available on the County Council website.</p>		

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

A summary of the financial position and latest Fund news will be made available to all members of the fund with their Annual Benefit Statement. This will outline details of how scheme members can access more detailed information on-line, which includes the full Annual Report and Accounts.

The Administration Strategy (including Communications Policy) will set out the Fund member and pensioner administration operations, with the policy for communication with members and access to information, in full detail. This will also be included in the Annual Report and published on the County Council website.

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)**ANNEX A – INVESTMENT BELIEFS****STATEMENT OF INVESTMENT BELIEFS****OVERARCHING OBJECTIVE**

To manage a sustainable and solvent Local Government pension fund on behalf of current and future members of the fund.

BEHAVIOUR FRAMEWORK

- Communicate in a clear and constructive way
- Act with honesty and respect for others
- Demonstrate a positive flexible attitude
- Take responsibility for our actions
- Be committed to “One Fund” by treating all employers and members of the fund equitably

INVESTMENT BELIEFS**1. Our investment strategy should be determined by reference to the Fund’s assets, liabilities and our risk tolerances**

- Our long term primary goal is to generate returns required to fund our members’ current and future pensions.

2. Asset allocation has the greatest impact on the overall risk and return of the Fund

- Diversification of investments reduces the volatility of asset returns and limits non market specific risk.
- Investment managers should be responsible for stock selection.
- Over the long term equities are expected to deliver a higher return than bonds.

3. It is important to take a long term perspective when considering the investment strategy, but recognise the implications of shorter term market volatility

- The greatest risk to the fund is not short term market volatility but the permanent loss of value.
- Benchmarks should be used to measure performance, and not drive or dictate behaviour.
- Volatility represents an opportunity to the long term investor in that it allows the investor to purchase assets at a price below their long term value.
- By the same token volatility allows profits to be taken and unexpected gains realised.

4. Good governance improves the quality of decision making

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

- Officers, Pension Committee and Pension Board members should have the appropriate knowledge and skills to understand the investments and risks undertaken within the Fund.
- The team supporting the Pension Fund needs to be appropriately resourced, including having access to external advice, to ensure successful management of the Fund.
- Good returns, net of fees and costs, come from well-resourced and well governed Funds.

5. All investments have a degree of financial risk but we should only accept financial risk where we have a strong belief that we will be rewarded for it.

- Active management can deliver superior risk adjusted returns over time on a net of fees basis in certain markets.
- Passive management provides the most cost effective means of gaining exposure where it is believed that active management is not expected to add value.
- Costs matter and need to be managed and controlled.

6. There are multiple risks to which the fund is exposed and those risks that are not sufficiently compensated should be mitigated, managed or avoided if possible.

- Investors should be rewarded for giving up liquidity.
- Investment risks are multi-faceted and will change over time.
- Investors should be wary of investments where the promised return is out of proportion to the apparent risk.
- Investors should be aware of potential misalignment of interests especially when coupled with superior access to information on the part of the investment managers and advisors.

7. We should continually consider all risks in our investment process by investing responsibly, including environmental, social and corporate governance factors.

- We expect management teams and board of directors to be responsive to their shareholders.
- We will lead by example by ensuring we are an active shareholder and, where appropriate, utilising the scale of collaboration with other LGPS Funds.

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)**ANNEX B – STATEMENT OF COMPLIANCE WITH THE UK STEWARDSHIP CODE****Cumbria Local Government Pension Scheme - Statement of Compliance with the UK Stewardship Code.**

Cumbria Local Government Pension Scheme (Cumbria LGPS) is fully committed to responsible investment (RI) to incorporate environmental, social and governance (ESG) factors into investment decisions to improve the long term value for shareholders. Cumbria LGPS are cognisant of the increasing body of evidence suggesting that well governed companies are likely to deliver stronger long term investment performance. Cumbria LGPS also believe that asset owners, either directly (where resources allow) or through their external managers and membership of collaborative shareholder engagement groups (such as LAPFF), can influence the Board/Directors of companies to enhance the management and financial performance of those companies.

As global investors Cumbria LGPS expect the principles of good stewardship to apply globally, whilst recognising the need for local market considerations in its application. Reflecting on this we have summarised our compliance with the UK Stewardship Code and principles relating to good stewardship below.

Cumbria LGPS has a diversified portfolio using a number of active investment managers together with passive and other pooled funds. All investment managers are required to adhere to the Stewardship Code

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Cumbria LGPS takes its responsibilities as a shareholder seriously and seeks to adhere to the Principles of the Stewardship Code. It views stewardship as part of the responsibilities of share ownership and therefore, an integral part of the investment strategy.

The Fund aims to promote high standards of governance through being an engaged and active asset owner. We seek to ensure that there is effective engagement with companies to improve their long term investment performance and hold management to account for their decisions. The Fund considers the informed use of votes, while not being a legal duty, is a responsibility of the owners of companies and as such is an implied fiduciary duty of the Pensions Fund Committee and investment managers to whom they delegate this function.

In practice Cumbria LGPS applies the Code in a number of ways:

- Responsibility for the exercise of voting rights 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. The investment managers may liaise with the

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

Fund where appropriate and any issues or queries can be raised by the Fund as part of the quarterly reporting process or more frequently where necessary. Cumbria LGPS have the opportunity to override votes if considered appropriate.

- Where Cumbria LGPS has elected to invest in passive pooled indexed funds (UK and overseas) and cannot therefore directly influence the underlying companies in which the pooled funds invest; the Funds passive manager is a Tier 1 signatory to the UK Stewardship Code and is active in its engagement with the companies in which it invests. Reports on voting and engagement activity are reviewed by the Fund as part of the quarterly review process and are available at www.lgim.com/cgupdate We also consider our membership of the Local Authority Pension Fund Forum (LAPFF); a collaborative shareholder engagement group for Local Authority Pension Funds which seeks to promote the highest standards of corporate governance and corporate social responsibility; allows the Fund to indirectly influence these companies.
- Where Cumbria LGPS has elected to invest in active pooled funds (e.g. with Border to Coast) and cannot therefore directly influence the underlying companies in which the pooled funds invest; the Funds active pooled manager is seeking to be a Tier 1 signatory to the UK Stewardship Code and is active in its engagement with the companies in which it invests. Reports on voting and engagement activity are reviewed by the Fund as part of the quarterly review process and are available at www.bordertocoast.org.uk/sustainability. The Fund's active pooled manager is also a member of the Local Authority Pension Fund Forum (LAPFF); a collaborative shareholder engagement group for Local Authority Pension Funds which seeks to promote the highest standards of corporate governance and corporate social responsibility; this together with the Fund's own membership of LAPFF allows the manager and the Fund to indirectly influence these companies.

The investment managers are required to report quarterly on their voting actions and any engagement activity undertaken for every appropriate investment. Any responses received from companies concerned would also be reported. Both must hold and make available to the Fund a full voting audit trail. The outcome of voting actions should also be shown where possible.

The Fund reports quarterly to the Pensions Committee on the engagement work undertaken by investment managers and LAPFF, and these reports are available on the Council's website. In addition a representative of the Fund regularly attends the LAPFF meetings and also attends the LAPFF Annual Conference to ensure the Fund has a full understanding and to facilitate input into the work programme of LAPFF.

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

Cumbria LGPS expects the asset managers it employs to have effective policies addressing potential conflicts of interest, and that these are all publically available on their respective websites. These are discussed prior to the appointment of a manager, and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, the Pensions Committee and the Local Pension Board (LPB) review the Pension Fund Code of Conduct and Conflicts of Interest Policy annually and all Members, officers and independent advisors are required to adhere to this policy. The Fund policy document can be found on the shared Cumbria LGPS website at

<http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp>. In addition, Committee and Board Members are required to make declarations of interest prior to meetings which are documented in the minutes of each meeting and available on the Council's website at www.cumbria.gov.uk.

Cumbria County Council, the Administering Authority of Cumbria LGPS requires all Members of the Pension Committee, Local Pension Board and officers to declare any pecuniary or other registerable interests. Details of the declared interests of Council Members are maintained and monitored on a Register of Interests. These are published on the Council's website under each Member's name and updated on a regular basis.

Principle 3 - Institutional investors should monitor their investee companies.

Cumbria LGPS considers that as investors we own a portion of the companies we invest in. With our voting policies and working through our investment managers and LAPFF we can use our rights as owners to encourage companies to act more responsibly and improve their practices. All our managers are required to consider how environmental, social and governance factors might impact companies sustainability, and therefore their long term share performance.

Day-to-day responsibility for interactions with our externally managed equity holdings is delegated to our appointed asset managers, and the Fund expects them to monitor their investee companies and engage where necessary. Managers are asked to include information on stewardship and engagement activity in their quarterly reports to Cumbria LGPS, so that activity and impact can be monitored. The Fund has regular meetings with its investment managers where their stewardship activities are on the agenda. This assists the Fund in understanding the impact and effectiveness of any such activities undertaken and ensures that they are aligned with the engagement work done by LAPFF. Reports on the Funds voting and engagement activity through its investments managers and LAPFF are received by the Pensions Committee on a quarterly basis, these reports are available on the Council's website.

In addition, the Fund receives an 'Bulletins' from LAPFF, highlighting corporate governance issues of concern at investee companies, and these are used to monitor

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

and report on voting activity to the Pensions Committee; and liaise with managers to promote consistency of voting where appropriate

There is a dedicated role within Pensions team to monitor all aspects of corporate governance at a Fund level which includes liaising with LAPFF and where appropriate the investment managers.

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities.

As highlighted above, Cumbria LGPS delegates its responsibility for day-to-day interaction with companies to PIRC, the Fund's Investment Managers and LAPFF, including the escalation of engagement when necessary.

Where special situations arise which are not covered by the Fund's corporate governance strategy or where the policy is unclear, these organisations will consult with the Senior Manager Pensions and Financial Services.

Although willing to act alone, as the Fund typically holds a very small percentage of equity in individual companies, there are strong reasons to collaborate with other asset owners in order to present a stronger case. The Fund utilises its membership of the LAPFF, which co-ordinates collaborative engagement with companies, regulators and policymakers to protect and enhance shareholder value, in order to maximise its influence.

If deemed appropriate, the Fund will participate in shareholder litigation through its contracts with Institutional Protection Services (IPS) and US law firm Labaton Sucharow.

Any such actions and subsequent outcomes are reported to the Pensions Committee on a quarterly basis in order to monitor activity and assess effectiveness.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.

Cumbria LGPS considers collaborative engagement is a key part of a responsible investment strategy and the Fund seeks to work collectively with other institutional shareholders in order to maximise the influence it can have on individual companies.

The Fund seeks to achieve this through membership of the LAPFF, which engages with companies over environmental, social, and governance issues on behalf of its members; and also its relationship with the investment managers.

The LAPFF agree planned work programmes each year which are discussed and approved at LAPFF meetings which a representative of the Cumbria LGPS fund regularly attends. Feedback is provided to the Pensions Committee on a quarterly basis.

The contact for any potential collective action with the Fund is the Pension Fund Senior Manager, Pensions & Financial Services (Deputy s151 Officer – LGPS), who is

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

contactable by emailing: pensions@cumbria.gov.uk

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.

Cumbria LGPS views its voting rights as a valuable instrument to:

- protect shareholder rights;
- minimise risk to companies from corporate governance failure;
- enhance long term value; and
- encourage corporate social responsibility.

As such, the Fund seeks to exercise all voting rights attached to its investments.

Whilst it is the Fund's intention to follow the principles of UK corporate governance best practice, the Fund will interpret the application of these principles according to its own views of best practice. There are also other issues outside of these principles on which the Fund will take a view.

The external investment managers are responsible for exercising voting rights in relation to the Global active portfolio on investments that are managed by them on behalf of the Fund and voting activity of the managers is made available to Members of the Pensions Committee on a quarterly basis. They will vote in accordance with their own "Investment and Corporate Governance" policy which is available on their websites. The investment managers will liaise with the Fund where appropriate.

