

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

FUND POLICY DOCUMENT

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Approved December 2023

1. INTRODUCTION

1 INTRODUCTION

INTRODUCTION

The Cumbria Local Government Pension Scheme (“the Fund” or “Cumbria Pension Fund”) is part of the Local Government Pension Scheme (LGPS). 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 the Administering Authority is required to provide an administration service for the scheme within the geographical area of Cumbria.

Due to Local Government Reorganisation in Cumbria, with effect from 1 April 2023 Cumbria moved from a two-tier system of local government (with one county council and six district councils) to a single-tier system (with two unitary councils – Westmorland & Furness Council covering the existing areas of Barrow, Eden and South Lakeland, and Cumberland Council covering the existing areas of Allerdale, Carlisle and Copeland). As part of this change the role of Administering Authority for the Fund moved from Cumbria County Council to Westmorland & Furness Council at midnight on 31 March 2023. This change was set out in legislation via a Statutory Instrument which, at the time of writing, was in the final stages of progressing through Parliament.

As Administering Authority Westmorland and Furness 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 administering 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.

1. INTRODUCTION

From 1st April 2015 management arrangements of the Cumbria Local Government Pension Scheme (“the Fund” or “Cumbria Pension Fund”) has consisted of five elements: the Cumbria Pensions Committee & Investment Sub Group, Cumbria Pension Board, Cumbria Pensions Forum, Advisors and Officers. For further information of these please see the Governance Policy Statement (Section 2 of this Policy Document).

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

The purpose of each is summarised as follows:

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 Fund, and the communications with members, employers and pensioners.

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 Fund’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 Fund.

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

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

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.

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 14 March 2023.

Westmorland and Furness Council administers the Cumbria Local Government Pension Scheme (“Cumbria Pension Fund”) and is governed in accordance with relevant regulations.

The Administering Authority as Scheme Manager, Members of Pensions 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.

Cumbria Pensions Committee

National guidance from the Local Authorities (Functions and Responsibilities) Regulations 2000 makes it clear that “functions relating to local government pensions etc.” are not executive functions. The Cumbria Pensions Committee acts as the 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 Westmorland and Furness Councillors, 3 Cumberland Councillors and 2 employee representatives).

Advice is given by Westmorland and Furness Council's Director of Resources (S151 Officer), the Council's pensions finance team and by two independent advisors. The advisors are appointed for their knowledge of investments and of pension funds; one advisor 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 Limited, and by other consultants and lawyers for investment management services.

The Pensions Committee is governed by Westmorland and Furness Council's procedural rules under the Council's Constitution:

2.1 Terms of Reference of the Pensions Committee

The Pension Committee is a committee constituted under Section 101 of the Local Government Act 1972, the principal aim is to carry out the functions of Westmorland and Furness Council as the Administering Authority for the

2. GOVERNANCE POLICY STATEMENT

Cumbria Local Government Pension Scheme (“the Cumbria Pension Fund” or “the Fund”) in accordance with the requirements of the Local Government Pension Scheme and any other relevant legislation.

In its role as the administering authority, Westmorland and Furness Council (the Council) owes fiduciary duties to the employers and members of the Cumbria Pension Fund and must not compromise this with its own particular interests. Consequently, this fiduciary duty is a responsibility of the Pension Committee, and its members must not compromise this with their own individual interests. As a statutory pension scheme the Local Government Pension Scheme (LGPS) does not have assigned trustees.

Functions

The functions of the Committee are:

- To ensure that the Fund complies with the Local Government Pension Scheme Regulations and all other legislation that governs the administration of the Fund.
- To set the investment objectives and policy and the strategic asset allocation in the light of the Fund’s liabilities.
- To annually review (as a minimum) and approve any new statutory policy statements and/or amendments to the existing statutory policy statements as required by Local Government Pension Scheme Regulations, drawing on appropriate professional advice.
- To assure adherence to the principles set out in relevant Statutory Guidance and Codes of Practice issued by the Secretary of State and the Pensions Regulator and undertake its duties in compliance with the obligations imposed on it.
- To ensure robust risk management arrangements are in place.
- To ensure appropriate arrangements for the administration of benefits are in place, including overseeing administration performance and employer issues.
- The selection, appointment and dismissal of an investment pooling operator to manage assets in accordance with the Fund’s Investment Strategy.
- To monitor the performance and effectiveness of the investment pooling operator to ensure:
 - it is providing an effective means of delivering the Fund’s investment strategy (e.g. types of assets and style of investment management); and
 - it is meeting the objectives that have been set.
- Appointing, dismissing and assessing the performance of investment managers in accordance with the Fund’s Investment Strategy, where direct investments are maintained.
- To consider recommendations from the Cumbria Local Pensions Board, the Pensions Investment Sub Group and the Border to Coast Pensions Partnership Ltd (BCPP) Joint Committee.
- To approve the formal triennial actuarial valuation of the Cumbria Pension Fund, with due consideration being given to the desirability of maintaining

2. GOVERNANCE POLICY STATEMENT

as nearly constant a primary contribution rate as possible and the requirement to secure the solvency of the Cumbria Pension 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 Cumbria Pension Fund. To review performance against this periodically during the year.
- To approve and annually review the Cumbria Pension Fund's training policy to ensure those charged with the management of the Cumbria Pension Fund are appropriately experienced and qualified.
- To update the Council periodically on the governance, risk monitoring and performance of the Cumbria Pension Fund following meetings of the Committee.
- To submit the Cumbria Pension Fund Statement of Accounts to the Audit Committee and to approve the Cumbria Pension Fund Annual Report.
- To receive and where necessary instruct corrective action, in response to both internal and external auditor reports.

Composition

The Pensions committee will be composed of 8 Members of the Council, 3 co-opted Members of Cumberland Council, and 2 employee representatives (one appointed by GMB and one appointed by UNISON).

All Members of the Committee including co-opted members shall be entitled to vote.

Equal weight will be given to each Members vote with the Chair having the casting vote should the need arise.

The Chair and the Vice Chair will be appointed annually by the Council.

The Chair of the Committee will not be a Cabinet Member.

Reserves

The Council will appoint (No) named substitute members.

Cumberland Council may appoint up to (No) named substitute members.

Quorum

The quorum for meetings of the Pensions Committee shall be a third of the membership

Other Matters relating to the operating structure of the Committee

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

2. GOVERNANCE POLICY STATEMENT

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 Cumbria Pension Fund.

- a) To assist in the above the Section 151 Officer will be required to appoint industry specific advisors to enable the Committee to fulfil its obligations e.g. fund actuary; tax specialists; regulated investment consultants when required.
- b) The Committee will also appoint two independent advisors, their role being to assist and support members in their understanding and challenge of either service providers or officers of the Council.

Competency

To ensure that Members involved in the governance and monitoring of the Cumbria Pension Fund (including nominated reserves) meet the requisite knowledge and skills requirements, a general level of attendance at meetings and training events is required.

Other relevant matters

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

The Pensions 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:

- Reimbursement Members allowances,
- Quoracy,
- Conflicts of Interest Policy and Code of Conduct (see 2.7), and
- Publication and Data protection.

Role of Advisors

- The independent Advisors will be appointed by a panel of Members of the Pensions Committee, and thereafter report directly to 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.
- Should either of the advisors no longer be able to provide this service to the Committee; Officers of the Fund would seek to procure an alternative Independent Advisor with similar but complimentary levels of skill and

2. GOVERNANCE POLICY STATEMENT

knowledge; as soon as is practicable; during which time the Fund could seek alternative professional advice when and if required.

Cumbria Pensions Investment Sub Group

The Investment Sub Group (ISG) is established by the Pensions Committee and has an advisory role, its purpose is to support the Committee by carrying out investment asset class monitoring, reporting investment matters to the Committee and where appropriate giving initial consideration to investment opportunities prior to their consideration by the Pensions Committee.

2.2 Terms of reference of the Investment Sub Group

Functions

The Pensions Committee shall establish a Pensions Investment Sub Group (ISG). The working group have an advisory role; its purpose is to assist the Committee by:

- Carrying out investment asset class monitoring; i.e. monitoring investment performance and the progress of the implementation of the Cumbria Pension Fund's Investment Strategy.
- Providing an update report to Pensions Committee outlining investment performance during the preceding period, and escalating any matters of concern or for further consideration to the Pensions Committee.
- Where appropriate to giving initial consideration to investment opportunities prior to their being considered by Pensions Committee.

Membership

The Investment Sub Group will be comprised of four elected Members of the Pensions Committee (to be nominated by the Pensions Committee, taking into account knowledge, understanding and capacity); the two Independent Advisors to the Pensions Committee and the Chief Finance Officer (Section 151 Officer) or (or deputy in their absence).

The Investment Sub Group Chair and Vice Chair will be selected by the Pensions Committee at the start of each electoral term.

Meetings & other matters

- The Group will meet at least quarterly and will report to Pensions Committee on a quarterly basis.
- Meetings will be held during normal working hours and where held in person will predominantly be held within County boundaries.
- Creation of Working Parties / Sub Groups – as a non-decision-making body the Group have no authority to establish Working Parties / Sub Groups.

2. GOVERNANCE POLICY STATEMENT

Cumbria Pension 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 1st April 2015 and has been established to assist the Administering Authority to fulfil its functions in relation to all aspects of governance and administration of the Cumbria Pension Fund. The Board has no remit as a decision making body.

2.3 Terms of Reference of the Pension Board

The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 requires that the Council, as administering authority of Cumbria Pension Fund, establishes a local pension board. The role of the Board is to assist the Administering Authority in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme including, securing compliance with LGPS Regulations, other legislation and the requirements of the Pensions Regulator.

Functions

The Cumbria Local Pension Board is responsible for assisting the Administering Authority of the Cumbria Local Government Pension Scheme:

- a) to secure compliance with:
 - (i) The Local Government Pension Scheme Regulations 2013 (as amended from time to time);
 - (ii) Other legislation relating to the governance and administration of the Local Government Pension Scheme ('LGPS'); and
 - (iii) The requirements imposed by the Pensions Regulator in relation to the LGPS.

And to

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

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

In its role in assisting the Administering Authority as described above, the Board shall report twice yearly to the Pensions 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.

2. GOVERNANCE POLICY STATEMENT

Board Composition

The membership of the Cumbria Local Pension Board will comprise three scheme member representatives; three scheme employer representatives; and one independent member (non-voting) who shall be appointed as Chair of the Pension Board.

- The three employer representatives will be allocated 1 to the Council; 1 to Cumberland Council; and 1 for all other employers in the Cumbria Pension Fund. The three scheme member representatives will be selected to ensure all membership groups within the Cumbria Pension Fund are considered.

All Employer and Scheme Member Representatives of the Local Pension Board will be entitled to vote.

The Vice Chair of the Board will be elected annually by the three scheme member representatives and the three scheme employer representatives.

Reserves

Named substitutes are permitted and will be sought for each of the scheme member and scheme employer representatives. The relevant knowledge and capacity requirements also apply to reserves.

Quorum

The Pensions Board shall have a quorum of 3 which will require the independent Chair (or Vice Chair in the absence of the Independent Chair), 1 employer representative and 1 scheme member representative to be present.

Frequency of Meetings

The Board will meet as a minimum quarterly. Meetings will be held during normal working hours and as a general principle, meetings will be open to the public.

Competency

The Administering Authority must ensure that each person appointed to the Local Pension Board has the relevant knowledge and the capacity to represent the employers or members (as appropriate) of the Pensions Fund. To ensure compliance, a general level of attendance at meetings and training events is required

Other relevant matters

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

2. GOVERNANCE POLICY STATEMENT

Government Act 1972. The Board has no remit as a decision making body; but is established to assist the Administering Authority fulfil its functions, which shall be deemed to cover all aspects of governance and administration of the Pension Fund.

Appointment of Board members:

To ensure an open and transparent selection process and to ensure the Administering 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 (or deputy), the Monitoring Officer (or deputy) and a member of the Board.

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.

Appointment of the independent member who shall be appointed as Chair of the Pension Board:

- a. The selection process will be through application, matching to a role profile and interview. The interview panel will consist of the Section 151 Officer (or deputy), the Monitoring Officer (or deputy) and a member of the Board and the appointment will be agreed by that panel.
- b. Appointments will be for four years and will be subject to a maximum of two terms (i.e. eight years).

Duties of the Chair: The Chair of the Board shall ensure that:

- the Board delivers its purpose as set out the Board's Terms of Reference;
- meetings are productive and effective, and
- opportunity is provided for the views of all members to be expressed and considered and will determine when consensus is met.

Board Expenses:

Reimbursement of reasonable expenses for attendance by Board members and reserves (i.e. named substitute Board members) 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 Administering 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.

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Codes of Conduct and Conflicts of Interest Policy:

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 Pensions Committee and is available on the Council's Website (see 2.7).

Special Meetings:

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.

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.

All such items of expenditure by the Board must have prior approval from the Director of Resources (S151 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 principles 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.

Westmorland and Furness Council as the Administering Authority is the registered data controller of the Cumbria LGPS, and as such all policies and practices in this regard applicable within the Council are directly applicable to the Board.

2. GOVERNANCE POLICY STATEMENT

Substitution/Reserves

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.

Cumbria Pensions Forum

The Cumbria Pensions Forum is not a formal body. It is a forum for engagement with the Fund's scheme employers, scheme members and their representatives.

2.4 Terms of Reference of the Pensions Forum

The Cumbria Pensions Forum is not a formal body. It is a forum for engagement with Cumbria Pension Fund scheme employers, scheme members and their representatives. As such it is open to Cumbria Pension Fund scheme employers, scheme members, and their representatives.

Functions of the Pensions Forum

The functions of the Cumbria Pensions Forum are to seek the views of the representative bodies, employees and pensioners and discuss items of common interest in relation to pensions including:

- a. the administration of pensions and information to employers and members of the Cumbria Pension Fund;
- b. the state of the Cumbria Pension Fund including investment performance;
- c. the triennial actuarial valuation and the Funding Strategy Statement; and
- d. developments in relation to the LGPS nationally and their impact on the Cumbria Pension Fund.

Quorum

As the Forum is not a formal body there is no quorum requirement.

Frequency of Meetings

The Cumbria Pensions Forum will meet as a minimum annually. Meetings will be held during normal working hours.

Other matters relating to the Pensions Forum

The forum will be facilitated by officers of the Cumbria Pension Fund.

The Chief Finance Officer (Section 151 Officer) will Chair the meeting.

As a non-decision-making body the Forum has no authority to establish working parties / subgroups.

2. GOVERNANCE POLICY STATEMENT

2.5 Delegations to the Director of Resources (Section 151 Officer)

The Director of Resources is the Westmorland and Furness Council's Chief Financial Officer under section 151 of the Local Government Act 1972 (S151 Officer) and is the Officer responsible for the proper administration of the Council's financial affairs.

The Constitution 'Part 2 – Section 5: "Officer Scheme of Delegation"' sets out the delegations to the Director of Resources (S151 Officer) and the main responsibilities of the postholder are described in the Financial Standing Orders (Part 3, Section 6 of the Council's Constitution).

The Director of Resources (S151 Officer) has the full range of powers necessary to discharge the Council's functions, including taking decisions which are not specified in the Constitution or in law as having to be taken by elected members, implementing decisions and undertaking efficient management of the services, contracts and staff for which he/she is responsible in a number of specified areas including the Cumbria Local Government Pension Scheme.

In addition to these functions the Constitution stipulates that the Director of Resources (S151 Officer) has the following authority in respect of the Cumbria Local Government Pension Scheme:

"To take all necessary action in respect of the Council's role in relation to the administration and operation of the Cumbria Local Government Pension Fund unless specified in the Constitution or in law as having to be taken by elected members or another officer. This includes overseeing compliance by the Council in its capacity as shareholder of BCPP Limited and determining the Council's position as shareholder on decisions of the company that are reserved to the shareholders."

2.6 Knowledge and Skills

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

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

Accordingly, this organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision making.

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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 Framework 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 Resources (S151 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.

2.7 Conflicts of Interest Policy and Codes of Conduct

Conflicts of interest, including those relating to matters of investment stewardship, are managed according to the Council's (as the Administering Authority of Cumbria LGPS Fund) Codes of Conduct. Members (i.e. of both the Pensions Committee and the Local Pension Board) and Officers of the Fund are required to observe the Council's Members' and Officers' Codes of Conduct respectively. The Codes are set out in Part 4 of the Council's Constitution and can be found at:

- Code of Conduct for Councillors:
<https://www.westmorlandandfurness.gov.uk/>
- Officers' Code of Conduct (including conflicts of interest):
<https://www.westmorlandandfurness.gov.uk/>

These codes are designed to promote and maintain high standards of conduct by Members and Officers of the Fund across all activities including the stewardship of the Fund's assets.

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).

2. GOVERNANCE POLICY STATEMENT

<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>c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p> <p>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.</p>		<p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>
Principle B: Representation/Public Participation	Not Compliant	Fully Compliant
<p>a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ol style="list-style-type: none"> 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). <p>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.</p> <p>Details of the Public Participation Scheme that applies to the Pensions Committee is available in Part 9 of the Council's Constitution. https://www.westmorlandandfurness.gov.uk/</p>		<p>✓</p> <p>✓</p>

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<u>Principle</u>	<u>Compliance</u>	
Principle C: Selection and role of lay members	Not Compliant	Fully Compliant
<p>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.</p> <p>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</p>		<p>✓</p> <p>✓</p>
Principle D: Voting	Not Compliant	Fully Compliant
<p>a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</p>		<p>✓</p>
Principle E: Training facility time expenses	Not Compliant	Fully Compliant
<p>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.</p> <p>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.</p> <p>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.</p>		<p>✓</p> <p>✓</p> <p>✓</p>
Principle F: Meeting frequency forum	Not Compliant	Fully Compliant
<p>a) That an Administering Authority's main committee or committees meet at least quarterly.</p> <p>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.</p> <p>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.</p>		<p>✓</p> <p>✓</p> <p>✓</p>

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<u>Principle</u>	<u>Compliance</u>	
Principle G: Access	Not Compliant	Fully Compliant
a) That, subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.		✓
Principle H: Scope	Not Compliant	Fully Compliant
a) That administering authorities have taken steps to bring wider fund issues within the scope of their governance arrangements.		✓
Principle I: Publicity	Not Compliant	Fully Compliant
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the Fund is governed, can express an interest in wanting to be part of those arrangements.		✓

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 Fund to its Pensions Committee and discharges specific elements of the administration functions of the Fund to:
 - i. The Director of Resources (S151 Officer); and
 - ii. Lancashire County Council (LCC) who provide this service through Local Pensions Partnership Administration (LPPA).
- c. The Administration Strategy (Parts B & C) is set out so as to illustrate the key roles and responsibilities of both the Administering Authority, LPPA, and the scheme employers in the administration of the scheme, highlighting the expected quality and performance standards required of all parties.
- d. The Communication Policy (Part D) is the overarching policy for the Cumbria Pension Fund and sets out the Administering Authority's policy concerning communications with members, representatives of members, prospective members, and scheme employers.
- e. The Complaints Process for the Cumbria LGPS is set out in part E of this policy.

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.’

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 to ensure they reflect any changes in scheme regulations and Pension Fund policies and procedures. As required by regulation 59(4) of the 2013 regulations Fund employers will be consulted on any changes to the Administration Strategy.

Part B: Administering Authority (and Local Pensions Partnership Administration) 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 Local Pensions Partnership Administration (LPPA) provide administration services for the Fund. LPPA 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.
- 1.2. The Fund aims to use the most appropriate communication medium for the audiences receiving the information. This may involve using more than one method of communication. This table sets out our current methods of communication.

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

Activity	Main contact
1.3. 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 	LPPA & core team
1.4. Provide a Helpdesk and online member contact form for enquiries for both members and employers. The Helpdesk contact phone number is 0300 323 0260.	LPPA
1.5. Develop and actively promote the use of electronic/online facilities for data sharing and communication purposes between employers, Fund members and the Service.	LPPA
1.6. Develop and actively promote the use of member and employer online self-service systems and provide day to day access and query support.	LPPA
1.7. 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). 	LPPA
1.8. Provide employer training (as appropriate), for example: <ul style="list-style-type: none"> • Pension basics and general employer administration functions; 	LPPA & core team

Activity	Main contact
<ul style="list-style-type: none"> • Changes to the regulations; • New technological developments; and • Navigation of systems. 	
1.9. Carry out annual employer visits for employers with more than 100 members.	LPPA
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.	LPPA & core team
1.11. Publish, on the Cumbria Pension Fund website, (www.cumbriapensionfund.org): <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.	LPPA
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.	LPPA
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.	LPPA
2.4. Ensure that appropriate policies and procedures are in place and all relevant parties are aware of their responsibilities in relation to reporting / recording legal breaches.	Core team
2.5. Account to Her Majesty's Revenue and Customs (HMRC) in respect of income tax on pensions, refunds of AVCs and commutation of pensions where appropriate.	LPPA

Activity	Main contact
2.6. Provide information as required to Core team in relation to quarterly and annual HMRC event reporting.	LPPA
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.	LPPA
2.9. Update systems and member records each year.	LPPA
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.	LPPA & core team
2.11. Reconcile contributions and update fund member personal and financial data received from employers in the LPPA Pensions Data Return every pay period.	LPPA & 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.	LPPA
2.13. Apply any retrospective adjustments to career average pay and accrual rates as informed by employers.	LPPA
2.14. Update and maintain a member's record for any changes received in their circumstances.	LPPA
2.15. Update member records in line with absence notifications, and set up APC arrangements to cover lost benefits as appropriate.	LPPA
2.16. Provide every active, deferred and pension credit member a benefit statement each year.	LPPA
2.17. Provide all members earning £100,000 or more per annum, or on member requests, with annual pension saving statements and information regarding Annual Allowance tax implications.	LPPA
2.18. Implement Mandatory and Voluntary Scheme Pays at a member's request in accordance with the approved policy.	LPPA
2.19. Process early leavers (deferred benefits / refunds) within 15 working days of the receipt of form LPPA Employer – Leaver form. Pensions Increase Order will be applied to all deferred benefits each year in line with the annual Pensions Increase (Review) Order.	LPPA

Activity	Main contact
2.20. Arrange payment of retirement benefits and create a new record for ongoing pension scheme membership if applicable.	LPPA
2.21. Calculate and pay benefits within 5 working days of receipt of notification or date of entitlement, whichever is the latter.	LPPA
2.22. Arrange to make pension payments on the last banking day of each month.	LPPA
2.23. Make payment of compensatory added years pensions as agreed on behalf of the employer in connection with redundancy retirements.	LPPA
2.24. Apply Pensions Increases to pensions on the due date.	LPPA
2.25. Implement changes in pensioner's circumstances within 10 working days of the receipt of the information.	LPPA
2.26. Implement changes in spouse / dependant's circumstances.	LPPA
2.27. Make payments to the member's estate / nominated beneficiary within one month of receipt of the required documentation.	LPPA
2.28. Produce and distribute P60s to pensioners by the 31st May each year.	LPPA
2.29. Produce monthly reports and invoices for Pension strain costs to be recovered from employers.	LPPA & 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
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

Regulator¹ 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 Pensions Committee minutes on the Council's website² and key statistics are included in the Cumbria LGPS Annual Report.

3.3. Performance Targets

Performance Standard	Working Days	SLA	LPPA Target
New Starters to be admitted into the Fund	10	90%	95%
Action transfers into the Fund	10	90%	95%
Action transfers out of the Fund	10	90%	95%
Provide an estimate of pension benefits to employers or scheme members	10	90%	95%
Process deferred benefits for scheme members	15	90%	95%
Payment of death benefits	5	90%	95%
Payment of retirement benefits	5	90%	95%
Pay refunds to scheme members	5	90%	95%
Respond to general correspondence	10	90%	95%
Aggregation of scheme member records	30	90%	95%

¹ Paragraph 42 of Code of Practice no.14: 'Governance and administration of public service pension schemes'

² <https://westmorlandandfurness.moderngov.co.uk/mgCommitteeDetails.aspx?ID=277>

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 Local Pensions Partnership Administration (LPPA) or the core team.
- 1.2. The employer will facilitate an annual visit by LPPA with the appropriate primary contact.
- 1.3. The employer shall nominate an authorised signatory/signatories in respect of all documents and instructions received by LPPA 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 LPPA or the core team if they wish LPPA 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).
- 1.7. The employer shall inform the Fund of any outsourcings of services which involve or may potentially involve TUPE transfers of members of the LGPS as soon as possible to ensure that appropriate pensions information can be included in the tender documentation.