Reports summarising the Fund's voting activity are presented to the Pensions Committee on a quarterly basis, the proxy voting reports of the Fund's investment managers are available on each manager's website. The Fund also publishes a summary of voting activity in its Annual Report and Accounts.

The Fund engages in stock lending and may seek to recall stock on loan prior to a shareholder vote if the issue upon which the vote rests is contentious enough to warrant it and it is deemed to be cost effective, suitable and practical.

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.

Cumbria LGPS reports quarterly to the Pensions Committee on stewardship activity through a specific section on the voting undertaken each quarter, in the Fund Quarterly Monitoring report, the proxy voting reports of the Fund's investment managers are available on each manager's website. The report also includes details of engagement activity undertaken through the Local Authority Pension Fund Forum. On an annual basis the Fund includes a section on Stewardship Responsibilities in its Annual Report and Accounts, detailing voting activity and highlighting the key engagements over the

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

year through its membership of LAPFF. These are available on the Council's website, Cumbria LGPS section at <http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp>.

Data to produce these reports is taken from a number of sources including quarterly reports from:

- PIRC
- LAPFF
- Investment managers

Members are kept informed of any current news items relevant to the holdings of Cumbria LGPS, where those topics are in the public arena and would be of interest to LGPS stakeholders.

Approved 7th March 2019 by the Pensions Committee

APPENDIX A - 5. CASH INVESTMENT POLICY

5 CASH INVESTMENT POLICY

5.1 Introduction & Regulations

The Cash Investment Policy for Cumbria Local Government Pension Scheme was first approved by the Cumbria Pensions Committee in 2010, with the latest revisions approved on 7th March 2019. The Policy has been constructed and will be maintained by the Administering Authority with regard to the applicable regulations and guidance.

5.2 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 2016, and accordingly 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 will comply with the requirements of the Regulations (SI 2016 No 946).

5.3 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 Investment Strategy Statement sets the **maximum** level i.e. percentage of the Fund's total allocation that can be held in cash and/or cash-like investments (current maximum 20%). Where strategic cash is included in the Fund's benchmark as an asset (currently 2–10%), the Administering Authority will use investment managers' pooled funds where it is most efficient to do so. The Administering Authority should aim to keep the working cash balance held (for day to day 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.

5.4 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

APPENDIX A - 5. CASH INVESTMENT POLICY

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.

5.5 Investment Strategy for Pension Fund Cash

Subject to the priorities as stated in 5.3 above, the investment of any fund money that is not needed immediately must be invested using the following strategy :

- Set a day-to-day working 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 March 2019 2.5% was £67.5 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 ten 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.

5.6 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.

5.7 Review of Policy

APPENDIX A - 5. CASH INVESTMENT 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.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)**6 FUNDING STRATEGY STATEMENT (FSS)****6.1 Introduction**

The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) (collectively; “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 Cumbria Local Government Pension Scheme (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 Investment Strategy Statement (ISS) for the Fund published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. 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 Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the “primary” and “secondary” rate of the employer’s contribution).

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)**PRIMARY RATE**

The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant.

The Primary rate for the whole Fund is the weighted average (by payroll) of the individual employers’ Primary rates.

SECONDARY RATE

The “Secondary rate” is an adjustment to the Primary rate to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

Secondary rates for the whole Fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole Fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

6.2 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 Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers’ pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to “secure the solvency” of the pension fund and the “long term cost efficiency”,
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible. This is the context of the Fund’s aim to maintain as stable a rate of overall employer contributions (i.e. both primary and secondary employer contributions) as is possible whilst securing the solvency of the Fund and its long term cost efficiency.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

The intention is for this strategy to be 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 position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

6.3 Aims and purpose of the Fund

The aims of the Fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

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 Fund benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

6.4 Responsibilities of the key parties

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension scheme as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and a Fund employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- 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 as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and 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
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

6.5 Solvency Funding Target

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements 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 past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency” of the LGPS so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

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.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Fund Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.

As part of each valuation, separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). These principles have resulted in an average recovery period of 12 years being adopted across all Fund employers.
- Individual employer contributions will be expressed and certified as two separate elements:
 - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
 - the **Secondary rate**: a schedule of lump sum monetary amounts over 2020/23 in respect of an employer's surplus or deficit

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2023 based on the results of the 2022 actuarial valuation.

- Where increases (or decreases) in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2020/21 may be implemented in steps, over a maximum period of 3 years.

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- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund 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. The termination policy is summarised in the Fund's Admission and Termination Policy document (Section 7 of this Fund Policy Document).
- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Such cases will be determined by the Section 151 Officer and notified to the Committee. The employer will also be notified.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Employers are required to meet all costs of early retirement strain by:

- immediate capital payments into the Fund, or
- with the agreement of the Administering Authority, by making provision for them at the time of the actuarial valuation and including the costs within its funding plan.

6.6 Link to investment policy set out in the Investment Strategy Statement (ISS)

The results of the 2016 valuation show the liabilities to be 90.7% covered by the current assets with the funding deficit of 9.3% being covered by future deficit contributions. The results of the 2019 valuation will be presented to Pensions Committee when available.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

"Minimum Risk" portfolio versus a "Diverse" portfolio including growth assets:

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. It is, however, possible to construct a portfolio based on a "minimum risk" investment position designed to deliver real returns in line with or just above CPI inflation.

Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possibly swaps. However, due to supply/demand distortions in the bond markets, it would not be appropriate to make any allowance in the valuation process for such a portfolio in respect of growth assets out-performance or any adjustment to market implied inflation assumption.

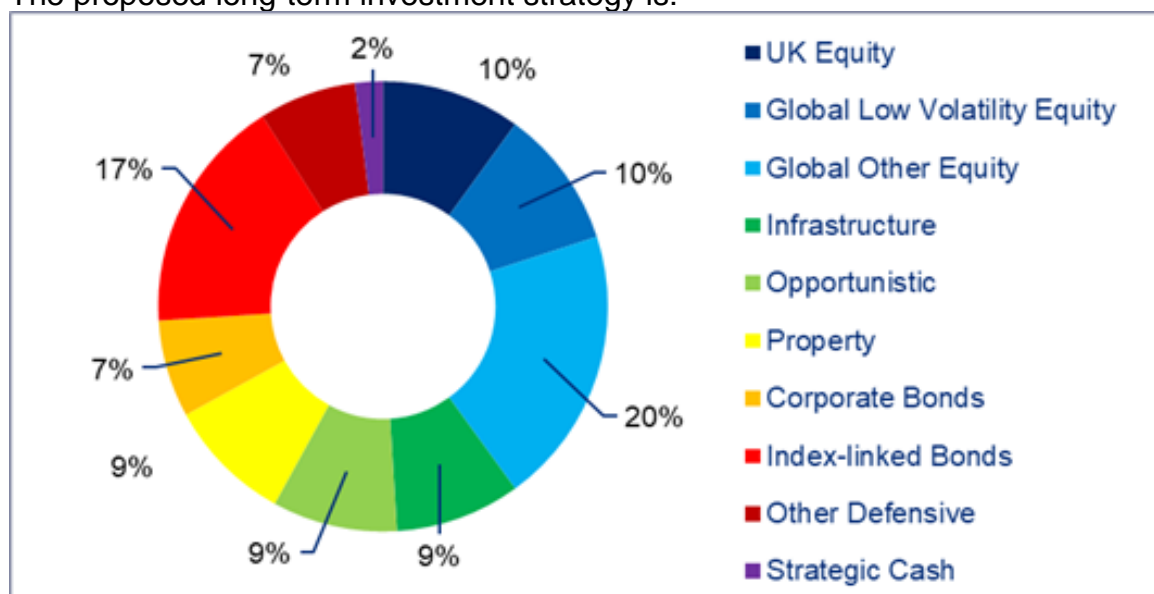
APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

This would result in real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a much lower funding level, which in turn would have caused a significant increase in employer contribution rates payable for the period 2020/23.

Taking a “minimum risk” approach to portfolio construction is considered more appropriate for “closed” funds (i.e. where a fund is no longer accepting new members and therefore has a limited investment horizon). The Cumbria Fund is an “open” fund and therefore, has a longer investment horizon (i.e. it is able to invest over a longer timeframe). As such the Fund has an investment strategy based on a diverse portfolio including growth assets as well as more “defensive” assets such as index-linked gilts.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and thus reduce employer contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The proposed long-term investment strategy is:



As documented in the ISS, the investment strategy and return expectations set out above equate to an overall best estimate average expected return of 3.0% per annum in excess of CPI inflation (subject to a review of investment strategy following the 2019 valuation). For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

6.7 Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund 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

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

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 Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cash flows and shortening of liability durations
- The level of take-up of the 50:50 option at a higher level than built into the actuarial assumptions.

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, employing bodies should be doing everything in their power to minimise the number of ill-health retirements. Early retirements for reasons of

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redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cash flow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer 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 internally within the Fund.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund,
- Changes to national pension requirements and/or HMRC Rules

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Local Pension Board) to make their views known to the Fund and to participate in the decision-making process.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond or guarantee. Where there is a guarantor body in place, any outstanding funding deficit that is not recovered from the outgoing employer / bond will need to be paid by the guarantor (or the assets and liabilities for the outgoing employer will need to be subsumed by the guarantor). For cases where there is no guarantor or bond in place, any outstanding funding deficit that is not recovered from the outgoing

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employer will need to be subsumed by the Fund as a whole and spread across all employers.

- Changes in the Committee and Local Pension Board membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk. Nevertheless, where an employer defaults on its liabilities the risk in some cases may be borne by the whole Fund, so to that extent all Fund employers have joint and several liability to the Fund.

Further details concerning the governance of the Fund including risk management is available within the Fund's Governance Policy Statement, in the Fund Policy Document.

6.8 Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

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 the 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
- have been significant changes to the Fund membership, or LGPS benefits
- 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
- have been any significant special contributions paid into the Fund.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)**APPENDIX A – ACTUARIAL METHOD AND ASSUMPTIONS****METHOD**

The actuarial method to be used in the calculation of the solvency funding target 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, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET**Investment return (discount rate)**

The discount rate has been derived based on the expected return on the Fund assets base on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 1.25% per annum above CPI inflation i.e. a real return of 1.25% per annum equating to a total discount rate of 3.65% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole.

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, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for long term 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.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)**Pension increases/Indexation of CARE benefits**

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 where the LGPS is not required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS**Mortality/Life Expectancy**

The mortality in retirement 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 experience of the Fund. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI projections with a long-term improvement trend of 1.75% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

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 £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.5% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)**METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)**

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the FSR should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

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 discount rate of 2.0% per annum above the long term average assumption for consumer price inflation of 2.4% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

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 unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)**SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE “PRIMARY RATE”) FOR THE 2019 ACTUARIAL VALUATION**

Long-term yields	
Market implied RPI inflation	3.4% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	3.65% p.a.
CPI price inflation	2.4% p.a.
Long Term Salary increases	3.9% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.4% p.a.
CPI price inflation	2.4% p.a.
Long Term Salary increases	3.9% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

	Base Table (M / F)	Improvements	Adjustment (M / F)
Current pensioners:			
Normal health	S3PMA / S3PFA_M	CMI_2018 [1.75%]	99% / 88%
Ill-health	S3IA	CMI_2018 [1.75%]	118% / 127%
Dependants	S3PMA / S3DFA	CMI_2018 [1.75%]	135% / 90%
Future dependants	S3PMA / S3DFA	CMI_2018 [1.75%]	129% / 105%
Current active / deferred:			
Active normal health	S3PMA / S3PFA_M	CMI_2018 [1.75%]	105% / 90%
Active ill-health	S3IA	CMI_2018 [1.75%]	121% / 139%

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

	Base Table (M / F)	Improvements (M / F)	Adjustment (M / F)
Deferred	S3PMA / S3PFA_M	CMI_2018 [1.75%]	127% / 105%
Future dependants	S3PMA / S3DFA	CMI_2018 [1.75%]	134% / 113%

Other demographic assumptions are set out in the Actuary's formal report.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)**APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS**

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

The Recovery Period for each employer is set by the Fund, in consultation with the Fund Actuary. The Fund will consider any representations received from the employer and any guarantor, with a view to balancing the various funding requirements against the risks arising from the financial strength of the employer and the nature of its participation in the Fund. Whilst willing to consider representations, the Fund retains its discretion in setting the recovery periods for employers.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Following the 2016 the Fund's average deficit recovery period was 15 years, with a maximum recovery period of 16 years at an individual employer level and a target date for full funding of 2032. In line with good practice the Fund is seeking to maintain its target date of 2032 for full funding (i.e. by reducing its average deficit recovery period by a further 3 years at the 2019 valuation to an average deficit recovery period of 12 years at an overall Fund level).

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of the recovery periods is summarised in the table below:

Category	Target Average Deficit Recovery Period	Derivation
Scheme Employers	12 years	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure overall contributions do not reduce versus those expected from the existing funding plan.
Open Admitted Bodies	The lesser of 12 years or the remaining contract period	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure overall contributions do not reduce versus those

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

		expected from the existing funding plan.
Closed Employers	The lesser of 12 years, the remaining contract period, or the future working lifetime of the membership	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure overall contributions do not reduce versus those expected from the existing funding plan.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund

The Fund acknowledges that maintaining the date at which it would expect to be fully funded may materially impact certain employers. In recognition of this the Fund may, in exceptional circumstances, agree to employers extending their specific recovery period by up to 3 years with no employer being permitted to extend the deficit recovery period beyond 2036. This introduces an element of risk to both the Fund and the employer as, by extending the period over which its deficit is recovered, an employer may end up in a worse position at the next valuation than if it had sought to restore full funding more quickly. This would be contrary to the objective of setting employer contributions so as to secure the solvency and long-term cost efficiency of the Scheme.

As such the Fund, in determining deficit recovery periods at an individual employer level, will consider the risks arising from the financial strength (“covenant”) of the employer and the nature of its participation in the Fund. Factors that will influence this decision may include (but are not limited to):

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidence-based affordable level of contributions for the organisation for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Section 151 Officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)**APPENDIX C – COVENANT ASSESSMENT AND MONITORING POLICY**

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- > Type of body and its origins
- > Nature and enforceability of legal agreements
- > Whether there is a bond in place and the level of the bond
- > Whether a more accelerated recovery plan should be enforced
- > Whether there is an option to call in contingent assets
- > Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cash flow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cash flow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)**ASSESSING EMPLOYER COVENANT**

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score.

FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Where risks or concerns are identified in relation to an employer or a group of employers Officers will apply an increased level of covenant risk management (as described below) in relation to that employer / group of employers.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis (e.g. the termination basis)
3. Shortened recovery periods and increased cash contributions

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

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APPENDIX D - GLOSSARY

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the Administering Authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies: a specific type of employer under the Local Government Pension Scheme (the “LGPS”) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Covenant: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

CPI: acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Deficit: the extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets. This relates to assets and liabilities built up to date, and

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ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employing bodies: any organisation that participates in the LGPS, including admission bodies and Fund employers.

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Equities: shares in a company which are bought and sold on a stock exchange.

Funding or solvency Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: this is a key governance document that outlines how the Administering Authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Fund's objectives and attitude to risk.

Letting employer: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

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Liabilities: the actuarially calculated present value of all benefit entitlements i.e. Fund cash flows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

Maturity: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members: the individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk Basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

Orphan liabilities: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions: when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

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Present Value: the value of projected benefit payments, discounted back to the valuation date.

Primary rate: the contribution rate required to meet the cost of future accrual of benefits, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

Profile: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Real Return or Real Discount Rate: a rate of return or discount rate net of (CPI) inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

Scheduled bodies: types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Scheme Employers: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

Secondary rate: the adjustment to the Primary rate to arrive at the total contribution each employer is required to pay. It is essentially the additional contribution (or reduction in contributions) resulting from any deficit (or surplus) attributable to the employer within the Fund.

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Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Ministry of Housing, Communities and Local Government (MHCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Valuation funding basis: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

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7 CUMBRIA LOCAL GOVERNMENT PENSION SCHEME ("Scheme")

7.1 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 a Participating Employer's participation in the Fund; and
- Considerations for current employers'.

The Admissions and Termination Policy was approved by the Cumbria Pensions Committee held on 11 June 2019 and reflects 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**"), or an Admission Body (formerly defined as a transferee admission body or a community admission body) under Part 3 of Schedule 2 of the Regulations.

A – ADMISSIONS POLICY

7.2 BACKGROUND

7.2.1 Admission Bodies

Admission Bodies are a specific type of Participating 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.

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There are two broad types of Admission Body – those providing a commercial service to a Fund Employer (formerly transferee admission bodies) and those providing other services with sufficient links to a Fund Employer (formerly community admission bodies).

7.2.2 Fund Employers

Fund 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.

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;
- a proprietor of an academy within the meaning of section 579 (general interpretation) of the Education Act 1996 who has entered into academy arrangements within the meaning of section 1 (academy arrangements) of the Academies Act 2010;
- 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;
- a body set up by a local housing authority as a housing management company to exercise management functions of the authority under an agreement approved by the appropriate Minister under section 27 of the Housing Act 1985.

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.

Fund employers listed under Part 2 of Schedule 2 of the Regulations include (but are not limited to):

- a passenger transport executive;
- a precepting authority within the meaning of section 69 of the Local Government Finance Act 1992 (which would include a Parish or Community Council);
- a company “connected with” / “under the control” of a body listed in Part 1 of Schedule 2 (which would include a subsidiary); and
- an urban development corporation.

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Employees of the above Fund Employers will only be admitted to the Scheme if they, or a class of employee to which they belongs is designated by the body as being eligible for membership of the Scheme.

7.3 POLICY STATEMENT

7.3.1 Admission Bodies

In addition to the requirements under the Regulations, the following principles will be adopted in relation to 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 “Admission Body” highlighted in section 7.2 and does not have any of the disqualifying criteria set out below; and
 - (iii) the body has a guarantee/indemnity from another Fund Employer (note that for commercial agreements (i.e. former transferee admission bodies) the transferring Fund Employer will automatically be deemed to act as guarantor); and
 - (iv) for non-commercial agreements (i.e. former community admission bodies) the body exists as a result of being specifically set up by a local authority(s).
- (b) applications will not be approved if:
 - (i) the application falls into the Admission Body 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 later in this document have not been complied with; or
 - the transferring Fund Employer is a Participating Employer within another LGPS Fund; or
 - the body does not have a guarantee/indemnity from another Fund Employer.
 - (iii) for non-commercial agreements (i.e. former community admission bodies) there is a known limited lifespan or fixed contract term of admission to the Fund.
- (c) the Admission Body will need to enter into a separate Admission Agreement in respect of each contract.

Notwithstanding the above, Cumbria reserves the right to approve or reject any application, should it deem this appropriate in the particular circumstances, provided such a decision is in accordance with the Regulations.

7.3.2 Risk Assessments

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Cumbria will expect each Admission Body to carry out, at the point of admission and subsequently as required by Cumbria, 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 (where one does not already exist). 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 may 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 participating 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.

7.3.3 Decisions Regarding Admissions

Decisions regarding Admission Bodies will be delegated to the Section 151 Officer.

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7.4 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 seek 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

7.5 BACKGROUND

When an Admission Agreement comes to its end (including where the participating employer 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.

7.5 POLICY STATEMENT

7.5.1 Admission Bodies

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

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) Admission Bodies without a Fund guarantor

Where an Admission Body does not have a guarantee/indemnity from another Fund Employer, and no successor body exists to take responsibility for the liabilities (including those in respect of former members) then:

- Any surplus on termination would be refunded to the Participating Employer.
- Any deficit will be recovered from the bond and/or the outgoing Participating Employer;

After this, the remaining orphan liabilities and the related assets in the Fund will be subsumed by the Fund as a whole.

(b) Admission Bodies with a Fund guarantor

Where an Admission Body has a guarantee/indemnity from another Fund Employer who will take responsibility for the liabilities (including those in respect of former members) then:

- The residual assets and liabilities and hence any surplus or deficit will transfer back to the guarantor. This is subject to agreement from all interested parties who will need to consider any separate agreements that have been put in place between the exiting employer and the guarantor.
- If all parties do not agree, then:
 - any surplus will be paid directly to the exiting employer (despite any other agreements that may be in place).
 - Any deficit will be recovered from the bond and/or the outgoing Participating Employer, with the assets, and liabilities then transferring back to the guarantor.

This treatment is in line with the regulations. However, depending on the contractual agreement between the guarantor and the outgoing Participating Employer, it could give rise to a situation where the outgoing Participating Employer could potentially benefit from a surplus on termination without having actually borne any of the funding risk (if for example the contract was put in place prior to the regulatory update requiring payment of surplus to outgoing employers, and so was silent on the treatment of surplus). It is the responsibility of the guarantor to ensure that suitable documentation is put in place in relation to the treatment of any surplus on termination such that this issue does not arise.

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

Where the outgoing Participating Employer cannot make any deficit payment in full, any residual deficit amount will normally be recovered from the guarantor via an immediate cash payment to the Fund (this is to ensure consistent treatment of surplus and deficit). The liabilities and related assets in the Fund will then be subsumed by the guarantor.

(c) 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.

(d) Funding basis for termination calculations

The Fund's standard policy is that a termination assessment will be made based on a corporate bond funding basis, (as defined in 7.5.1 (e) below). This is to strike a balance between:

- protecting the other employers in the Fund. 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). A strategy (notionally) backed by corporate bonds provides some protection against this;
- Providing fair value to the outgoing Admission Body, and preventing Admission Bodies being trapped in the Scheme by an unaffordable deficit.

The standard policy will be applied unless either:

- the Admission Body has a guarantor within the Fund, or a successor body exists to take over the Admission Body's liabilities (including those of former employees). In this case the valuation funding basis (as defined in 7.5.1 (e) below) will be used;
- The Fund's view is that the risks to the Fund associated with the termination of a particular Admission Body are such that a more prudent basis should be used to protect the remaining Participating Employers. In this case more prudent assumptions, based on a least risk funding basis (as defined in 7.5.1 (e) below), will be used.

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT**(e) Valuation Funding, Corporate Bond and Least Risk Termination Bases**

The valuation funding, corporate bond and least risk financial assumptions that applied at the most recent actuarial valuation date (31 March 2016) are set out below for illustration. However these will be updated for each termination on a case-by-case basis to reflect:

- the prevailing market conditions at the relevant employing body's termination date;
- any changes made to the methodology used to derive these bases at future actuarial valuations (the Fund will decide at what point any such changes take effect).

31 March 2016 assumptions	Valuation funding	Corporate Bond	Least Risk
Discount rate	4.2% p.a.	3.6% p.a.	2.2% p.a.
CPI price inflation	2.2% p.a.	2.2% p.a.	2.2% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.	2.2% p.a.	2.2% p.a.

All demographic assumptions will be the same as those adopted for the most recent actuarial valuation (the Fund will decide at what point any post-valuation changes to the demographic assumptions take effect), except for the corporate bond and least risk basis in relation to the life expectancy assumption. Given these financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption. Currently, the assumed rate of long-term longevity improvement will be 2% p.a. rather than the 1.5% p.a. used for funding purposes.