2. Performance Levels

- 2.1. Performance achieved by the Employer in relation to the following will be monitored by LPPA 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;
 - Uploading of LPPA Pensions Data Return every pay period; and
 - Notification of leavers.
- 2.2. The Fund will regularly report to employers on their individual performance and how this compares to other employers within the Fund. This will identify any areas for improvement including outstanding information and / or payments due to the Fund.

- 2.3. Employer performance will be reported to the Pensions Committee on an exception basis.

3. Administration of the LGPS and Compliance

3.1. Contributions

- 3.1.1. The employer will ensure that both employee and employer contributions are deducted at the correct rate (plus any additional contributions as LPPA 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 LPPA of any changes (see 3.6.3).

- 3.1.2. All contributions, but not Prudential, Standard Life, Scottish Widows or Utmost Life AVCs, 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 Utmost Life, Scottish Widows, Standard Life and Prudential AVCs are paid direct to the provider as soon as possible after deduction; but in any event before the 19th of the month following that in which they were deducted as stated above.

- 3.2. **Deficit contributions** - Where it has been identified, through the triennial valuation, that an employer has deficit contributions to pay, payment must be made to the fund no later than by the end of the financial year indicated on the employer valuation schedule. Payment can be made as an immediate one off payment or by 12 monthly instalments, with each monthly payment due no later than the last day of the month in which it is scheduled. Any surplus contributions identified in the employer valuation schedule can be offset against employer contributions paid to the Fund in the financial year.

- 3.3. **Pension Strain** - Each month LPPA 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.

- 3.4. **Rechargeable Pensions** - Where amounts of discretionary pension are paid by LPPA 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.

- 3.5. 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 LPPA no later than that set out in the timetable provided by the Administering Authority at year end.

3.6. Processing

- 3.6.1. LPPA Pensions Data Return** - Employers must upload the LPPA Pensions Data Return promptly at the end of every pay period. Data on this file must reconcile to contributions paid over each month, and must contain accurate figures of pensionable pay, including assumed pensionable pay where appropriate, for LPPA to post to individual member records. Files should be at the latest uploaded by 10th of the month following pay period end.
- 3.6.2. 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 LPPA 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 upload the LPPA Pensions Data Return promptly every pay period, from which LPPA will arrange for scheme membership for any new starters.

- 3.6.3. Adjustments of Career average pay** - Employers must contact LPPA where a Pension Pot Adjustment is required due to any of 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.

- 3.6.4. Changes in circumstance** - Employers must submit the LPPA Pensions Data Return promptly every pay period, from which LPPA 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; and
 - Change of address.

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

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

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

The employer must advise LPPA within 10 days of return from a period of unpaid leave.

- 3.6.6. Benefit Estimates & Annual Benefit Statements** - Employers must submit the LPPA Pensions Data Return promptly every pay period. Where LPPA have queries on the data or status of any member these must be dealt with by the employer within 5 working days, so that LPPA 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 PensionPoint 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 LPPA by completing the e-form LPPA 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, for example for flexible retirement or redundancy retirement, there may be a potential cost to the employer and the employer should ensure they obtain an estimate of this cost from LPPA prior to consenting to the retirement.

Therefore, the estimate request must be made by the employer, through completing “Commence the estimate request process”, via the LPPA employer portal.

3.6.7. Early Leavers - The employer will commence the leaver process via the LPPA employer portal 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.

3.6.8. Payment of benefits where employment is continuing - The employer will commence the flexible retirement process via the LPPA employer portal as soon as the flexible retirement has been approved.

As soon as it is known that an employee has agreed that the employee is to take flexible retirement from a post, the employer should commence the flexible retirement process via the LPPA employer portal.

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.

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

As soon as it is known that an employee is retiring with an entitlement to immediate payment of pension benefits, the employer should commence the retirement process via the LPPA employer portal.

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 LPPA 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.

3.6.10. Death-in-service The employer will commence the leaver process via the LPPA employer portal following the death of a member within 5 working days of being informed of the employees' death. The LPPA Employer – Leaver form must provide details of informant and next of kin, if known.

3.6.11. Terminal Illness Where an employee is suffering from terminal illness and limited life expectancy, employers should contact the Fund for guidance at the earliest opportunity.

3.7. 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** - LPPA and the core team undertake to develop alternative methods of data capture to automate processes and ensure that fund member data held is accurate and up to date. The employer will commit to the online/electronic requirements of LPPA and the core team.
- 4.2. Self-service** - LPPA 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** - LPPA 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 Local Pensions Partnership Administration, 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 Local Pensions Partnership Administration 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

- 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)** - Each employer is required to produce, publish, and maintain a statement of policy regarding the exercise of certain discretionary functions available to them within the LGPS regulations. New employers are required to provide the Fund with a copy of the policy statement within 3 months of their admission date. The policy statement must be kept under review and where revisions are made; the revised policy statement must be sent to the Fund and made readily available to all employees within the employing authority within one month of the effective date.
- 6.3. Employer Terminations from the Fund** - Each employer is required to notify the Fund should they decide to cease the addition of new scheme members or if they are considering terminating membership of the Pension Fund. Notification should be made as soon as the decision has been taken, allowing the Pension Fund to instruct the actuary to carry out calculations if applicable.
- 6.4. 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).

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	Communication Channel
Actuarial Valuation	All Stakeholders	Formal Report	Triennial	Website & Forum
Fund Policy & Statements	All Stakeholders	Website	As amended	Website
Annual Benefit Statements	Members	Online ** paper	Annual	Online portal (with email alert)/by post
Customer Satisfaction Survey	All Stakeholders	Website/ email	Ongoing	Click Question
Member Guides	Members	Website	On or before employment On request	Via employer HR/payroll departments Email/internet/mail

Information	Stakeholder*	Format	Frequency	Communication Channel
Employer Updates	Employer	Website, online	As required	Email/website
Pensioner payslips/P60s	Member	Online self-service, paper	Annually	Online portal/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/webinars
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 contact form /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.

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]

Part E: Complaints Policy for Cumbria LGPS

1. Definition of a complaint

- 1.1. Cumbria LGPS puts the satisfaction of its Scheme Members at the heart of its business and we always strive to provide a high quality service. However, we are aware that sometimes things can go wrong, and if you are unhappy with the services provided by the Fund you have the right to make a complaint.
- 1.2. Cumbria LGPS defines a complaint against the Fund as an expression of dissatisfaction about the standards of service; non-compliance with LGPS Regulations; actions or lack of action by the Fund or LPPA acting on behalf of the Fund.
- 1.3. Any complaint against an employer of the Fund should be made directly to the respective employer and addressed through their complaints process.

2. Who can make a complaint?

- 2.1. Any scheme member or individual receiving a service from the Fund may make a complaint against the Fund.
- 2.2. Third parties acting on behalf of scheme members may make a complaint against the Fund, however checks will be undertaken to ensure the authenticity of the third party and that they have the consent of the scheme member to act on their behalf.
- 2.3. Where a person who is the subject of the complaint does not have capacity to give consent, as defined by the Mental Capacity Act, then a best interest decision will be made about accepting or rejecting the complaint. Any such decisions will be communicated to the complainant.

3. How to make a complaint?

- 3.1. All complaints associated with the Fund will initially be considered by LPPA. Complaints should be submitted in writing by:
 - E-mail to LPPA.Complaints@localpensionspartnership.org.uk; or
 - In writing to: LPPA
PO Box 1382
Preston
PR2 0WQ
- 3.2. When submitting a complaint, please provide sufficient information to enable LPPA to identify:

- Your name;
- Your National Insurance number;
- Your Employer (where relevant); and
- Any other details that will help LPPA identify your pension record.

4. What will happen to my complaint?

4.1. LPPA will acknowledge receipt of your complaint within 5 working days. It will then commence a review of your complaint and will:

- Respond to you fully within 30 working days or update you on progress after 30 working days.
- Keep you informed of progress in resolving your complaint.
- Resolve your complaint within 8 weeks or provide you with a detailed update at that point.
- Provide a clear written outcome to your complaint.

4.2. In dealing with your complaint LPPA will:

- Treat all complaints fairly.
- Be objective.
- Learn from every complaint.
- Put right faults in our processes.
- Address any training requirements with the LPPA team and the Cumbria Fund team.

5. What if I am dissatisfied with your response to my complaint?

5.1. If you remain dissatisfied following a response to your complaint from LPPA then you can raise an internal dispute following the Internal Dispute Resolution Procedure (IDRP).

5.2. The IDRP is a formal complaints procedure. This is a two stage process although many complaints are resolved at the first stage. Any complaint you make will be treated seriously and considered thoroughly and fairly.

5.3. Full details of the IDRP process are available on the LPPA website at: **www.lppapensions.co.uk/customer-care/internal-dispute-resolution-procedure/**

5.4. If you remain dissatisfied with the outcome of your complaint after having been considered through the IDRP process, you can refer your complaint to the Pensions Ombudsman. Details are available on the Pensions Ombudsman's website at: **www.pensions-ombudsman.org.uk/**

6. Other sources of help.

6.1. The Money and Pensions Service (MaPS)

MaPS is a free service and is part of the Money and Pensions Service which is an arm's length body, sponsored by the Department for Work and Pensions. It has replaced The Pensions Advisory Service. MoneyHelper is there to make money and pension choices clearer for people. MaPS provides independent and impartial information about pensions, free of charge, to members of the public. It is available to assist members and beneficiaries of the scheme with any pensions query they may have or any general requests for information or guidance concerning their pension benefits.

www.moneyhelper.org.uk/en/pensions-and-retirement

6.2. The Pensions Regulator

This is the regulator of work-based pension schemes. The Pensions Regulator has powers to protect members of work-based pension schemes and a wide range of powers to help put matters right, where needed. In extreme cases the Regulator is able to fine trustees or employers and remove trustees from a scheme.

www.thepensionsregulator.gov.uk/

6.3. The Pension Tracing Service

Holds details of all pension schemes. If you were in a scheme in the past and have lost touch with them, the tracing service may be able to help you track them down. Details are available at:

www.pension-tracing-service-uk.co.uk/pension-trace/

6.4. The Pensions Ombudsman

The Pensions Ombudsman has a dispute resolution team who will try to resolve complaints where members or beneficiaries cannot resolve the matter with the scheme administrators. If this still does not resolve the complaint an application can be made, within 3 years of the event (or within 3 years of when you first knew about it), to the Pensions Ombudsman's legal team for an adjudication.

The Pensions Ombudsman can investigate and determine any complaint involving maladministration of the scheme or matters of fact or law and his/her decision is final, binding and enforceable in court. Matters where legal proceedings have already started cannot be investigated. More information can be found here

www.pensions-ombudsman.org.uk/

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 Regulations require that the ISS must be reviewed and, if necessary, be revised at least every 3 years and a statement of any revisions published. Following an in-depth review of Investment Strategy (undertaken in conjunction with the 2019 triennial valuation) the strategy, including a new target asset allocation, was approved by the Pensions Committee on 13th December 2019. This was revisited in light of the COVID-19 pandemic during the summer of 2020 and early 2021, to review and consider further changes in response to the impact of the pandemic on investment market conditions and expected returns. The Investment Strategy Statement was updated to reflect the current strategy, approved by Pensions Committee on 14th March 2023.

The next in-depth review of Investment Strategy will be undertaken during 2023/24 by Westmorland & Furness Council as the new administering authority. The Investment Strategy Review will take into consideration the key outcomes of the 2022 triennial valuation and their implications going forwards, and that the strategy must be sufficiently flexible to meet longer term prevailing market conditions and address any short-term cash flow requirements. Any suggested revisions to the Fund's strategy, including the core investment objectives and target asset allocation, will then be approved by the Pensions Committee.

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 Pensions 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 Pensions Committee, the Pension Board and the Director of Resources (S151 Officer) so that appropriate corrective actions can be undertaken.

The ISS covers the following:

- Background (4.2)

4. INVESTMENT STRATEGY STATEMENT (ISS)

- Approach to investment (4.3)
- Types of investments and limits (4.4)
- Approach to risk (4.5)
- Approach to pooling (4.6)
- Policy on responsible investing (including climate change), stewardship and corporate governance (4.7)
- Policy on exercise of rights (4.8)
- Compliance of Cumbria Fund with the Updated Myners Principles (4.9)
- Cumbria LGPS Investment Beliefs (Annex A)

4.2 Background

The Cumbria Pensions Committee is delegated to exercise Westmorland and Furness Council's responsibility as Administering Authority for the management of Cumbria Local Government Pension Scheme ("Cumbria Pension Fund" or the "Fund"). The Terms of Reference are set out in the Fund's Governance Policy and include approving the investment strategy for the Pension Fund.