(f) Benefit changes

Periodically changes are made to the Scheme benefits due to changes in Government policy, legislation or legal challenges. In some circumstances these may affect members accrued benefits, which will in turn affect liabilities and so termination positions. The Fund's policy is:

- where such changes are confirmed then they are allowed for as part of the termination assessment in line with the regulations;
- where such changes are proposed but not yet confirmed, the Fund will:
 - take a view as to the likelihood that the changes will be implemented;
 - where the Fund expects the changes to be implemented, include an allowance in the termination position for the estimated impact of the changes, on the basis that if no allowance is included in the termination assessment then the Fund will not be able to recover the additional cost from the outgoing Admission body at a later date, and so this will fall to the other Fund Participating Employers;

In cases where an allowance for potential changes that do not ultimately come into effect, the Fund will refund the value of the adjustment to the former Participating

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

Employer where appropriate (i.e. where the Participating Employer received an exit credit due to a surplus, or paid any deficit in full).

(g) Exit credits and 2019 consultation on 4 yearly actuarial valuations

A specific issue arises in relation to this consultation, which has proposed a review of exit credits where risk sharing arrangements exist between the original employer and the new employer (normally a contractor), with any changes potentially being backdated to 2018 when exit credits were first introduced.

In view of this consultation, where risk sharing arrangements exist between the two employers the payment of any exit credits will be suspended until such time as the regulatory position has been clarified, at which time the position will be reviewed.

(h) Fund discretion

Notwithstanding the above, where it is deemed to be appropriate the Section 151 Officer may use their discretion to:

- alter the basis and approach to the termination assessment;
- allow the deficit to be paid by instalments;
- allow the guarantor, successor body or the Fund as a whole to subsume the funding deficit or surplus on closure, in place of a termination payment being required of the/to the Admission Body itself.

7.5.2 Fund Employers

For Fund Employers the general overall policy is that the principles and procedures outlined above should apply, whilst recognising that there may be specific circumstances which dictate that more flexibility may be needed in some cases.

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:

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

- if a previous Fund employer has agreed to subsume any orphan liabilities in relation to the outgoing Fund employer, 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.

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Admission & Termination Policy

Appendix

Conditions of Participation for Admission Bodies

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

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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

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

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;

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

- 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.

APPENDIX A - 8. DISCRETIONS POLICY

8 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. Additionally, the administering authority is required to exercise certain discretions relating to former employees of defunct employers which are contained within this policy.

The Discretions Policy was reviewed by the Cumbria Pensions Committee on 11 September 2018. This review included ensuring the policy was in accordance with the latest Local Government Pension Committee (LGPC) guidance issued July 2018.

8.1 Administering Authority Discretions for use in the Cumbria Local Government Pension Scheme

Discretions from 1 April 2014 in relation to post 31 March 2014 active members (excluding councillor members) and post 31 March 2014 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]

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
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 Admissions Policy
Whether to agree to an admission agreement with a body applying to be an admission body	R3(1(a), R5(5) &RSch 2,	Depending on circumstances, and only in accordance with the published Fund Admissions Policy

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<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
	Part 3, para 1	
Whether to agree that an admission agreement may take effect on a date before the date on which it is executed	RSch2, Part 3, para 14	To adopt this discretion where there have been delays in finalising an admission agreement
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 an 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
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	R16(10)	Application from an employee wishing to spread the cost will only be accepted if accompanied by a medical report provided by a

APPENDIX A - 8. DISCRETIONS POLICY

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
an application to pay an APC/SCAPC if not satisfied that the member is in reasonably good health		registered medical practitioner stating that the employee is in reasonably good health. The employee must meet the cost of obtaining such a report.
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. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the s151 officer in consultation with the Chair and Vice Chair of the Pensions Committee
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
Where there are multiple ongoing employments, in the absence of an election from the member within 12 months of ceasing a concurrent employment, decide to which record the benefits from the ceased concurrent employment should be aggregated.	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 other than on the grounds of flexible retirement (where the member only has post 31 March 2014 membership)	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	R68(2)	The strain on Fund costs to be paid up front following redundancy,

APPENDIX A - 8. DISCRETIONS POLICY

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
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		flexible retirement, or waiver of any actuarial reduction on flexible retirement unless the Fund Actuary advises otherwise.
Whether to “switch on” the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60 (other than on the grounds of flexible retirement).	TPSch 2, para 1(2)*	Not to waive actuarial reductions or “switch on” the 85 year rule on benefits drawn voluntarily
Whether to waive any actuarial reduction for a member voluntarily drawing benefits before normal pension age other than on the grounds of flexible retirement (where the member has both pre and post 1 April 2014 membership): a) on compassionate grounds (pre 1 April 2014 membership) and in whole or in part on any grounds (post 31 March 2014 membership) if the member was not in the Scheme before 1 October 2006, b) on compassionate grounds (pre 1 April 2014 membership) and in whole or in part on any grounds (post 31 March 2014 membership) if the member was in the Scheme before 1 October 2006 will not be 60 by 31 March 2016 and will not attain 60 between 1 April 2016 and 31 March 2020 inclusive, c) on compassionate grounds (pre 1 April 2016 membership) and in	TP3(1), TPSch 2, para 2(1) B30(5), B30A(5)	Not to waive actuarial reductions on any grounds (including compassionate grounds) to all members

APPENDIX A - 8. DISCRETIONS POLICY

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
whole or in part on any grounds (post 31 March 2016 membership) if the member was in the Scheme before 1 October 2006 and will be 60 by 31 March 2016, d) on compassionate grounds (pre 1 April 2020 membership) and in whole or in part on any grounds (post March 2020 membership) if the member was in the Scheme before 1 October 2006, will not be 60 by 31 March 2016 and will attain 60 between 1 April 2016 and 31 March 2020 inclusive.		
Whether to require any strain on Fund costs to be paid “up front” by employing authority if the employing authority “switches on” the 85 year rule for a member voluntarily retiring (other than flexible retirement) prior to age 60 or waives an actuarial reductions on compassionate grounds under TPSch2, para 2(1)	TPSch 2, para 2(3)	The strain on Fund costs to be paid up front following waiver of any actuarial reductions exercised by the employer, 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 trivially commute a members pension under section 166 of the Finance Act 2004 (includes pension credit members where the effective date of the PSO is after 31 March 2014 and the debited member had some post 31 March 2014 membership).	R34(1)(a)	Do this at the members request
Decide whether to trivially commute a lump sum death benefit under section 168 of the Finance Act 2004	R34(1)(b)	Do this at the beneficiaries request

APPENDIX A - 8. DISCRETIONS POLICY

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
Decide whether to pay a commutation payment under regulations 6 (payment after relevant accretion), 11 (de minimis rule for pension schemes) or 12 (payments by larger pension schemes) of the Registered Pension Schemes (Authorised Payments) Regulations 2009 (excludes survivor pensions and includes pension credit members where the effective date of the Pension Sharing Order is after 31 March 2014 and the debited member had some post 31 March 2014 membership)	R34(1)(c)	To commute payment where requested by the member and in accordance with the guidance of the Government Actuary..
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. Cases under £500

APPENDIX A - 8. DISCRETIONS POLICY

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
		are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the S151 Officer in consultation with the Chair and Vice Chair of the Pensions Committee
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
<p>Governance policy must state whether the administering 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>	R55*	A Governance Policy Statement was prepared and approved by the Pensions Committee held on 7 th March 2019

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<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
<ul style="list-style-type: none"> the extent to which a delegation, or the absence of a delegation, complies with Secretary 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 8 December 2016
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 Scheme policy document
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 Scheme policy document
Whether to extend valuation report and certificate deadline	R62(2)	Exercised by the Secretary of State
Whether to extend the period beyond 3 months from the date an Employer ceases to be a Scheme Employer, by which to pay an exit credit.	R64(2A)	To extend the period with agreement of the exiting Employer
Whether to suspend (by way of issuing a suspension notice), for	R64(4)	To consider applications for a suspension notice on a case by

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<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
up to 3 years, an employer's obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.		case basis. Decision to issue a suspension notice to be granted by the S151 Officer.
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 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 relate. 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)	Detailed remittance advice required for all payments to the Fund. Payments relating to contributions must provide pensionable pay, employer contributions, employee contributions and any additional contributions.
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 when an employers level of performance gives rise to additional costs
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 IDR P appeal	R74(4)	On the discretion of the Adjudicator investigating a stage one IDR P
Decide procedure to be followed by adjudicator when exercising stage one IDR P functions and decide the manner in which those functions are to be exercised	R74(6)	Procedure laid down

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<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
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 administering 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 administering 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
<p>Whether to pay the whole or part of the amount that is due to the personal representatives (including anything due to the deceased member at the date of death) to:</p> <ul style="list-style-type: none"> • the personal representatives, or • anyone appearing to be beneficially entitled to the estate <p>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.</p>	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. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the s151 officer in consultation with the Chair and Vice Chair of the Pension Committee
Whether, where a person 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	In the case of an adult incapable of managing their affairs the Fund would normally require power of attorney, but where this is not provided each case will be individually determined. In cases relating to children incapable of managing their affairs the Fund would ordinarily pay child pension benefits into a child's own bank account or to a joint account

APPENDIX A - 8. DISCRETIONS POLICY

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
		with the nominees being the child and another appointed person. Where payment is proposed to be made solely to another person for the benefit of that child, then each case will be individually determined. In both situations described determinations will be made by the s151 officer in consultation with the Chair and Vice Chair of the Pensions Committee
Whether to issue a forfeiture certificate	R91(1)	Exercised by the Secretary of State
Agree to bulk transfer payment	R98(1)(b)	On the advice of the Fund actuary
Agree to set aside of bulk transfer assets / cash and acquisition of rights in new scheme	R98(4)(a)	Fund actuary / new scheme 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
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

APPENDIX A - 8. DISCRETIONS POLICY

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
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 1 April 2008)	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 a child (who has not reached the age of 23) 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)	Require evidence of co-habitation and financial interdependence in accordance with the criteria set
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)	Not to abate pension on re-employment
Extend time period for capitalisation of added years contract	TP15(1)(c) & TSch1 & L83(5)	Not to extend time period
Decide whether to delegate any administering authority functions under the Regulations.	R105(2)	Details are contained within the Administration Strategy set out in the Scheme policy document
Decide whether to establish a joint local pensions board (if approval has been granted by the Secretary of State).	R106(3)	This would be considered by the Pensions Committee and Local Pensions Board
Decide procedures applicable to the local pension board.	R106(6)	Procedures set out in the terms of reference of the Local Pension Board
Decide appointment procedures , terms of appointment and membership of the local pension board	R107(1)	Procedures set out in the terms of reference of the Local Pension Board

APPENDIX A - 8. DISCRETIONS POLICY

* 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 1 April 2008 and before 1 April 2014, 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]

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
Extend time period for capitalisation of added years contract where the member leaves their employment by reason of redundancy.	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
Whether to pay the whole or part of the amount that is due to the personnel representatives (including anything due to the deceased member at the date of death) to: <ul style="list-style-type: none"> • personal representatives, or • anyone appearing to be beneficially entitled to the estate 	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. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined

APPENDIX A - 8. DISCRETIONS POLICY

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
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		by the S151 Officer in consultation with the Chair and Vice Chair of the Pensions Committee
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 IDR appeal	TP23 & R74(4)	On the discretion of the adjudicator investigating the stage one IDR
Decide procedure to be followed by adjudicator when exercising stage one IDR functions and decide the manner in which those functions are to be exercised.	TP23 & R74(6)	Procedure laid down in the employers IDR guide
Decide procedure to be followed by admin authority when exercising its stage two IDR functions and decide the manner in which those functions are to be exercised	TP23 & R76(4)	Procedure laid down in the employers IDR guide
Whether administering authority should appeal against employer decision (or lack of a decision)	TP23 & R76(4)	Will decide this depending on the particular circumstances
Whether to extend six month period for administering authority to lodge an appeal against an employer decision	TP23 & R79(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable administering authority to discharge its functions	TP23, TP22(1) & R80(1)(b)	Information to be supplied in accordance with the approved administration strategy set out in the Scheme policy document

APPENDIX A - 8. DISCRETIONS POLICY

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
Decide policy on abatement of pensions following re-employment	TP3(13) & A70(1)* & A71(4)(c)	Not to abate pensions following re-employment
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 within the period of 13 years ending with the last day of active membership 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)	The Fund would ordinarily pay child pension benefits into a child's own bank account or to a joint account with the nominees being the child and another appointed person. Where payment is proposed to be made solely to another person for the benefit of that child, then each case will be individually determined by the s151 officer in consultation with the Chair and Vice Chair of the Pensions Committee
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 where not available each case will be individually determined by the s151 officer in consultation with the Chair and Vice Chair of the Pensions Committee
Whether to waive, on compassionate grounds, the actuarial reduction applied to	B30(5)*	Not to waive actuarial reduction on compassionate grounds

APPENDIX A - 8. DISCRETIONS POLICY

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
deferred benefits paid early under B30		
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
Whether to require any strain on Fund costs to be paid “up front” by employing authority if the employing authority “switches on” the 85 year rule for a member voluntarily retiring prior to age 60, or waives an actuarial reduction on compassionate grounds under TPSch2 , para 2(1)	TPSch 2 , para 2(3)	The strain on Fund costs to be paid up front following waiver of any actuarial reduction on voluntary retirement or on compassionate grounds unless the Fund Actuary advises otherwise.
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. Cases under £500 are determined by the Senior Manager – Pension &

APPENDIX A - 8. DISCRETIONS POLICY

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
		Financial Services with cases over £500, determined by the S151 officer in consultation with the Chair and Vice Chair of the Pensions Committee
Decide evidence required to determine financial dependence of cohabiting partner on fund member or financial interdependence of cohabiting partner and fund member	RSch1 & TP17(9)(a)	Require evidence of co-habitation and financial interdependence in accordance with the criteria set
Decide to treat child (who has not reached the age of 23) as being in continuous education or vocational training despite a break	RSch1 & TP 17(9)(a)	Adopt this discretion
Decide whether to trivially commute a member's pension under section 166 of the Finance Act 2004	B39(1)(a) & T14(3)	To do so at the member's request
Decide whether to trivially commute a lump sum death benefit under section 168 of the Finance Act 1994	R39(1)(b)	To do so at the beneficiaries request
Decide whether to pay a commutation payment under regulations 6 (payment after relevant accretion), 11 (de minimis rule for pension schemes) or 12 (payments by larger pension schemes) of the Registered Pension Schemes (Authorised Payments) Regulations 2009 (excludes survivor pensions and pension credit members).	R39(1)(c)	To commute payment where requested by the member and in accordance with the guidance of the Government Actuary.
Decide, in the absence of an election from the member, which benefit is to be paid where the member would be	B42(1)(c)	Always pay the highest benefit to a member of the fund

APPENDIX A - 8. DISCRETIONS POLICY

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership		
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 pre01/04/08)	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:

- active councillor members, and
- councillor members who ceased active membership on or after 1 April 1998, and
- any other fund members who ceased active membership on or after 1 April 1998 and before 1 April 2008 being discretions under:
 - the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
 - 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)

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
Frequency of payment of councillors' contributions	12(5)	Determined that councillors are not eligible for membership of the CLGPS
Decide to whom death grant is paid in respect of post 31 March 1998. / pre 1 April 2008 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

APPENDIX A - 8. DISCRETIONS POLICY

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
		exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the S151 officer in consultation with the Chair and Vice Chair of the Pensions Committee
Decide to treat child (who has not reached the age of 23) as being in continuous education or vocational training despite a break.	TP17(9)(a) 7 RSch 1	Adopt this discretion
Apportionment of children's pension amongst eligible children.	47(1)	Adopt this discretion
Pay child's pension to another person for the benefit of the child.	47(2)	The Fund would ordinarily pay child pension benefits into a child's own bank account or to a joint account with the nominees being the child and another appointed person. Where payment is proposed to be made solely to another person for the benefit of that child, then each case will be individually determined by the s151 officer in consultation with the Chair and Vice Chair of the Pensions Committee
Decide whether to trivially commute a member's pension under section 166 of the Finance Act 2004 (includes pre 1 April 2008 leavers or Pension credit members where the effective date of the Pension Sharing Order was pre 1 April 2014 or where the effective date is after 31 March 2014 but the debited member had no post 31 March 2014 membership).	49(1) & T14(3)	To do this at member's request
Decide whether to trivially commute a lump sum death benefit under section 168 of the Finance Act 2004	49(1)	To do this at the beneficiaries request
Decide whether to commute benefits due to exceptional ill-	50 and 157	Adopt this discretion

APPENDIX A - 8. DISCRETIONS POLICY

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
health (including Pension Credit members where the effective date is after 31 March 2014 but the debited member had no post 31 March 2014 membership)		
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 and prior to age 55 with employer consent.	80(5)	The strain on Fund costs to be paid up front following early payment of deferred benefits with employer consent unless the Fund actuary advises otherwise
Whether to require any strain on Fund costs to be paid “up front” by employing authority if the employing authority “switches on” the 85 year rule for a member voluntarily retiring on or after age 55 and prior to age 60, or waives an actuarial reduction on compassionate grounds under TPSch2 para 2(1)	TPSch 2, para 2(3)	The strain on Fund costs to be paid up front following early payment of benefits with employer consent 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.	91(6)	Pension increase payments will be invoiced monthly, quarterly or annually dependant on circumstances
Whether to pay the whole or part of the amount that is due to the personal representatives (including anything due to the deceased member at the date of death) to: <ul style="list-style-type: none"> 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	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. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the s151 officer in consultation with the Chair and Vice Chair of the Pensions Committee

APPENDIX A - 8. DISCRETIONS POLICY

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
Administration of Estates (Small Payments) Act 1965.(death of pre 01/04/08 leaver)		
Approve medical advisors used by employers.	97(10)	Delegated to the employer
Whether to extend six month period to lodge a stage one IDRPs appeal	TP23 & R74(4)	At the discretion of the 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 function are to be exercised	TP23 & R74(6)	Procedure laid down in the IDRPs employers guide
Decide procedure to be followed by administering authority when exercising its stage two IDRPs functions and decide the manner in which those functions are to be exercised.	TP23 & R76(4)	Procedure laid down in the IDRPs employers guide
Whether administering authority should appeal against employer decision, or lack of a decision.	TP23 & R79(2)	Will decide this depending on the particular circumstances
Whether to extend 6 month period for an administering authority to lodge an appeal against an employer decision.	TP23, & R79(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable administering authority to discharge its functions	TP23, TP22(1) & R80(1)(b)	Information to be supplied in accordance with the approved administration strategy set out in the Scheme policy document
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	109* & 110(4)(b)	Not to abate pension following re-employment
Retention of Contributions Equivalent Premium where member transfers out.	118	Adopt this discretion
Discharge Pension Credit liability.	147	Depending on individual circumstances

*These are matters about which the regulations require there must be a written policy.

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Discretionary policies in relation to scheme members who ceased active membership before 1 April 1998:

- LGPS Regulations 1995 [Prefix TL]
- The Local Government Pension Scheme (Transitional Provisions) Regulations 1997 [Prefix TL]
- The Local Government Pension Scheme Regulations 1997 (as amended) [Prefix L]
- The Local Government Pension Scheme (Administration) Regulations 2008 [Prefix A] LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 [Prefix TP]
- The Local Government Pension Scheme Regulations 2013 [Prefix R]

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
Decide to whom death grant is paid.	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. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500, determined by the s151 officer in consultation with the Chair and Vice Chair of the Pensions Committee
Whether to pay spouse's pensions for life (rather than ceasing during any period of remarriage or co-habitation)	F7	To adopt this discretion
Decide to treat child (who has not yet reached the age of 23) as being in continuous education or vocational training despite a break.	TP17(9)(a) & RSch 1	Adopt this discretion
Apportionment of children's pension amongst eligible children.	G11(1)	Adopt this discretion
Pay child's pension to another person for the benefit of the child.	G11(2)	The Fund would ordinarily pay child pension benefits into a child's own bank account or to a joint account with the nominees being the child and another appointed person. Where payment is proposed to be made solely to another person for the benefit of that child, then each case will be individually determined by the s151 officer in consultation with

APPENDIX A - 8. DISCRETIONS POLICY

<u>Discretion</u>	<u>Regulation</u>	<u>Discretion made by Cumbria County Council as Administering Authority</u>
		the Chair and Vice Chair of the Pensions Committee
Whether to extend six month period to lodge a stage one IDRPs appeal	TP23 & R74(4)	At the discretion of the 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	TP23 & R74(6)	Procedure laid down in the IDRPs employers guide
Decide procedure to be followed by administering authority when exercising stage two IDRPs functions and decide the manner in which those functions are to be exercised	TP23 & R76(4)	Procedure laid down in the IDRPs employers guide
Whether administering authority should appeal against employer decision (or lack of a decision)	TP23 & R79(2)	To review each case individually
Whether to extend six month period for an administering authority to lodge an appeal against an employer decision.	TP23 & R79(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable administering authority to discharge its functions.	TP23, TP22(1) & R80(1)(b)	Information to be supplied in accordance with the approved administration strategy set out in the Scheme policy document

APPENDIX A - 9. TRAINING POLICY

9.0 TRAINING POLICY

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APPENDIX A - 9. TRAINING POLICY

9.0 CUMBRIA LGPS TRAINING POLICY

9.1 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;
- the Members of Cumbria Local Pension Board; 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.

On appointment, new Members of the Pensions Committee (including substitutes) and new appointees to the Local Pension Board (including substitutes) are provided with relevant scheme documents including the most recent Annual Report and Accounts. To ensure a minimum level of training is achieved, a senior officer of the Pensions team holds an induction meeting with the new Members (including substitutes) to provide an oversight of the LGPS, details of the Cumbria LGPS and outline the key governance arrangements for the Fund including the responsibilities of Committee and Board members.

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The EU directive, MiFID ii (Markets in Financial Instruments Directive), became enforceable in all European Economic Area (EEA) states from 3rd January 2018. Following the introduction of MiFID ii from 3rd January 2018, financial institutions were no longer be able to categorise a local authority as a 'per se professional client'. Instead, all local authorities must be classified as a 'retail client' unless they were opted up by firms to an 'elective professional client' status.

In July 2017, the Financial Conduct Authority (FCA) released final details of the opt up criteria which local authority clients must satisfy in order for firms to reclassify them as an elective professional client. The Scheme Advisory Board in association with the Investment Association (IA) subsequently provided a range of supporting documentation for local authorities (in their role as administering authorities for LGPS pension funds) to support the opt up process.

MiFID ii allows for retail clients which meet certain conditions to elect to be treated as professional clients through an 'opt up' process. There are two tests which must be met by the client when being assessed by the financial institution (Investment Manager) - the quantitative and the qualitative test.

One of the qualitative tests indicates that Investment Managers needs to be able to assess whether the Fund as a client can demonstrate their expertise, experience and knowledge, such that the manager can gain reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned. The FCA criteria confirmed that this test could be assessed on an Administering Authority as a collective rather than on specific individuals.

The training policy assists the Fund to ensure that the assessed levels of expertise, experience and knowledge are maintained; in addition the Administering Authority are required to review the information and notify all managers of any changes to the collective circumstance which could affect their status.

9.2 Policy objectives

The Fund'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
- Those persons responsible for governing the Fund have sufficient expertise, experience and knowledge, such that the investments managers can gain reasonable assurance that the Fund as the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned. This is required to maintain the Fund's status as elective professional clients under the EU directive, MiFID ii (Markets in Financial Instruments Directive)

APPENDIX A - 9. TRAINING POLICY

- 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).

9.3 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 2019/20 training plan.

9.4 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.