4.2.1 Cumbria Pensions Investment Sub Group (ISG)

The Pensions Committee shall establish a Pensions Investment Sub Group (ISG). The working group have an advisory role; its purpose is to assist the Committee by:

- Carrying out investment asset class monitoring; i.e. monitoring investment performance and the progress of the implementation of the Cumbria Pension Fund's Investment Strategy.
- Providing an update report to Pensions Committee outlining investment performance during the preceding period, and escalating any matters of concern or for further consideration to the Pensions Committee.
- Where appropriate to giving initial consideration to investment opportunities prior to their being considered by Pensions Committee.

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 an average recovery period of 10 years from April 2023. 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+2.00% per annum and past service of CPI+1.25% per annum over a twelve year period from April 2020. This gives a combined minimum required return of CPI +1.75% per annum.

4. INVESTMENT STRATEGY STATEMENT (ISS)

- 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 Fund expects to gain 0.6% to 0.7% per annum (net of fees) over the Fund's customised benchmark from active management, over a market cycle.

4.3 Approach to investment

The Pensions 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.

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

4. INVESTMENT STRATEGY STATEMENT (ISS)

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 the Pensions 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 Pension 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.

Following an in-depth review of Investment Strategy (undertaken in conjunction with the 2019 triennial valuation) the strategy, including a new target asset allocation, was approved by the Pensions Committee on 13th December 2019. The target strategy was revisited in early 2021 in response to the impact of the COVID-19 pandemic on investment market conditions and expected returns, with the refinements made approved by Pensions Committee on 16th March 2021. The target asset allocation ranges (from March 2023) are shown below.

Asset/Investment	Targeted Strategic Asset Allocation %	Advisory Range	Limit (maximum %)
Public Equity	35%	22 – 45%	50%
Private Equity	7%	4 – 12%	17%
Infrastructure equity	12%	6 – 18%	22%
Commercial property	8%	6 – 12%	19%
Residential property	2%	0 – 4%	8%
Multi Asset Credit	5%	3 – 18%	20%
Private Debt / Credit	14%	3 – 18%	20%
Government Index-Linked Bonds	16%	13 – 22%	30%
Strategic Cash	1%	0 – 4%	10%
	100%		

4. INVESTMENT STRATEGY STATEMENT (ISS)

The transition to move to the target strategic asset allocation is expected to take a number of years, given the time required to deploy capital into private markets, and the investment allocation as at 31 December 2022 has made good progress towards the long term strategic target.

The Fund has agreed a set of interim allocations – as set out in the table below – which aim to provide a good benchmark for future progress in implementing the Fund’s long term investment allocation in a stepped manner. Having these interim allocations in place will allow the ISG to carry out their responsibility for implementing tactical changes, including the establishment and review of performance benchmarks and targets for investments.

Asset	Actual at Dec 2022 %	Interim aim (from 1/10/22) %	Target long-term aim %	Advisory Range	Limit maximum %
Public Market Equity					
- UK Equity	4.7%	4.5%	4.5%		
- Overseas Developed	4.7%	4.5%	4.5%		
- Active Global Equity	20.8%	20%	20%		
- Passive World Equity	5.3%	6%	6%		
Public Equity total	35.5%	35%	35%	22 - 45%	50%
Private Markets					
- Infrastructure	13.4%	12%	12%	6 – 18%	22%
- Private Equity	9.9%	7%	7%	4 – 12%	17%
- Private Debt	6.8%	7%	14%	3 – 18%	20%
Multi-Asset Credit	11.5%	12%	5%	3 – 18%	20%
Property	8.1%	9%	10%	6 – 12%	19%
Index-Linked Gilts	13.7%	16%	16%	13 – 22%	30%
Strategic cash	1.1%	2%	1%	0 – 4%	10%
	100.0%	100.0%	100.0%		

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 Approach to Risk

4.5.1 Risk Management and reporting

Risk management is the process by which the Administering Authority systematically identifies, addresses and reports the risks associated with its Pension Fund activities; it is a key element of good governance for any organisation.

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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 Internal Control & Risk Management Policy). This is a dynamic document, which is reviewed at every Pensions Committee and Pension Board meeting. It incorporates details of the major risks facing the Fund and includes a traffic light scoring system to categorise the anticipated likelihood and impact of each risk. Members 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 Director of Resources (S151 Officer).

4.5.2 Appetite for Risk

Risk is inherent in any investment or operational activity and the Committee recognises that it has a need to take risk (e.g. investing in return-seeking assets) to help it achieve its funding objectives. It is also recognised that, whilst increasing risk may increase potential returns over the long-term, it also increases the risk of more short-term volatility in the funding position. The Fund therefore seeks to achieve a balance between seeking to deliver its target returns and minimising overall portfolio risk by controlling risk rather than try to eliminate it.

The Pensions Committee has determined that the Fund's appetite for risk is conservative, based on delivering long term stable returns in line with prudently set actuarial targets. The Committee believes that a key tool in achieving this is investing in a well-diversified portfolio, taking into account the consideration of local, national and international risks, including:

- **Valuation (volatility) risk:** the Actuarial valuation assumes that the Fund generates an expected return equal to or in excess of the Fund's discount rate. An important risk to which the Fund is exposed is that the return is not achieved, e.g. due to unexpected increases in CPI, changes to interest rates, market cycle or Environmental, Social and Governance (ESG) factors, such as climate change. Key mitigations in relation to this risk include:
 - The CPI linked discount funding basis.
 - The Fund's Investment Strategy is expected to incorporate approximately 31% of assets linked to inflation.
 - Investing in a diverse portfolio of investments;
 - Responsible Investment; the Fund is committed to being a responsible owner and believes that responsible investment, incorporating ESG considerations, such as climate change into investment decisions, can help to improve the long term value for investors e.g. by minimising the risk of stranded assets and the financial impact of regulatory change; and
 - Setting manager performance targets to avoid undue exposure to risk.
- **Changing demographics:** The risk that longevity improves, and other demographic factors change, increasing the cost of Fund benefits. The key

4. INVESTMENT STRATEGY STATEMENT (ISS)

mitigation in relation to this risk is detailed consideration of long-term demographic trends (at both local and national level) as part of the Actuarial Valuation process which is currently conducted at least triennially.

- **Concentration risk:** The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives. The Fund seeks to mitigate this through investing in a diversified portfolio of assets. This risk is managed through the review of the Fund's Investment Strategy which is undertaken in full every three to five years with interim reviews undertaken as required.
- **Liquidity risk** (not having monies available to make pension payments to members as they fall due): The Committee recognises that the Fund is long term in nature and can therefore afford to lock up capital for longer in return for the premium it offers. However, it is also recognised that, as the Fund membership matures, there is a risk that the Fund will turn cashflow negative after investment income. To mitigate this risk the Fund undertakes cashflow planning, monitoring and management throughout the year and works closely with the Fund's investment advisors and actuary to consider the options to address any potential cashflow implications.
- **Foreign exchange risk:** (the risk of loss arising from exchange rate movements of foreign currencies) – The Fund seeks to mitigate this through investing in a diversified portfolio of assets, using active management, maintaining an unhedged listed equity exposure (to provide diversification during extreme markets movement) and to hedge other assets where practical and possible.
- **Governance:** members of the Committee and Local Pension Board participate in regular training delivered through a formally agreed training plan. Both the Committee and Local Pension Board are aware that poor governance and in particular high turnover of members may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise turnover where possible. The Local Pension Board and external and internal audit assist the Pensions Committee in the governance process.
- **Counterparty risk:** Counterparty risk exists in all external transactions undertaken by the Fund. The Fund seeks to mitigate this risk through the use of reputable service providers who operate effective controls. Key tools in this process are the involvement of Independent Advisors, robust procurement and ongoing contract monitoring and management.

4.6 Approach to Pooling

4.6.1 The Fund's chosen investment pool

4. INVESTMENT STRATEGY STATEMENT (ISS)

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 elected to become a shareholder in Border to Coast Pensions Partnership Ltd (BCPP). BCPP is an FCA-regulated Operator and Alternative Investment Fund Manager (“AIFM”), being operational from June 2018.

BCPP 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
- South Yorkshire Pension Fund
- South Yorkshire Passenger Transport Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund*
- Warwickshire Pension Fund

* Regulations relating to the merger of the Northumberland Pension Fund into the Tyne and Wear Pension Fund (two of the original partners in BCPP) were laid before Parliament on 14th May 2020 and came into force on 3rd June with the merger being back dated to 1st April 2020. The merger had been anticipated for some time.

4.6.2 The Fund’s approach to pooling

BCPP has been created by like-minded funds, its guiding principles include:

- One fund one vote, regardless of size, all Funds will be treated equally;
- Equitable sharing of costs (where possible);
- Funds retaining governance role and ownership of asset allocation;
- Providing internal management capability; and
- Generating improved net of fees risk-adjusted performance.

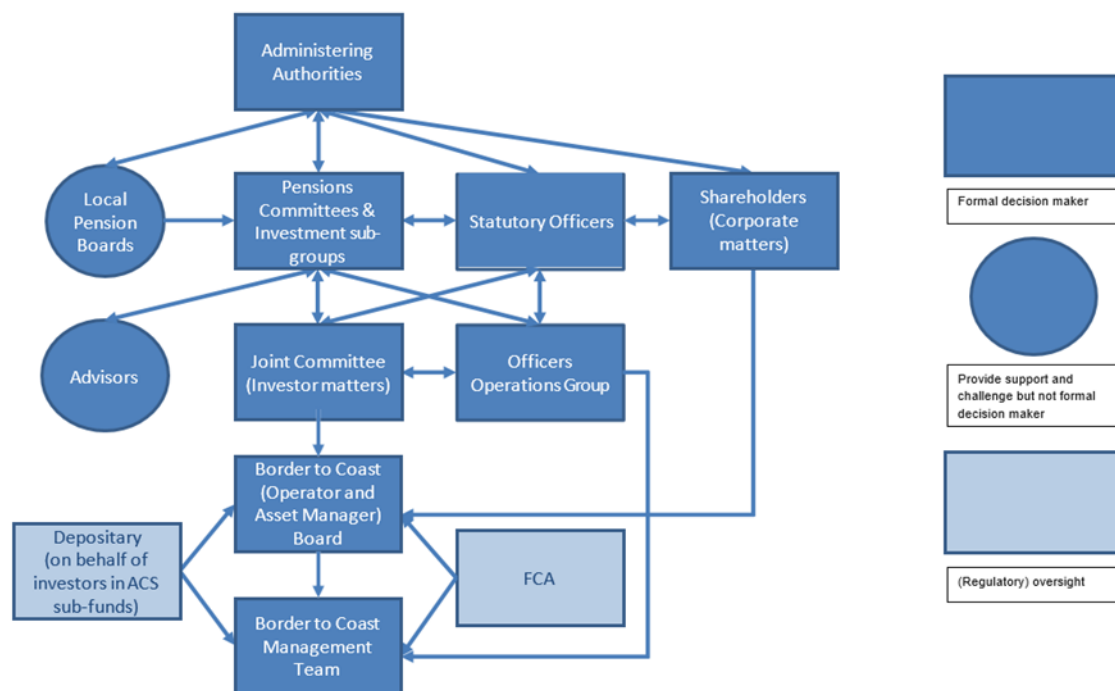
The aim of pooling assets for the Partner Funds is to maximise the long-term net of fees investment returns attributable to each of the Partner Funds. All Partner Funds accept that if savings are to be achieved, changes will be required through the rationalisation and standardisation of processes.

There is clear segregation between duties undertaken by the Fund and duties undertaken by the BCPP. The Fund retains the decision-making powers regarding investment strategy and asset allocation, and delegates the investment management function to BCPP. This ensures that the fiduciary duty and democratic responsibility of the Fund can be maintained, whilst facilitating the delivery of cost benefits and the expanded professionalisation of the investment functions through scale.