9.5 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 2019/20 will be to:-

- Assist with the ongoing development of Border to Coast Pensions Partnership Ltd (Border to Coast) sub-fund offering, with the other LGPS partner funds to allow Cumbria LGPS to comply with the requirement to pool LGPS assets.
- Review of governance arrangements in response to financial, regulatory and structural changes associated with the journey towards investment asset pools.

APPENDIX A - 9. TRAINING POLICY

- Support Pension Committee Members in respect of the workings of the Joint Committee of the partner funds of Border to Coast and the requirements of the role as shareholder of the Border to Coast company.
- Continue to develop the Fund's corporate governance and engagement framework in light of the changes to the Fund's investment managers and the government's continued focus in this area.
- Ongoing 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 and remain compliant with the MiFID ii regulations.
- Keep Members and officers abreast of developments in the wider pensions and investments markets in respect of the governments approach to the implementation of regulation such as Cost Transparency obligations which are required for inclusion in the financial accounts 2018/19.

9.6 CIPFA REQUIREMENTS

9.6.1 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

9.6.2 CIPFA Principles of Investment Decision Making and Disclosure

In response to the government's report updating the Myners Principles: A Response to Consultation, Local Government Pension Scheme (LGPS) Administering Authorities are required to prepare and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles replace the 10 Myners principles and the Fund reports its approach to them on a 'comply or explain' basis in the Investment Strategy Statement.

APPENDIX A - 9. TRAINING POLICY

The six high level principles are:

- Effective decision making
- Clear objectives
- Risk and liabilities
- Performance assessment
- Responsible ownership
- Transparency and reporting

9.6.3 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.

9.7 MEASUREMENT, ASSESSMENT AND TRAINING PROVISION

In order to identify training needs and assess whether we are meeting the CIPFA Framework requirements we will –

APPENDIX A - 9. TRAINING POLICY

9.7.1 Members:-

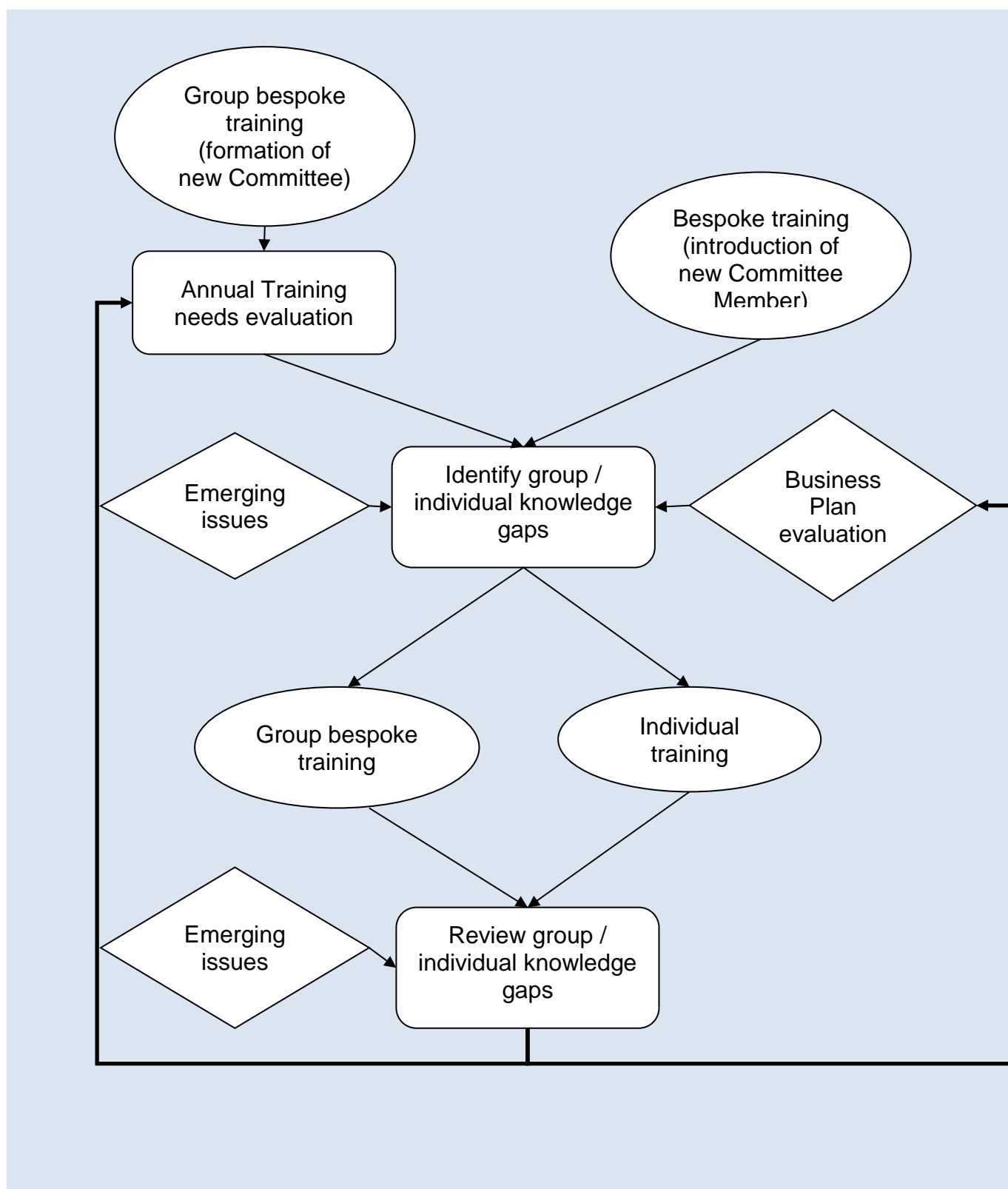
- Undertake as a Committee an annual Training Needs Evaluation exercise. This evaluation will be used to identify both individual and group training gaps.
- Substitute Members will be invited to complete this annual evaluation and training exercise so that they have a base grounding in the LGPS and the 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 CIPFA Principles of Investment Decision Making and Disclosure.

9.7.2 Officers:-

All Cumbria LGPS officers with responsibility for administering / managing the LGPS at Technical 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 Officer LGPS) and the Section 151 Officer, in liaison with the Chair of the Pensions Committee.

9.7.3 Training Provision and Evaluation Cycle

To illustrate this above process see below diagram of the annual training evaluation and programme scheduling:-

APPENDIX A - 9. TRAINING POLICY**9.7.4 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.

APPENDIX A - 9. TRAINING POLICY

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 9.7.1 to 9.7.3) 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 Schemes or Frameworks • Regular updates from officers and/or advisers 	<ul style="list-style-type: none"> • Desktop / work based 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/CFA, CIPP, CIPFA,) • Internally developed sessions • Shared training with other Schemes or Frameworks

9.7.5 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.

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 at this event or similar events in the future.
- A summary of the key learning points gained from attending the event, and
- Recommendations of any key issues identified of relevance to Cumbria LGPS to which training would be beneficial to other officers.
- Any other issues arising

Officers attending events will also be expected to provide knowledge sharing with the wider Pensions team at the team meeting following event attendance.

9.7.6 Training Plan (per the Business Plan agreed at Committee March 2019)

The table of training topics below provides a summary of the proposed training programme as highlighted by the Annual Training Needs Assessment. It has

APPENDIX A - 9. TRAINING POLICY

been prepared by taking account of up and coming national legislative / policy changes such as the continued development of Border to Coast as the Funds chosen vehicle to comply with LGPS Pooling and the expectation of Cost Transparency regulations being implemented for the 2018/19 financial accounts, ongoing work specific to LGPS and knowledge gaps identified from the training needs assessment questionnaires which Members returned in December 2018 and January 2019.

In addition other items on topical or emerging issues will be included as appropriate, and the proposed training topics will therefore change depending upon emerging issues.

Training Topics
LGPS discretions policy and how these are operated in practice.
Roles and powers of the Pension Regulator and the Pensions Ombudsman.
Principles for Investment Decision Making and Disclosure.
Awareness of the Stewardship Code and how this links to shareholder engagement, responsible investing and the views of the wider community.
Gain an awareness of the actuarial considerations relating to employer movements, outsourcing and bulk transfers.
General understanding of UK and EU procurement legislation and how this process and supplier risk management will function under LGPS Pooling.
Increase awareness of investment products that focus on protecting the Fund's valuation rather than striving for growth, subject to the outcomes of the post valuation Investment Strategy review in 2019.
The impact of Cost Transparency regulations on LGPS Financial Accounts.
How the Pension Fund interacts with the taxation system in the UK and Overseas in relation to investments and benefits administration.
What AVC arrangements exist and the principles related to those arrangements.

As indicated in section 9.7.4 Delivery of Training, where possible the Fund will endeavour to timetable internal training by officers or external presenters to coincide with scheduled meetings of the Committee or Board which are detailed on the schedule below for 2019/20.

Date	Meeting Title and Venue
8 th April 2019	Cumbria Local Pension Board in Carlisle
11 th June 2019	Quarterly Pensions Committee in Carlisle
4 th July 2019	Cumbria Local Pension Board in Carlisle
24 th & 25 th September 2019	Quarterly Pensions Committee in Edinburgh
8 th October 2019	Cumbria Local Pension Board in Carlisle

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21 st November 2019	Annual Pension Forum in Penrith
13 th December 2019	Quarterly Pensions Committee in Carlisle
October to December 2019	Annual Training Needs Evaluation
17 th January 2020	Cumbria Local Pension Board in Carlisle
13 th March 2020	Quarterly Pensions Committee in Carlisle

APPENDIX A - 10. POLICY & PROCEDURE ON REPORTING BREACHES OF THE LAW

10 CUMBRIA LGPS POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

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10.3.2 Clarification of the law

10.3.3 Clarification when a breach is suspected

10.3.4 Determining if a breach is materially significant

10.3.5 Referral to a level of seniority for a decision to be made on whether to report

10.3.6 Decision tree: Deciding whether or not to report

10.3.7 Timescales for reporting

10.3.8 Recording all breaches even if not reported

10.3.9 Reporting a breach

10.3.10 Confidentiality

10.3.11 Reporting to the Pensions Committee and Pensions Board

10.4 Review and maintenance of the policy

Annex A – Determining whether a breach is likely to be of material significance

Annex B – Traffic light framework for deciding whether or not to report

Annex C – Example of information to be included in the quarterly report to Pensions Committee

APPENDIX A - 10. POLICY & PROCEDURE ON REPORTING BREACHES OF THE LAW

10.1 Introduction

10.1.1 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.

10.1.2 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.

10.1.3 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.

10.1.4 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.

10.1.5 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

APPENDIX A - 10. POLICY & PROCEDURE ON REPORTING BREACHES OF THE LAW

10.2 Requirements

10.2.1 This section clarifies the full extent of the legal requirements and to whom they apply.

10.2.1 Pensions Act 2004

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).

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.

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.

10.2.3 The Pensions Regulator's Code of Practice

Practical guidance in relation to this legal requirement is included in The Pensions Regulator's Code of Practice⁵ 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.

⁵ www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx#s16855

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10.2.2 Application to Cumbria LGPS ('the Fund')

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.

10.3 The Fund Reporting Breaches Procedure

10.3.1 Introduction

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.

10.3.2 Clarification of the law

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'.

Further guidance and assistance can be provided by the Director of Finance (s151 Officer); Senior Manager: Pensions & Financial Services and the Chief Legal Officer (Monitoring Officer) (see 10.3.30 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).

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10.3.3 Clarification when a breach is suspected

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.

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.

Subject to paragraph 10.3.50 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:

- Director of Finance (s.151 Officer);
- Senior Manager: Pensions & Financial Services (Deputy s.151 LGPS);
- Chief Legal Officer (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).

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.

10.3.4 Determining whether the breach is likely to be of material significance

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.

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Further details on the above four considerations are provided in Annex A to this procedure.

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.

10.3.5 Referral to a level of seniority for a decision to be made on whether to report

Subject to paragraph 10.3.30 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 Director of Finance (s.151 Officer) (or in their absence the Senior Manager – Pensions & Financial Services (Deputy s.151 LGPS)) and/or the Chief Legal Officer (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.

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.

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.

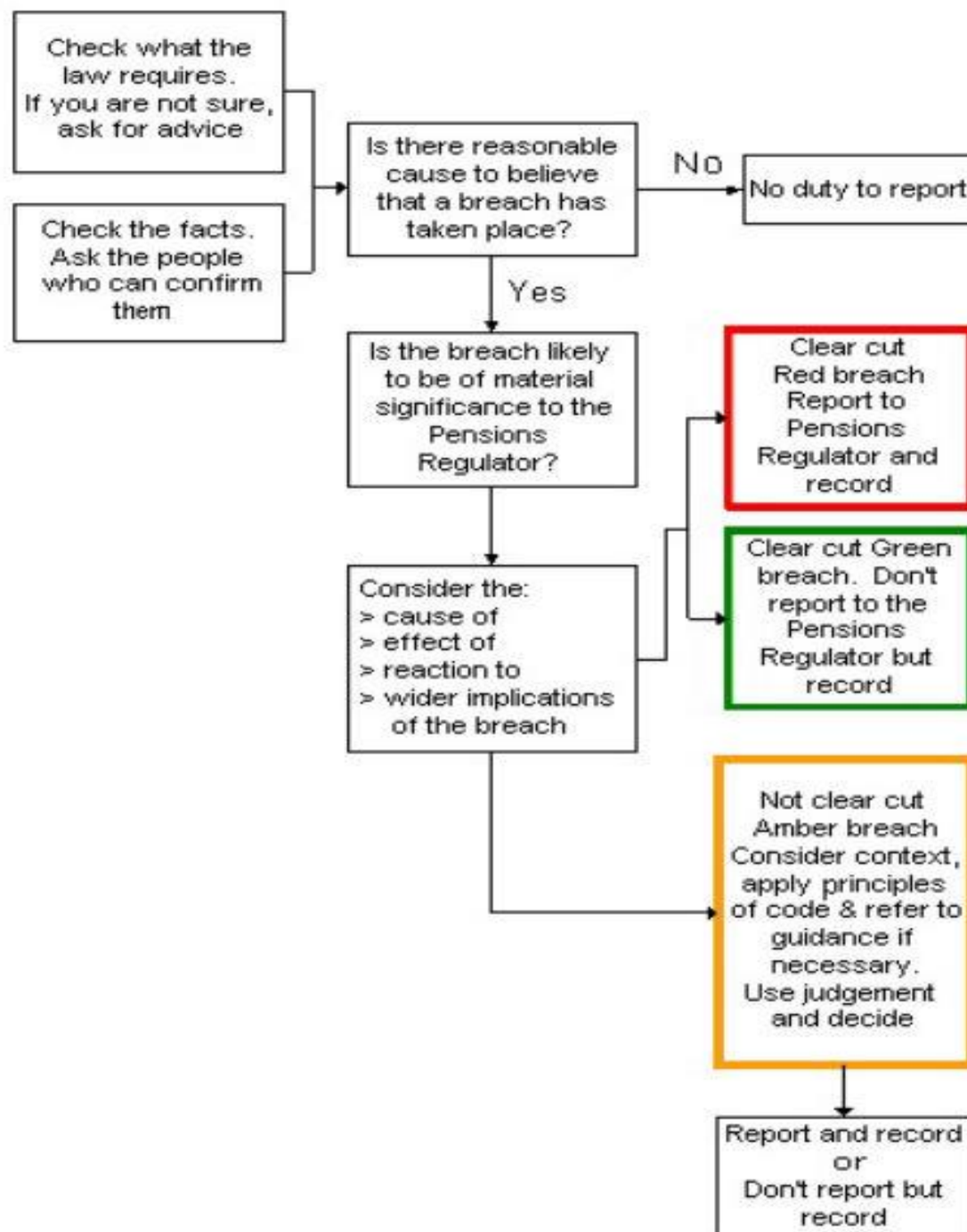
Individuals must bear in mind that the involvement of the Senior Manager – Pensions & Financial Services (Deputy s.151 LGPS) and/or the Monitoring Officer is to help clarify the potential reporter's thought process and to ensure this procedure is followed. The reporter remains responsible for the final decision as to whether a matter should be reported to TPR.

10.3.6 Decision Tree: deciding whether or not to report:

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.

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Decision-tree: deciding whether to report



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10.3.7 Timescales for reporting

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.

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.

10.3.8 Recording all breaches even if they are not reported

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.

10.3.9 Reporting a breach

Reports must be submitted in writing via TPR's online system at www.tpr.gov.uk/exchange, 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.

As a minimum, individuals reporting should provide:

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- full fund name (Cumbria Local Government Pension Scheme);
- description of breach(es);
- any relevant dates;
- name, position and contact details;
- role in connection to the fund; and
- employer name or name of administering authority (the latter is Cumbria County Council).

If possible, reporters should also indicate:

- the reason why the breach is thought to be of material significance to TPR;
- fund 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.

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.

10.3.10 Confidentiality

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.

10.3.11 Reporting to Pensions Committee and Pension Board

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.

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.

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10.4 Review and maintenance of the policy:

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.

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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;

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- 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 scheme 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 scheme assets not being safeguarded; and
- Any other breaches which may result in the scheme 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 scheme members where it would have been appropriate to do so.

6. The wider implications of the breach

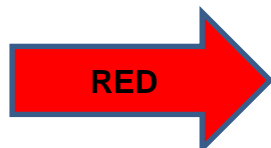
- 6.1. Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

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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.

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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 is framework is provided by The Pensions Regulator at the following link:

<http://www.thepensionsregulator.gov.uk/codes/code-related-report-breaches.aspx>

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Annex B

Example Record of Breaches

Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Description and cause of breach	Possible effect of breach and wider implications	Response of relevant parties to breach	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	Outstanding actions

11. INTERNAL CONTROL & RISK MANAGEMENT POLICY

INTERNAL CONTROL & RISK MANAGEMENT POLICY

1. Background

- 1.1. Good internal controls are an important characteristic of a well-run Fund and one of the main components of the scheme manager's (i.e. the administering authority's) role in securing the effective governance and administration of the Fund. Internal controls can help protect the Fund from adverse risks, which could be detrimental to the Fund and its stakeholders if they are not mitigated.
- 1.2. Internal controls are systems, arrangements and procedures that are put in place to ensure that the Fund is being run in accordance with Local Government Pension Scheme regulations and other law. They cover:
 - scheme administration and management,
 - monitoring that administration and management, and
 - the safe custody and security of Fund assets
- 1.3. They should include a clear separation of duties, processes for escalation and decision making and documented procedures for assessing and managing risk, reviewing breaches of law and managing contributions to the scheme.
- 1.4. It is not possible to eliminate all risks. Accepting and actively managing risk is therefore a key part of the risk management strategy.
- 1.5. Internal controls should address significant risks which are likely to have a material impact on the Fund. A risk-based approach should be taken to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.
- 1.6. A key determinant in selecting the actions to be taken in relation to a risk will be its potential impact on the Fund's objectives in the light of the administering authority's risk appetite. Equally important is striking a balance between the cost of risk control actions against the possible result of the risk occurring.

2. Regulatory requirements and Guidance

- 2.1. The following regulations and guidance have been taken into consideration in the drafting of this policy:

2.2. Pensions Act 2004:

- 2.2.1. Sections 249A(5) and 249B of the Pensions Act 2004 require that the scheme manager of a public service pension scheme such as the Cumbria Local Government Pension Scheme must establish and operate internal controls. These must be adequate for the purpose of securing that the Fund is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.

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2.3. The Pensions Regulator:

- 2.3.1. In accordance with Section 90(2)(k) of the Pensions Act 2004 the Pensions Regulator has issued a code of practice (09) on internal controls (the Code). This requires Scheme Managers (i.e. administering authorities) such as Cumbria County Council to establish and operate adequate internal controls and that these should address significant risks which are likely to have a material impact on the Fund.
- 2.3.2. The Code states that, before implementing an internal controls framework, Funds should carry out a risk assessment and produce a risk register which should be reviewed regularly. The impact of a risk on Fund operations and members and the likelihood of it materialising should be considered and Funds should focus on those areas where the impact and likelihood of a risk materialising is high.
- 2.3.3. Following this consideration of risk, the Code states that Funds should consider what internal controls are appropriate to mitigate the main risks identified and how best to monitor them. This should be a continual process and should take account of a changing environment and new and emerging risks.
- 2.3.4. Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

2.4. Other relevant guidance:

- 2.4.1. CIPFA's publication 'Managing Risk in the Local Government Pension Scheme' (2018 edition)
- 2.4.2. CIPFA's publication 'Delivering Good Governance in Local Government: Framework' (2016 Edition)
- 2.4.3. CIPFA's 'Preparing and Maintaining a Funding Strategy Statement in the LGPS' (2016 Edition)
- 2.4.4. CIPFA's guidance on Investment Pooling and Governance Principles, (published in 2016)

3. Review of policy

- 3.1. The undertakings set out within this Internal Control and Risk Management policy will be reviewed and published annually.
- 3.2. This Internal Control and Risk Management Policy was approved at the Cumbria Pensions Committee on 7th March 2019.

11. INTERNAL CONTROL & RISK MANAGEMENT POLICY

4. Application to the Fund

- 4.1. The Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pensions Regulator's Code of Practice in relation to the Fund. This Internal Control & Risk Management Policy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

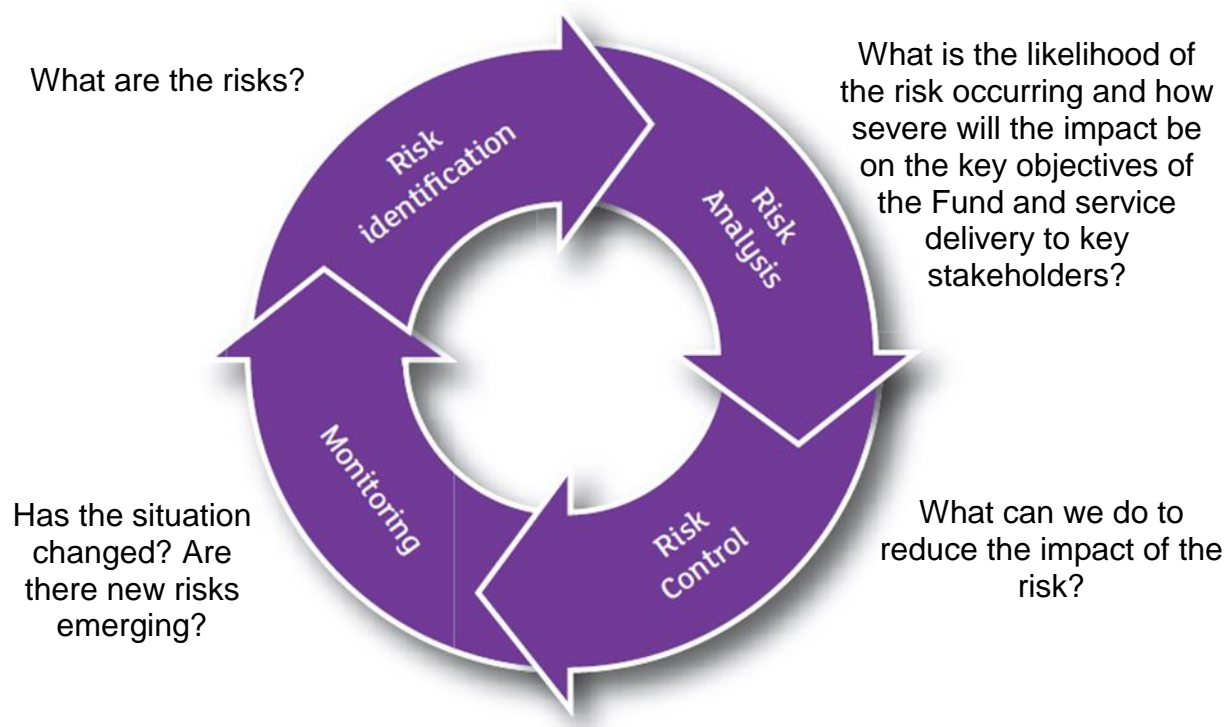
5. Responsibility

- 5.1. The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Section 151 Officer is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pensions Committee and Local Pension Board.
- 5.2. The Pensions Committee is charged with actively monitoring, on a quarterly basis, progress in relation to controls and actions taken to mitigate risk. Should any major risk emerge between meetings, this will be escalated by Fund Officers to the Chair and s151 Officer.
- 5.3. The Local Pension Board, in its role in assisting the Administering Authority of the Fund to comply with relevant legislative requirements and ensuring the effective governance of the scheme, provides comment on and inputs into the management of risks.
- 5.4. It is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

6. Process

- 6.1. The Fund's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections:

11. INTERNAL CONTROL & RISK MANAGEMENT POLICY



6.2. Risk Identification:

6.2.1. Risk identification involves assessing risks in the context of the objectives and targets of the Fund. The risk identification process is both a proactive and reactive one: looking forward i.e. horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the Fund.