4. INVESTMENT STRATEGY STATEMENT (ISS)

BCPP has an internal team of investment managers, in addition to appointing external managers. Its role is to independently and professionally deliver Partner Funds asset allocation choices. It makes decisions relating to and monitors the investment managers (including employees of the BCPP Pool) who manage the administering authorities' "fund money".

The diagram below details the governance structure of BCPP and how it interacts with the various governance arrangements within the Partner Funds and key external entities:



Cumbria LGPS holds BCPP to account through the following mechanisms:

- A representative on the Shareholder Board, with equal voting rights, who will provide oversight and control of the corporate operations of BCPP.
- A representative on the Joint Committee who will monitor and oversee the investment operations of BCPP.
- Officer support to the above representatives from the Officer Operations Group and the Statutory Officer Group.
- The Fund will monitor and regularly review the investment performance of the assets under BCPP's management, seeking explanation and attendance of BCPP personnel at meetings where necessary.

Further details of the Governance of BCPP can be found in the BCPP Governance Charter:

<https://www.bordertocoast.org.uk/app/uploads/2021/09/Governance-Charter-2021.pdf>

4. INVESTMENT STRATEGY STATEMENT (ISS)

4.6.3 Assets to be invested with the Pool

The Fund's intention is to invest its actively managed assets through the BCPP pool as and when suitable investment solutions become available. The key criteria for assessment of Pool solutions will be as follows:

- That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund; and
- That there is financial benefit to the Fund in investing in the solution offered by the Pool.

At 31 December 2022 investments of £1.3 billion (representing approximately 44% of the Fund in total) had been made in BCPP's UK Equity, Global equity, Overseas Developed Equity, Private Equity, Infrastructure, Multi-Asset Credit and Private Credit funds. In addition to this consideration was also being given to investing in the UK Property ("real estate") funds. The detailed parameters and objectives of other investment opportunities are continuing to be developed.

The Fund undertakes due diligence before and during the transition of assets to BCPP to ensure the interests of Cumbria LGPS are upheld.

The Fund is intending to retain the following assets outside of the BCPP pool:

- Passive investments with Legal and General. These are currently held through life policies and these will remain assets of the Fund. However, the Fund benefits from joint procurement arrangements with other partner funds and BCPP for these services. Monitoring of the manager continues to be carried out by the Fund.
- The Fund has investments in a number of closed end funds which invest in private markets. These include private equity, infrastructure and private debt investments. Each of the individual funds has a fixed life with all assets being returned to investors within a specified period. There is a risk that sales of these investments would only be possible at material discounts to net asset value. Therefore, the Committee believes that it is in the best interests of the Fund to retain these investments. It is anticipated that once these investments mature the proceeds will be reinvested into BCPP-held investments.
- The Fund also has a small number of investments in open-ended funds which invest in infrastructure and long-lease property. The Fund will explore the business case for transferring these assets to BCPP to determine if it is practical and cost effective to do so.
- The Fund is currently working with BCPP and Partner Funds to explore options for existing investments in direct UK property.

4. INVESTMENT STRATEGY STATEMENT (ISS)

The Fund will perform a review of assets held outside the pool at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. This position was reviewed as part of the 2019 investment strategy review; and will be again in 2023.

4.7 Policy on Responsible Investing, Stewardship and Corporate Governance

Responsible investing aims to incorporate environmental, social and governance (ESG) factors, including climate change, 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 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. To do this it must deliver its stated risk adjusted performance targets. The Fund recognises that good stewardship, corporate governance and responsible investing are fundamental drivers in achieving these objectives.

Businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. As such the Fund is committed to being a responsible owner and believes that responsible investment, incorporating environmental, social and governance (ESG) factors (including climate change) into investment decisions, can help to improve the long-term value for investors.

The Committee recognises that ESG issues, such as climate change can have a material impact on the value of financial assets and ESG is therefore considered across all asset classes where, in the view of the manager, such considerations may add to the risk of comparative under-performance for example because of changes 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 governance stance by a company will add to its relative performance, this would be an appropriate factor for the manager to take into account in stock selection.

The Fund believes that the best way to be a responsible investor and to influence policy change is not through divestment but through active engagement. The Fund would only disinvest if maintaining an investment negatively affected the Fund's duty to generate investment return. The Fund considers that, by exerting pressure as an investor, it can bring more influence on companies than it could by boycotting specific sectors from its investment strategy. Consequently, the Fund does not believe that it is appropriate to explicitly divest from any specific sector or invest in any specific sector solely on ESG issues.

4. INVESTMENT STRATEGY STATEMENT (ISS)

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 86 local authority pension funds from across the UK with combined assets of approximately £350 billion, in addition six of the 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 (including climate change).

The Fund's commitment to responsible investment, corporate governance and stewardship is communicated by the Fund's Stewardship Report 2021/22, which focuses on activities and outcomes, it is available as part of the Annual Report and Accounts 2021/22 on the Fund's website at:

<https://www.cumbriapensionfund.org/media/4tuiqfwl/cumbria-lgps-2021-22-annual-report-final.pdf>

The report was submitted to the FRC in October 2022 and has been assessed as meeting the requirements of the FRC's UK Stewardship Code 2020³ and Cumbria Local Government Pension Scheme is listed as a signatory to 'the Code' and can now utilise the following logo.



The Fund's 2022/23 Stewardship Report is included as **Appendix B** to this document and is also published as a standalone document on the Fund's website at:

<https://www.cumbriapensionfund.org/media/bf4ljqm1/clgps-stewardship-report-2022-23-final.pdf>

BCPP (the pooling company jointly owned by the Fund and 10 other Partner Funds which manages all of the Fund's actively managed listed equities in addition to some multi asset credit and alternative assets) also published a Responsible Investments and Stewardship report 2022/23:

https://www.bordertocoast.org.uk/wp-content/uploads/2023/07/Border-to-Coast-Responsible-Investment-Stewardship-Report-22_23.pdf. BCPP also submitted their 2021/22 report in October 2022 and the report was

³ The Financial Reporting Council's (FRC) UK Stewardship code 2020 sets high expectations on those investing pension fund monies. It seeks to set a clear benchmark for stewardship as the responsible allocation, management and oversight of assets to create long term value and lead to sustainable benefits for the economy, the environment and society.

4. INVESTMENT STRATEGY STATEMENT (ISS)

assessed as meeting the requirements of the FRC's UK Stewardship Code 2020. All other investment managers are also required to adhere to the UK Stewardship Code (or equivalent code in their regional jurisdiction).

BCPP became operational from July 2018 and all Partner Funds have committed to use the company to fulfil their obligations to pool LGPS assets. The Funds have therefore collaborated to create the BCPP Responsible Investment Policy to allow for the Pool to exercise collective shareholder voting rights effectively through leveraging the benefits of scale.

All Funds, including Cumbria, have agreed that their individual Responsible Investment policies will be broadly aligned to that of BCPP; 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 partner fund's existing policies. The annual review of the BCPP policy is 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. Further details of the BCPP Responsible Investment Policy can be found at:

<https://www.bordertocoast.org.uk/wp-content/uploads/2023/01/Responsible-Investment-Policy-2023-1.pdf>

In October 2022, BCPP also published a standalone Climate Change Policy, which details the approach that BCPP will follow in fulfilling its commitment to managing the risks and opportunities associated with climate change across the assets managed on behalf of the Partner Funds.

The informed use of votes, while not a legal duty, is a responsibility of the owners of companies (shareholders or ourselves as a Pension Fund) and as such is an implied fiduciary duty of pension fund trustees and investment managers to whom they may delegate this function. Members as "de-facto Trustees" have a duty to safeguard shareholder value and in this regard, there is an increasing body of evidence to suggest that a well governed company is more likely to deliver stronger long-term investment performance. See 4.8 for further details on the Policy regarding exercise of voting rights.

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 has 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.

- Actively managed listed equities: The Fund's investments in actively managed liquid equities are all held with BCPP (the pensions pooling

4. INVESTMENT STRATEGY STATEMENT (ISS)

company jointly owned by the Fund and 10 other Partner Funds). Details of the BCPP Corporate Governance and Voting Guidelines can be found at:

<https://www.bordertocoast.org.uk/wp-content/uploads/2023/01/Corporate-Governance-Voting-Guidelines-2023.pdf>

- Passive listed equities: The structure of the Fund's investments in passive pooled indexed funds means that it cannot directly influence the social, environmental and governance policies and practices of the companies in which the pooled funds invest. The Members are satisfied that the Fund Managers Corporate Governance policy reflects the key principles of Responsible Investment, and ESG issues, including climate change. Details of Legal and General Investment Management's approach to Corporate Governance and responsible investment can be found at: https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-uk-corporate-governance-and-responsible-investment-policy.pdf

The Fund's 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. The Fund's investment managers should hold and make available to the Fund a full voting audit trail. The outcome of voting actions should also be shown if possible.

The Pensions Committee is 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.

All investment managers are required to adhere to the UK Stewardship Code (or equivalent code in their regional jurisdiction).

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 is reviewed during the manager engagement reviews.

4. INVESTMENT STRATEGY STATEMENT (ISS)

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 decision-making is undertaken either by the Pensions Committee or delegated to the Director of Resources (S151 Officer) in consultation with the Investment Sub Group; governance oversight of these processes is provided by the Local Pension Board.</p> <p>The Members of the Pensions Committee perform duties similar to private trustees and are elected councillors of Westmorland and Furness and Cumberland Councils, together with employee representatives. The Members' Allowance Scheme operates for the remuneration of the elected councillors on the Pensions Committee. Two independent Investment Advisors normally attend Pensions Committee meetings.</p> <p>The dedicated Investment Sub Group has an advisory role, it's purpose is to assist the Committee by carrying out investment asset class monitoring, reporting investment matters to the Committee and where appropriate giving initial consideration to investment opportunities prior to their consideration by Committee.</p> <p>The Group comprises four Members of the Pensions Committee (nominated by the Committee), the two independent advisors to the Pensions Committee and the Chief Finance Officer (S151 Officer) or (deputy in their absence).</p> <p>The Pensions Committee have their skills and experience developed through training events, external seminars and fund manager presentations on a regular basis.</p> <p>The Fund has a team of professional investment and support staff, made up of Officers of the Council, who provide advice on a day-to-day basis. The Pensions Committee Chair and Members can contact officers and independent advisors on an ad hoc basis as and when required.</p> <p>Expert consultants and Actuaries are also used by the Fund as required.</p> <p>The Training Policy covers the training and development of Members of the Committee and ISG, the Board and the officers responsible for the management of the Fund. It ensures that:</p> <ul style="list-style-type: none"> • the Committee has the required knowledge and skills to make appropriate decisions and offer challenge; 		

4. INVESTMENT STRATEGY STATEMENT (ISS)

- members of the Board have the relevant knowledge and capacity to assist the Administering Authority of the Fund secure compliance with relevant regulations and legislation and the requirements of The Pensions Regulator; and
- Officers are adequately trained and experienced to undertake the day to day operation and management of the Fund.

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 taxpayers, 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 advisors and investment managers. 		✓
<p>The investment objectives and Fund attitude to risk are detailed in the Investment Strategy Statement and the Internal Control & Risk Management Policy; and the Funding Strategy Statement details the funding objectives. Both are formally reviewed and approved annually as well as being updated in the interim as required.</p> <p>In determining the Investment and Funding Strategies, the Fund, in conjunction with its Independent Advisors and Actuary, considers the Fund's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and fund employers.</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 normally be considered in relation to its benchmark every three years, with annual interim reviews.</p> <p>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 Pensions Committee.</p>		
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 taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk. 		✓ ✓

4. INVESTMENT STRATEGY STATEMENT (ISS)

Consideration of the form and structure of the Fund's liabilities and the appropriateness of the Fund's strategic asset allocation to meet these in the longer term is the cornerstone of both the triennial valuation of the Fund and its review of its Investment Strategy.

A full strategy review is undertaken every three years in conjunction with the Actuarial Valuation and the most recent was agreed by the Committee in March 2021.

The Actuarial Valuation considers longevity risk and the affordability of contribution rates for the two unitary councils and the other employers of the Fund, taking a prudent longer-term view of funding the liabilities. This process includes consideration of the strength of employer covenants (which is also kept under less formal review in between valuations).

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 advisors. • 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 style="text-align: center;">✓</p> <p style="text-align: center;">✓</p>
<p>To ensure independence and oversight the Fund uses an external performance measurement service. Investment performance is reported to the Pensions Committee each quarter, and as a minimum there is an Annual Performance Review with the Fund's external performance monitoring service provider.</p> <p>Ongoing performance contribution will be reviewed quarterly in addition to the annual and longer-term investment performance being reviewed in detail. The Fund operates a tiered performance monitoring framework, the three tiers being officers and advisors, the Investment Sub Group (ISG), and the Pensions Committee, with governance oversight from the Local Pension Board.</p> <p>Investment Managers are constantly under review, with Officers and Advisors informing the ISG and escalating any issues immediately. Officers and Advisors will meet with managers (holding greater than 4% of the total Fund investments including future commitments i.e. £124m at December 2022) formally at least annually and report their findings from these meetings to the ISG.</p> <p>The ISG is responsible for carrying out investment asset class monitoring; i.e. monitoring investment performance and the progress of the implementation of the Cumbria Pension Fund's Investment Strategy monitoring; providing an update report to Pensions Committee outlining investment performance during the preceding period and escalating any matters of concern for further consideration to the Pensions Committee and where appropriate giving initial consideration to investment opportunities prior to their being considered by Pensions Committee. The ISG receives a quarterly report covering every manager, which sets out performance</p>		

4. INVESTMENT STRATEGY STATEMENT (ISS)

results and a broad range of metrics. Should there be any items of concern, the ISG escalates such matters to the full Committee.

The Pensions Committee is responsible for strategic decision making and oversight and makes 'hire/fire' decisions or see managers due to escalation from the Investment Sub Group.

The Pensions Committee Members are surveyed regularly for their views on quality of advice given by the Investment Advisors. In September 2019 the Fund approved strategic objectives for its Investment Advisors in line with the Competition and Markets Authority (CMA's) order related to the Investment Consultancy and Fiduciary Management. The Fund has submitted a statement to the CMA to confirm compliance with the order.

Effectiveness of Pensions Committee decisions, such as strategy and manager selection, are 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, including climate change in the Investment Strategy Statement; and • report periodically to Fund members on the discharge of such responsibilities. 		<p style="text-align: center;">✓</p> <p style="text-align: center;">✓</p> <p style="text-align: center;">✓</p>
<p>Voting at Company meetings is delegated to investment managers. Reporting is required on a quarterly basis and is incorporated into the quarterly monitoring of the Fund by the Pensions Committee.</p> <p>The Financial Reporting Council's (FRC), UK Stewardship Code 2020, sets high expectations on those investing pension fund monies. It seeks to set a clear benchmark for stewardship as the responsible allocation, management and oversight of assets to create long term value and lead to sustainable benefits for the economy, the environment and society. The Fund's commitment to responsible investment, corporate governance and stewardship is communicated by the Fund's Stewardship Report 2021/22, which focuses on activities and outcomes, and it is as part of the Annual Report and Accounts 2021/22 on the Fund's website at:</p> <p>https://www.cumbriapensionfund.org/media/4tuiuqfw/cumbria-lgps-2021-22-annual-report-final.pdf</p> <p>The report was submitted to the FRC in October 2022 and has been assessed as meeting the requirements of the FRC's UK Stewardship Code 2020 and Cumbria Local Government Pension Scheme is listed as a signatory to 'the Code'.</p>		

4. INVESTMENT STRATEGY STATEMENT (ISS)

The Fund's 2022/23 Stewardship Report is included as **Appendix B** to this document and is also published as a standalone document on the Fund's website.

BCPP (the pooling company jointly owned by the Fund and 10 other Partner Funds which manages all of the Fund's actively managed listed equities) published a Responsible Investments and Stewardship report 2022/23:

https://www.bordertocoast.org.uk/wp-content/uploads/2023/07/Border-to-Coast-Responsible-Investment-Stewardship-Report-22_23.pdf

BCPP also submitted their 2012/22 report in October 2022 and the report was assessed as meeting the requirements of the FRC's UK Stewardship Code 2020.

All other investment managers are also required to adhere to the UK Stewardship Code (or equivalent code in their regional jurisdiction).

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

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 style="text-align: center;">✓</p> <p style="text-align: center;">✓</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 publicly available on the Fund's website. https://www.cumbriapensionfund.org/forms-publications/</p> <p>Investment performance is included in the Annual Report.</p> <p>The Cumbria LGPS Pension Board is given full access to all Pensions Committee papers and are provided with briefing sessions and training presentations appropriate to their ongoing business. In addition, they are also 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 have access to the Annual Report and Accounts, the current Fund Policy Document and public Pensions Committee papers.</p>		

4. INVESTMENT STRATEGY STATEMENT (ISS)

The Pensions Committee Minutes and Agenda are available on the Council's website.

The Cumbria LGPS Pension Board Minutes and Agenda are available on the Council's website.

A summary of the financial position and latest Fund news is 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 online, which includes the full Annual Report and Accounts.

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

4. INVESTMENT STRATEGY STATEMENT (ISS)

ANNEX A – CUMBRIA LGPS 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
- Obtain and maintain the appropriate knowledge and skills to understand the investments and risks undertaken within the Fund; and
- Treat 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.

4. INVESTMENT STRATEGY STATEMENT (ISS)

- By the same token volatility allows profits to be taken and unexpected gains realised.
- However, it is recognised that volatility can impact on employers in the Fund (through its impact on employer contributions) and, therefore, ultimately on the Fund (as unsustainable employer contributions can have implications for the solvency of the Fund).

4. Good governance improves the quality of decision making

- Officers, Pensions 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 however cost alone should not drive decision-making – the key consideration is return net of fees and costs.

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. As long-term investors, we believe that integrating environmental, social and corporate governance considerations into the investment management process improves risk adjusted returns.

4. INVESTMENT STRATEGY STATEMENT (ISS)

- ESG factors, such as climate change, can have a material impact on the value of financial assets in the long term. Being a responsible investor and incorporating ESG factors into investment decisions can help to improve the long-term value for investors.
- We believe that the best way to be a responsible investor and to influence policy change is not through divestment but through active engagement.
- 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.

Approved 14 March 2023 by the Pensions Committee

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 14 March 2023. 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 10%). Where strategic cash is included in the Fund's benchmark as an asset (currently 0–4%), 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 alternative 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 respect of the cash elements 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 advisors of Westmorland and Furness Council. Investment instruments identified for pension cash must be allowable within the Council's own Investment Strategy from the 'Specified Investment' category. Counterparty choice for pension cash will be restricted to those with creditworthiness satisfying the Council's own Treasury Management criteria.

5. CASH INVESTMENT POLICY

All credit ratings will be monitored through the Council's use of the Treasury Advisors' 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 31 December 2022 2.5% was £77 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 Director of Resources (S151 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 Director of Resources (S151 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 Pensions 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

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.

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). The Scheme’s policy on reviewing individual employer contributions between formal actuarial valuations is detailed in Appendix D to the FSS.

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

6. FUNDING STRATEGY STATEMENT (FSS)

and secondary employer contributions) as is possible whilst securing the solvency of the Fund and its long term cost efficiency.

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:

- ensure that sufficient resources are available to meet all liabilities as they fall due
- manage employers' liabilities effectively and enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers and the scheduled, resolution and admitted bodies;
- achieve and maintain Fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future
- 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 Pension Board created under the Public Service Pensions Act 2013.

6. FUNDING STRATEGY STATEMENT (FSS)

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
- 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 as detailed in the Fund's Administration Strategy & Communication Policy
- 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

6. FUNDING STRATEGY STATEMENT (FSS)

- 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
- 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% (with a buffer to protect against adverse experience where appropriate) 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.

6. FUNDING STRATEGY STATEMENT (FSS)

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 and Surplus Repayment Plans are set out in Appendix B to this section.

Underlying these assumptions are the following two tenets:

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

This allows 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 taking into account any potential changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2023 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 2022 actuarial valuation:

- Subject to consideration of affordability, as a general rule the deficit recovery period for employers will reduce by a period of 3 years subject to a minimum deficit recovery period of 10 years. This is to target full solvency over a similar (or shorter) time horizon, whilst aiming to avoid significant volatility in employer contribution rates that a short recovery period may potentially lead to, particularly for those employers with relatively low funding levels.
- The exception to this is for employers who are closed for new members. The deficit repayment period for these closed employers will reduce by three years, consider the expected length of their participation in the Fund and have no minimum deficit recovery period to minimise risk to the Fund.

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- Employers in deficit 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 and Surplus Recovery in Appendix B).
- Where an employer is assessed as having a surplus of assets against forecast liabilities in excess of 110% as at the valuation date of 31 March 2022, these excess surpluses will be returned over an average period of at least 10 years (see Deficit Recovery and Surplus Repayment Plans in Appendix 2)
- 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 2023/26 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 2026 based on the results of the 2025 actuarial valuation. Where deemed appropriate, an interim review of contribution rates may be undertaken between valuation dates.
- Where increases (or decreases) in employer contributions are required from 1st April 2023, following completion of the 2022 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2023/24 may be implemented in steps, over a maximum period of 3 years.
- 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 Director of Resources (S151 Officer)

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and notified to the Pensions 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 2022 valuation show the liabilities to be 110.0% covered by the current assets. Individual employers will have different funding levels and some employers will have a funding level of less than 100%. For these employers, their funding deficit will be covered by future deficit contributions.

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.

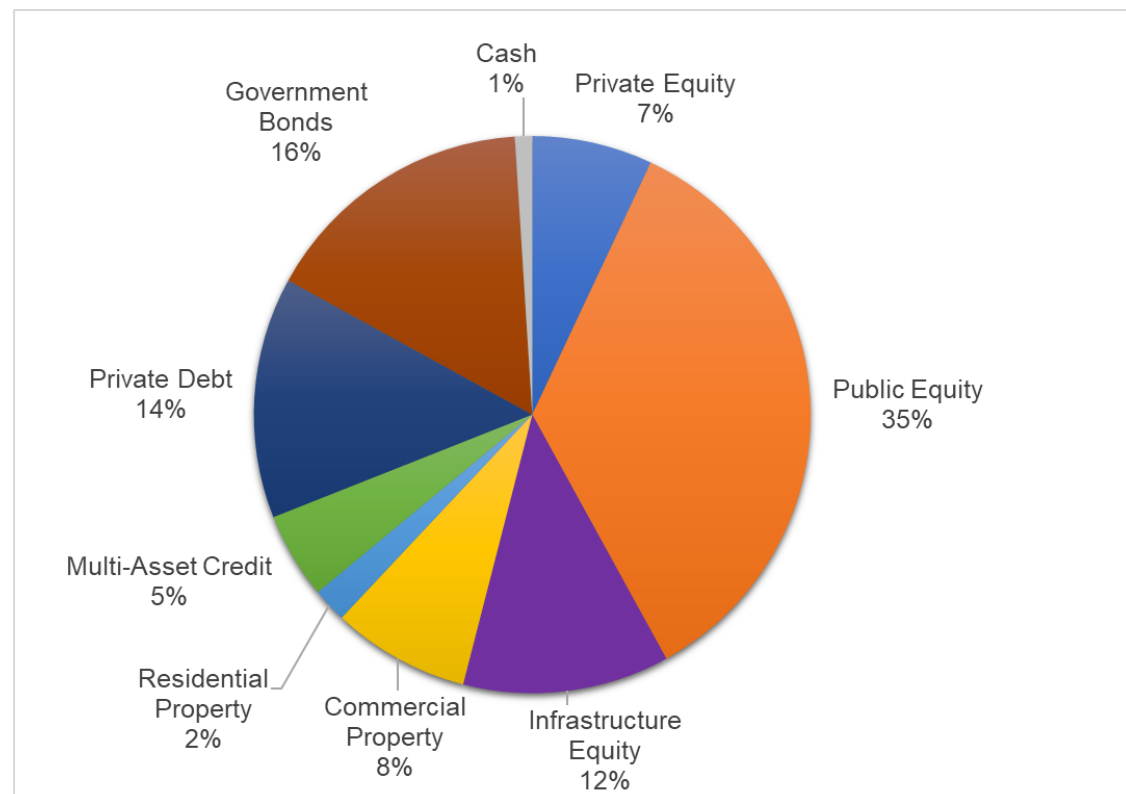
This would result in real return versus CPI inflation of below nil (i.e. negative) per annum at the valuation date as the return on index-linked gilts would be less than assumed CPI inflation. On this basis of assessment, the value of the Fund's liabilities at the valuation would have been significantly 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 2023/26.