6.2.2. Risks to the Fund are identified by a number of means including, but not limited to:

- Formal risk assessment exercises,
- Informal meetings of senior officers or other staff involved in the management of the Fund,
- Findings of External or Internal audit work,
- Performance monitoring (e.g. administrative KPIs),
- Monitoring against the Fund's Business Plan,
- Feedback from Local Pension Board and / or Pensions Committee meetings or directly from members,
- Liaison with other administering authorities and regional and national groups, including the Scheme Advisory Board, CIPFA, Border to Coast Pensions Partnership Ltd (Border to Coast) etc.,
- Legal determinations including those of the Pensions Ombudsman, the Pensions Regulator and court cases, and
- Business or service continuity plans developed by the administering authority.

11. INTERNAL CONTROL & RISK MANAGEMENT POLICY

6.2.3. Once identified, risks are documented on the Fund's risk register, which is the primary control document for the subsequent analysis and classification, control and monitoring of those risks.

6.3. Risk Analysis:

6.3.1. Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the table below.

Impact Likelihood	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Most severe
5 Very Likely	5	10	15	20	25
4 Likely	4	8	12	16	20
3 Possible	3	6	9	12	15
2 Unlikely	2	4	6	8	10
1 Very unlikely	1	2	3	4	5

6.3.2. When considering risk ratings the Fund will have regard to the existing controls in place and these will be summarised in the risk register.

6.4. Risk Control:

6.4.1. The objective of risk management is not to completely eliminate all possible risks but to recognise risks and deal with them appropriately. Everyone connected to the Fund should understand the nature of risk and how the Fund systemically identifies, analyses, treats, monitors and reviews those risks.

6.4.2. Fund officers will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pensions Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls of the Fund could result in any of the following:

- *Risk elimination:* e.g., ceasing an activity or course of action that would give rise to the risk;
- *Risk reduction:* e.g. choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises;

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- *Risk toleration*: e.g. where risk is unavoidable or more tolerable than alternatives, or where impact is assessed to be minimal. This is partially driven by the Fund's risk 'appetite'.
- *Risk transfer*: e.g. transferring risk to another party either by insurance or through a contractual arrangement.

6.4.3. The Fund's risk register details all further action in relation to a risk and the owner for that action.

6.4.4. Risk appetite: this is the level of risk the Fund chooses to take (or 'accepts') in pursuit of its strategic objectives. The Fund's overarching appetite for risk is conservative and focused on complying with its fiduciary duty and ensuring reliable delivery of quality services to stakeholders. The Fund recognises that it is not possible to completely eliminate all possible risks but seeks to recognise risks and deal with them appropriately. Further details on how this is taken into account in relation to the Fund's Investments can be found in the Investment Strategy Statement (section 4.5.2)

6.5. Risk Monitoring:

6.5.1. Risk monitoring is an ongoing part of the risk management cycle and is the responsibility of the Pensions Committee. In monitoring risk management activity, the Pensions Committee will consider whether:

- The risk controls taken achieve the desired outcomes;
- The procedures adopted and information gathered for undertaking the risk assessment were appropriate;
- Greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk; and
- There are any lessons to be learned for the future assessment and management of risks.

6.5.2. Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to internal controls, will be provided to the Pensions Committee and Local Pension Board on a quarterly basis. An example of the summary page of the risk register (as at March 2019) is shown below, indicating the matrix of risk profiles that are considered.

11. INTERNAL CONTROL & RISK MANAGEMENT POLICY

PENSION FUND RISKS		Q1	Q2	Q3	Target	DOT	CORPORATE RISK PROFILE (Risk Score = Likelihood x Impact)					
							Impact Likelihood	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Most severe
1	1.1. Information security arrangements	15	15	15	10	→	5 Very Likely					
2	1.2. Pensions administration processes	9	12	12	6	→	4 Likely			1.2		
3	1.3. Scheme member communication	4	4	4	4	→	3 Possible		2.3	1.4; 3.1		1.1
4	1.4. Timeliness of breach reporting	N/A	9	9	6	→	2 Unlikely		1.3; 2.4; 2.5	1.5; 3.3	1.6; 2.2; 3.2	
5	1.5. Data quality	6	6	6	3	→	1 Very unlikely				2.6	2.1
6	1.6. Payment of contributions	8	8	8	8	→	Summary of risk changes since last quarter		Emerging Risks			
7	2.1. Pension Regulator Intervention	5	5	5	5	→						
8	2.2. Regulatory changes	N/A	8	8	8	→						
9	2.3. Financial irregularity	6	6	6	6	→						
10	2.4 Loss of key personnel	4	4	4	4	→						
11	2.5. Conflicts of Interest	4	4	4	4	→	Further details of risk recovery process added to the register No new risks added or risks deleted during the quarter		<ul style="list-style-type: none"> The triennial valuation changes the focus of a number of risks, e.g. "payment of contributions" but it has not been considered appropriate to amend the scores or key risks within the register at this time. 			
12	2.6 Operational disaster	4	4	4	4	→						
13	3.1. Cashflow	9	9	9	9	→						
14	3.2 Investment performance	8	8	8	8	→						
15	3.3 Flexibility of investments	6	6	6	6	→						

11. INTERNAL CONTROL & RISK MANAGEMENT POLICY

- 6.5.3. The Pensions Committee and Local Pension Board will be provided with updates on a quarterly basis in relation to any changes to risks and newly identified risks. Should any major risk emerge or significant control failure takes place between meetings, this will be escalated by Fund Officers to the Chair of the Committee and s151 Officer. Where changes to a risk, a new risk or control failures arise as a result of a breach of the law or indicate a potential breach of the law, the Fund's policy and procedure on reporting breaches of the law must be followed.
- 6.5.4. Where a risk is identified that could be of significance to the Council it will be recorded in the Corporate Risk Register. Where appropriate the Fund will adhere to the Council's broader risk reporting framework and escalation process.

7. Key risks to the effective delivery of this Policy

- 7.1.1. The key risks to the delivery of this Policy are outlined below. The Pensions Committee will monitor these and other key risks and consider how to respond to them.
- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
 - Changes in Pensions Committee and/or Local Pension Board membership, the two Independent Advisers and/or senior officers mean key risks are not identified due to lack of knowledge
 - Insufficient resources are available to satisfactorily assess or take appropriate action in relation to identified risks
 - Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk exposure without proper controls
 - Lack of engagement or awareness of external factors means key risks are not identified
 - Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately.

8. Costs

- 8.1.1. All costs related to this Policy are met directly by the Fund.

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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.

Admitted Body – Private contractors that are admitted to the LGPS to protect member pension rights following a TUPE transfer, or a body which provides a public service which operates otherwise than for the purposes of gain. These bodies can be categorised as Transferee or Community Admission bodies.

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.

Authorised Contractual Scheme (ACS) – an ACS is a type of structure in which institutional investors (including Pension funds) can hold their pooled investments. The ACS is the investment vehicle chosen by Border to Coast to hold the public market quoted investments for the twelve partner funds, and provides a tax efficient means for managing all the equity and bonds held by the company.

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.

Black-Scholes – Is a pricing model used to determine the fair price or theoretical value for an 'over-the-counter' derivative option based on six variables such as volatility, type of option, underlying stock price, time, strike price, and risk-free rate.

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.

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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.

Call option – see Options contract.

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).

CIPFA – Chartered Institute of Public Finance & Accountancy.

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.

Consumer Price Index (CPI) - The rate of increase in prices for goods and services. CPI is the official measure of inflation of consumer prices of the United Kingdom.

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.

APPENDIX B: GLOSSARY

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. In January 2018 this was renamed the Ministry of Housing, Communities and Local Government (“MHCLG”).

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.

EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation – is a measure of a company's operating performance. Essentially, it's a way to evaluate a company's performance without having to factor in financing decisions, accounting decisions or tax environments.

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.

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Equity Protection – a product which is designed to protect the value of an equity portfolio, from significant falls in the value of specific equity market indices. These products can cover equities held in more than one country e.g. UK, US and Europe and often utilise derivative options contracts.

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.

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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.

MHCLG – The Ministry of Housing, Communities and Local Government. Prior to January 2018 this was Department for Communities and Local Government (“DCLG”).

Multi-Asset Credit – MAC is a term used for a fund investing in a range of investments that are classed as ‘credit’ i.e. fixed income, and will often include corporate debt, loans directly to companies, absolute return bonds, emerging market debt, asset-backed securities, real-estate debt and high yield bonds. The MAC fund will aim to be diversified across many asset types.

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.

Options contract – this grants to the entity the right, but not the obligation to buy or sell an underlying asset at a set price on or before a certain date. The two terms used to identify the type of option are:

- Call option – gives the holder the right but not obligation to buy an underlying asset
- Put option – gives the holder the right but not obligation to sell an underlying asset

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Over-the-Counter (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.

Put option – see Options contract.

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.

Resolution Body – Employers who, under Schedule 2 Part 2 of the Local Government Pension Scheme Regulations 2013 (as amended), have the automatic right but not the requirement to be an employer within the LGPS (also referred to as a Designated body).

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.

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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.

Scheduled Body – Public sector employers or resolution bodies that have an automatic right and requirement to be an employer within the LGPS.

Scheme Employers – employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations (as amended)) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

Settlement – Payment or collection of proceeds after trading a security. Settlement usually takes place sometime 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

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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.

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.

APPENDIX C: CONTACT US

PENSIONS CONTACT DETAILS: for personal pensions and benefits queries please contact:

Your Pension Service

Cumbria LGPS Team
PO Box 1382,
Preston,
PR2 0WQ

Email: **AskPensions@localpensionspartnership.org.uk**

Telephone: 0300 323 0260

Alternatively for general LGPS scheme information, consult the website
www.yourpensionservice.org.uk/local-government-scheme/

ADMINISTERING AUTHORITY CONTACT DETAILS: for any queries relating to the Annual Report and Accounts please contact:

Cumbria County Council

Pensions and Financial Services
Finance Department,
The Parkhouse Building,
Baron Way,
Kingmoor Business Park,
Carlisle,
Cumbria,
CA6 4SJ

Email: **pensions@cumbria.gov.uk**

Telephone: 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

Corporate, Customer & Community Services
Democratic Services,
Cumbria House,
117 Botchergate,
Carlisle,
CA1 1RD

Web: **http://www.cumbria.gov.uk/landing_page/yourcouncil.asp**

If you require this document in another format (e.g. 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，
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