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.

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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 long-term investment strategy (as approved by Pensions Committee in March 2021) 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 2.6% per annum in excess of CPI inflation. For the purposes of setting the 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 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

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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 is 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.

Additionally, the Fund has responded to the very high levels of inflation at the time of the 2022 valuation and the specific risk posed by this by retaining a funding buffer below which any surplus is maintained within the Fund – this acts to protect the Fund and the employers and increase the long-term stability of contributions.

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 redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

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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 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.

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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.

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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 4.35% 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 Price 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 (this allowance has been increased since 2019 to reflect increased distortion due to the current inflationary environment), and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, and the fact that RPI and CPI will not be closely aligned until 2030.

The overall reduction to RPI inflation at the valuation date is 0.8% per annum.

The assumption will be based on gilt yields at the valuation date, which provide estimates of inflation from that date. However, as actual pension increases are based on CPI inflation at the previous September, the liabilities will be adjusted to allow for both the April 2022 pension increase and actual observed inflation

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over the period from September 2021 to the valuation date (which will impact the April 2023 increase).

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.

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 for certain members depending on their retirement date).

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.

(Note that the higher level of deaths actually experienced within the Fund due to COVID between 2019 and 2022 have been reflected in the liabilities. However, the assumptions adopt the recommended approach for the core CMI projection of applying no weight to the higher levels of deaths observed nationally over 2020 and 2021 due to COVID – this is to reflect the fact that the impact of COVID future mortality is unclear at this stage.)

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, the total lump sum taken by members (including scheme lump sum on pre 2008 benefits and commuted lump sum) is 75% of the maximum tax-free cash available at retirement. The option which members can 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.

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Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions of married/civil partnership assumption have been reviewed and where appropriate 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 of the Fund, in accordance with the Regulations. This is allowed for by adding 0.8% 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.

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 (FSR)) 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 3.1% 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

6. FUNDING STRATEGY STATEMENT (FSS)

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.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE “PRIMARY RATE”) FOR THE 2022 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.9% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	4.35% p.a.
CPI price inflation	3.1% p.a.
Long Term Salary increases	4.6% p.a.
Pension increases/indexation of CARE benefits	3.1% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	5.1% p.a.
CPI price inflation	3.1% p.a.
Long Term Salary increases	4.6% p.a.
Pension increases/indexation of CARE benefits	3.1% 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_2021 [1.75%]	107% / 100%
Ill-health	S3IA	CMI_2021 [1.75%]	129% / 158%

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	Base Table (M / F)	Improvements	Adjustment (M / F)
Dependants	S3PMA / S3DFA	CMI_2021 [1.75%]	129% / 114%
Future dependants	S3PMA / S3DFA	CMI_2021 [1.75%]	129% / 114%
Current active / deferred:			
Active normal health	S3PMA / S3PFA_M	CMI_2021 [1.75%]	111% / 100%
Active ill-health	S3IA	CMI_2021 [1.75%]	237% / 315%
Deferred	S3PMA / S3PFA_M	CMI_2018 [1.75%]	118% / 108%
Future dependants	S3PMA / S3DFA	CMI_2018 [1.75%]	125% / 115%

For all tables, $sk=7.5$, $A=0$, $w_{2020} = 0$, $w_{2021} = 0$

Other demographic assumptions are set out in the Actuary's formal report.

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APPENDIX B – EMPLOYER DEFICIT RECOVERY & SURPLUS REPAYMENT PLANS

As previously noted, each employer's contributions are set at such a level to achieve and maintain full solvency⁴ in a reasonable timeframe and to achieve long term cost efficiency.

Per CIPFA Guidance⁵ *“The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long-term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.”*

This appendix describes how the Fund, in consultation with the Fund Actuary, determines the adjustment to be made where an employer has a deficit in the Fund (section 1) and where an employer has a surplus in the Fund (section 2). The below sets out the Fund's standard approach to setting the period over which any surplus / deficit is removed – however the Fund reserves the right to adopt an alternative approach for any particular employer where the Fund deems this to be appropriate:

1. Deficit Recovery

- 1.1. Where a scheme employer's assets in the Fund are less than its 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.
- 1.2. 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 (please see section 1.10 below for further details). Whilst willing to consider representations, the Fund retains its discretion in setting the recovery periods for employers.
- 1.3. 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.
- 1.4. Following the 2019 valuation, the Fund's average deficit recovery period was 12 years, and a target date for full funding of 2032. As part of the 2022 valuation, the Fund is seeking to reduce open employers' deficit recovery periods by three years subject to a minimum deficit recovery period of 10 years. The minimum is to a) avoid unnecessary contribution instability for long-term Fund employers, as very short recovery periods

⁴ . Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

⁵ CIPFA “Preparing and Maintaining a Funding Strategy Statement in the LGPS”.

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can lead to very volatile contributions, and b) recognise the fact that even once full funding is achieved deficits can subsequently develop, and so ending one recovery period only to then start a new one is impractical.

- 1.5. The principal exception to this is for employers who are closed to new members. The deficit repayment period for these employers will reduce by three years, but with no minimum and a maximum of the expected future working lifetime of the members to minimise risk to the Fund by targeting full funding in advance of their exit from the Fund.
- 1.6. Additionally, the Fund will may also consider any contractual periods where appropriate when setting the recovery period.
- 1.7. Subject to the above, 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.
- 1.8. 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.
- 1.9. The determination of the target recovery periods is summarised in the table below:

Category	Target Average Deficit Recovery Period	Derivation
Scheme Employers	10 years	Determined by reducing the period from the preceding valuation by at least 3 years, subject to a minimum of 10 years.
Open Admitted Bodies	10 years, normally subject to a maximum of the remaining contract period	Determined by reducing the period from the preceding valuation by at least 3 years, subject to a minimum of 10 years.
Closed Employers	The lesser of 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.
Employers with a limited participation in the Fund.	Determined on a case by case basis.	Length of expected period of participation in the Fund.

1.10. Other factors affecting Employer Deficit Recovery Plans

- 1.10.1. The Fund acknowledges that the above approach may materially impact certain employers. In recognition of this the Fund may, in exceptional circumstances, set a recovery period beyond that outlined in section 1.4 above through the mechanisms outlined in 1.10.4 below.

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- 1.10.2. 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.
- 1.10.3. 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; and
 - Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- 1.10.4. In considering a request to extend deficit recovery periods, the the Administering Authority, in consultation with the actuary, will either:
- 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. This could result in a longer recovery period being acceptable to the Administering Authority, (in accordance with section 1.10.1) although employers will still be expected to at least cover expected interest costs on the deficit; or
 - 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.

2. Surplus Repayments

Where a scheme employer’s assets in the Fund are greater than its liabilities at the effective date, the Fund may, at its discretion, permit repayments to the scheme employer such that a negative Secondary employer contribution rate is calculated to enable the employer to offset the surplus against a proportion of their Primary employer contributions.

As Funding Levels may be volatile and based on economic conditions outside of the control of either the Fund or the scheme employer, and acknowledging the requirement for and desirability of long term stability / cost efficiency in the

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contributions, the Fund will not permit surpluses to be offset against employer contributions unless the assessed Funding Level of the employer exceeds 110% at the date of the Valuation.

Where the Funding Level of the employer exceeds 110% as at the date of the Valuation, the Fund may, at its discretion, permit repayments to be offset against assessed employer contributions (through a negative Secondary employer contribution rate) such that repayments would aim to reduce the Funding Level to 110%. This would occur over a minimum period of 10 years in most cases.

One exception to the above is where an employer's position has improved such that they would be facing a reduction in contributions without the application of the buffer but applying the buffer would lead to an increase in total contributions. In these cases, the employer will normally be allowed to use the full surplus to maintain the current total contribution rate.

The maximum repayment that any employer may receive in each year will be equivalent to the employer's assessed Primary contribution rate, i.e. the percentage of pensionable payroll in respect of the cost of the future accrual of benefits.

It is thereby noted that any surplus within the Pension Fund cannot be offset against any employee contributions which must continue to be collected by the employer and paid to the Fund in accordance with the timeframes detailed in the Administration and Communication Policy of the Fund.

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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.

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 publicly 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/Greed (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
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

6. FUNDING STRATEGY STATEMENT (FSS)

APPENDIX D: CONTRIBUTION REVIEW POLICY

This document details the Scheme's policy on the review of employer contributions between formal actuarial valuations.

The Contributions Review Policy was approved by the Cumbria Pensions Committee held on 21 September 2021 and has been updated to reflect the Local Government Pension Scheme Regulations 2013. This policy forms part of the Funding Strategy Statement of the Scheme.

Where this document refers to Westmorland and Furness Council ("**the Council**"), then this shall mean Westmorland and Furness in carrying out its function as the Administering Authority of the Scheme and will be updated in March 2023 to reflect the new Administering Authority of the Fund.

1. BACKGROUND

1.1. The Fund reviews the contribution requirements for all employers as part of each triennial actuarial valuation. However, Regulation 64A also allows for employer contributions to be assessed between valuations as follows:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.

1.2. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them.

2. POLICY STATEMENT

2.1.1. The circumstances under which the Administering Authority will consider reviewing an employer's contributions are as follows:

- There has been a significant change to the employer's membership which will have a material impact on their liabilities.
- There has been a significant change in the employer's covenant.

2.1.2. The Administering Authority will not conduct a review where the funding position for an employer significantly changes solely due to a change in assets/actuarial assumptions (this is not permitted under the regulations). However, changes in the assets would be taken into account if an employer cannot support its obligations to the Fund after a significant covenant change (as per 2 above).

2.1.3. The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

6. FUNDING STRATEGY STATEMENT (FSS)

- 2.1.4. Where a review takes place, the result may be no change and so a continuation of the contributions already certified.
- 2.1.5. A rate review would generally only be undertaken within 6 months leading up to the next actuarial valuation Rates and Adjustments Certificate in exceptional circumstances. An example of this would be where there has been a material change in covenant and membership, meaning a material change in risk to the Fund. A material change in membership alone would not result in a review in this period.
- 2.1.6. The employer would be required to pay the costs related to any potential review conducted at their request (including where the Administering Authority ultimately decides a review is not appropriate). A maximum of 2 requests between actuarial valuation dates is permitted (except in exceptional circumstances and at the sole discretion of the Administering Authority). Where circumstances warrant, the Fund may also seek to recover costs in cases where the review is instigated by the Fund.

2.2. Scenarios where contributions may be reviewed

- 2.2.1. Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case. Employers may also request a review if they believe either of these scenarios apply.
- 2.2.2. The Administering Authority will also consider the impact potential on other employers and the Fund as a whole when deciding whether to proceed.
- 2.2.3. **Significant changes in the employer's membership**

This includes but is not limited to the following scenarios:

- a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
 - i. Employer restructuring
 - ii. A significant transfer of staff to / from the employer from another Fund employer
 - iii. A bulk transfer to / from the employer from another Fund
 - iv. Other significant changes, e.g. due to redundancies, significant pay rises, ill health retirements or withdrawals
- b) Two or more employers merging including insourcing and transferring of services
- c) An employer splitting into two or more separate employers

When assessing triggers under a) above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than 5% of the total.

6. FUNDING STRATEGY STATEMENT (FSS)

If the review proceeds, it will only take into account the impact of the change in liabilities (including if relevant any underfunding in relation to pension strain costs), and the resulting impact on the Primary and Secondary rate of contributions. Changes in asset values will not be considered (assuming the covenant is not deemed to be affected).

2.2.4. Significant changes in the employer's covenant

This includes but is not limited to the following scenarios:

- d) Provision of, or any change to, any security, bond, guarantee or other form of indemnity by an employer to the Fund. Specifically, this includes provision of security to any other pension arrangement which reduces in any way the security provided to the Fund
- e) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer may cease to operate or become insolvent
- f) Any behavior that suggests a change in an employer's their ability and/or willingness to pay contributions to the Fund

Where there has been a significant change to the covenant, any review would include consideration of the updated funding position (both on an ongoing and termination basis) when considering if the employer can meet its obligations to the Fund.

2.2.5. The Administering Authority may periodically undertake covenant monitoring exercises, either at Fund level or targeted at particular (groups of) employers. These exercises may identify the changes noted above. However, employers are expected to notify the Fund of any such changes, and in some circumstances (e.g. where a Deferred Debt Agreement is in place) employers will be required to do this via a separate agreement.

2.2.6. Additional information may be sought from the employer in order to determine whether a contribution review is necessary. This may include updated membership details, annual accounts, budgets, forecasts and any specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

2.3. Process and potential outcome of a contribution review

2.3.1. Where one of the above scenarios occurs, the Administering Authority will review and discuss with the employer the details of the event. However, the decision as to whether to proceed with a contribution

6. FUNDING STRATEGY STATEMENT (FSS)

review rests solely with the Administering Authority (taking advice from their Actuary, legal or covenant advisors if necessary). This specifically includes employer notified events.

- 2.3.2. For any potential review, the employer will be required provide any required supporting information (and to outline the rationale and case for the review where they have requested it). Where suitable information is not provided, the Administering Authority may decide not to proceed, or proceed on the basis of prudent assumptions in order to protect the Fund from potential risk.
- 2.3.3. The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material effect on the outcome).
- 2.3.4. As part of the review, it is possible that other parts of the funding strategy will also be reviewed in addition to the contributions. Potential outcomes of the review include:
 - A change in primary and/or secondary contributions. Note that the result of the review may also be no change in contributions;
 - Implementing security to improve the covenant to the Fund;
 - A change in the investment strategy;
 - A change in funding strategy;
 - A change in the length of the recovery period.
- 2.3.5. The review of contributions may take up to 3 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.
- 2.3.6. Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustments Certificate at the last valuation will be updated for any contribution changes.
- 2.3.7. As part of the process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund, then the guarantor would be consulted on as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contribution plan. The Employer will be required to provide information to the Fund to support this, which will depend in part of the reasons for triggering the contribution review.

6. FUNDING STRATEGY STATEMENT (FSS)

APPENDIX E - 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 Price 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 Price 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

6. FUNDING STRATEGY STATEMENT (FSS)

built up to date and 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.

6. FUNDING STRATEGY STATEMENT (FSS)

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 (currently employed by a Fund employer and contributing into the Fund), deferreds (former active members who have not yet retired) and pensioners (former active members who have now retired, and dependents of deceased members).

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.

6. FUNDING STRATEGY STATEMENT (FSS)

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: a type 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.

6. FUNDING STRATEGY STATEMENT (FSS)

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.

7. ADMISSION & TERMINATION POLICY STATEMENT

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME ("Scheme")

7.1 ADMISSION & TERMINATION POLICY, including FLEXIBILITIES FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS

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;
- Use of repayment plans and Deferred Debt Agreements; and
- Considerations for current employers.

The Admissions and Termination Policy was approved by the Cumbria Pensions Committee held on 14 March 2023 and has been updated to reflect the Local Government Pension Scheme Regulations 2013. This policy forms part of the Funding Strategy Statement of the Scheme.

Where this document refers to Westmorland and Furness Council ("**the Council**"), then this shall mean Westmorland and Furness 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.

The Council 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 Admission Body status must be submitted to the Council in good time to enable actuarial information to be obtained and the legalities

7. ADMISSION & TERMINATION POLICY STATEMENT

associated with admission to be dealt with. Applications should preferably be submitted at least six months before the proposed transfer or admission date.

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):

7. ADMISSION & TERMINATION POLICY STATEMENT

- 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.

Employees of the above Fund Employers will only be admitted to the Scheme if they, or a class of employee to which they belong, 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 be expected 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.

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- (c) the Admission Body will need to enter into a separate Admission Agreement in respect of each contract.

Notwithstanding the above, the Council 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

The Council will expect each Admission Body to carry out, at the point of admission and subsequently as required by the Council, an assessment of risk arising on premature termination of the provision of assets and services by the Admission Body to the satisfaction of the Council. In determining whether the assessment is satisfactory, the Council will take advice from its own actuary.

The Admission Body must secure a guarantee which is acceptable to the Council 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 the Council 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 the Council 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, the Council 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.

In certain circumstances the Council may be willing to enter into an indemnity or bond in place of a body acting as guarantor, however the Council may

7. ADMISSION & TERMINATION POLICY STATEMENT

determine when this is the appropriate option, taking into account the risk assessment.

7.3.3 Decisions Regarding Admissions

Decisions regarding the admission of Admission Bodies will be delegated to the Section 151 Officer.

7.4 Fund Employers

The principle that the Council 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, the Council 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, the Council may seek any one or more of the following terms of agreement with the new Fund employer, 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 Adjustments 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 the Council'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, including FLEXIBILITIES FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS

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.

7. ADMISSION & TERMINATION POLICY STATEMENT

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.

7.6 POLICY STATEMENT

7.6.1 Admission Bodies

A termination assessment will always be carried out for “outgoing” Participating Employers in accordance with Regulation 64 of the Regulations. The actuarial cost of this will be charged to the outgoing Participating Employer, together with any other related costs of the termination.

In line with Regulation 64, this assessment will determine the exit payment due from, or the exit credit due to, the outgoing Participating Employer. Where the calculations show that there is a surplus of the Participating Employer’s assets over its liabilities within the Fund, the Administering Authority has discretion when determining what if any exit credit is payable. Where the calculations show that there is a deficit, the Administering Authority has discretion when determining whether the exit payment is paid immediately, or whether it is either suspended, spread over an agreed period, or whether the Participating Employer may continue to participate in the Fund under a “Deferred Debt Agreement”.

As such, the 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 via payment of an exit credit.
- Any deficit will be recovered from the outgoing Participating Employer or bond where appropriate;

After this, the remaining orphan liabilities and the related assets in the Fund will be subsumed by the Fund as a whole.

7. ADMISSION & TERMINATION POLICY STATEMENT

(b) Admission Bodies with a Fund guarantor

Where an Admission Body has a guarantee/indemnity from another Fund Employer or a successor body exists who will take responsibility for the liabilities (including those in respect of former members) then, on notification of the Admission Body's intention to leave the Fund:

- The Fund will write to the Admission Body and guarantor requesting written evidence of any risk sharing agreements within 14 days of notification.
- Where evidence is provided, the Fund will follow the risk sharing protocols set out within the agreement between the two parties. Where there is no clarity within the risk sharing agreement as to the treatment of deficits or exit credits on termination, the Fund will determine the amount of any deficit due or exit credit payment due and to which party, having regard to any relevant considerations and taking account of the employers' exposure to risk.
- Where no evidence is provided, the Fund will pursue the Admission Body for any deficit or pay any exit credits to the Admission Body. Where the Admission Body defaults on any liabilities due to the Fund, the guarantee will be called in from the guarantor.
- If the outgoing Admission Body disputes the treatment, then the two parties will be expected to reach an agreement amongst themselves, and if they cannot then the Fund's IDR process should be used. The Pensions Ombudsman has jurisdiction to hear complaints if the IDR fails to resolve the dispute.

This treatment is in line with the regulations, and is designed to ensure that the treatment on termination reflects the treatment of funding risk in the admission, and to avoid a situation where a Participating Employer can potentially benefit from a surplus without bearing responsibility for a deficit (or vice versa).

(c) Treatment of exit payments and exit credits

Regulation 64 requires the Scheme to make notifications to the following parties prior to payment of any exit credit:

- The Participating Employer
- The guarantor employer and / or outsourcing employer within the Fund (where relevant)

In practice, as referred to above, the Scheme will seek to agree with the relevant parties the treatment of the assets and liabilities (and so any potential exit credit) in advance of the termination assessment taking place.

7. ADMISSION & TERMINATION POLICY STATEMENT

Once agreed, any exit credits will be paid within six months of the exit date, or any such longer period that may be agreed with the outgoing Participating Employer.

Where there is an exit payment due from or exit credit due to the guarantor/outsourcing employer then the normal Fund policy will be for that employer to subsume the relevant assets and liabilities without an immediate one-off payment being made by or to the Fund. As part of this arrangement, the Fund may adjust that employer's regular contributions in recognition of the exit position. The Fund may also depart from this policy if it feels it to be appropriate (e.g. it may insist on an immediate payment from the guarantor/outsourcing employer).

(d) 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 may 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.

(e) Funding basis for termination calculations

The Fund's standard policy is that a termination assessment will be made based on a more cautious funding basis, (as defined in 7.5.1 (f) below). This is to strike a balance between:

- protecting the other employers in the Fund. At termination, the Admission 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 more cautious funding basis 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 more cautious basis will be selected with the aim of achieving the above. Generally, this will be a least risk set of assumptions based on gilt yields, but should market conditions or other factors warrant then an alternative approach

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(including potentially with reference to corporate bonds) may be adopted based on advice from the Fund's actuary.

This approach will be applied unless 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 (f) below) will be used.

(f) 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 2022) 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 (the Fund will decide at what point any such changes take effect).

31 March 2022 assumptions	Valuation funding	Corporate Bond*	Least Risk*
Discount rate	4.35% p.a.	2.8% p.a.	1.7% p.a.
CPI price inflation	3.1% p.a.	3.6% p.a.**	3.6% p.a.**
Pension increases/indexation of CARE benefits	3.1% p.a.	3.6% p.a.	3.6% p.a.

**The actual assumptions applied will be based on the profile of the individual employer – the above assumptions broadly reflect the profile of the Fund as a whole*

***For corporate bond and lower risk terminations, the "inflation Risk Premium" of 0.5% is removed from the derivation of the CPI assumption*

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 1.75% p.a. used for funding purposes, but this may be reviewed as necessary based on actuarial advice.

(g) Benefit changes

7. ADMISSION & TERMINATION POLICY STATEMENT

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 Employer where appropriate (i.e. where the Participating Employer received an exit credit due to a surplus, or paid any deficit in full).

(h) Alternatives to immediate exit payment on termination

The Fund's default policy is that on termination the Fund will assess the position in line with the above, and where an exit payment is due this will be required to be made immediately.

However, at the sole discretion of the Administering Authority, the following options may instead be applied:

- Suspension of the exit payment
- Spreading of the exit payment over an agreed period
- Instigation of a "Deferred Debt Agreement"

If a Participating Employer wants to use one of these options, they must make a request in writing covering the reasons why the option is appropriate, and provide any information subsequently requested by the Fund. Determining whether the options are available may take up to 6 months from receipt of any requested information, so it is important that employers make their request in good time.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the Participating Employer.

The following policy and processes will be followed in line with the principles set out in the statutory guidance dated 2 March 2021.

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Suspension notice

Under Regulation 64, the Fund may issue a "suspension notice" for up to 3 years, where, in the reasonable opinion of the Administering Authority, the Participating Employer is likely to admit at least one active member within the period covered by the suspension notice.

A suspension notice will only be issued where the Participating Employer can demonstrate that it is likely that a new member(s) will be admitted, and that the employer's covenant and funding position is such that the Fund will not be exposed to an unacceptable level of risk. The suspension notice may be withdrawn by the Fund at any time if the Fund believes the conditions on which it was issued are no longer applicable.

Spreading of exit payment

The following process will determine whether an employer is eligible to agree a plan to spread their exit payment over a defined period:

1. The Administering Authority will firstly consider whether this is in the Fund's best interest. This decision will be based on a covenant review of the employer, to determine whether the exit debt is affordable at that time (based on advice from the Actuary, covenant and legal advisor as considered appropriate by the Administering Authority).
2. For this, the Administering Authority will request any information it deems necessary. This may include updated financial information, including management accounts, financial projections, and any other relevant information. If this is not provided, then spreading of the exit payment will not be permitted.
3. Depending on the length of the spread period, the size of the deficit, and the employer's covenant, the Fund may request security or other measures to support the payment plan. This may include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period.
4. If the Administering Authority's assessment confirms that the exit payment is not immediately affordable, it will engage in discussions about the potential spreading of the exit payment. As part of this, the following will be considered and agreed:
 - a. The spreading period (this is subject to a 5 year maximum);
 - b. The initial and annual payments due and how these will change over the period;
 - c. The interest rates applicable (all late payments will have interest added), and how the costs associated with implementing the payment plan will be recovered;
 - d. The level and form of any security required (e.g. bond, escrow account, etc);

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- e. The Participating Employer's responsibilities over the period (e.g. supply of updated covenant information);
 - f. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances); and
 - g. The views of the Actuary, covenant, legal and any other specialists necessary.
5. The Administering Authority will then make a final decision on whether spreading is appropriate. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.

Deferred Debt Agreement

Instead of making the exit payment, an employer may request to continue to participate in the Fund with no contributing members and utilise a "Deferred Debt Agreement" (DDA).

The following process will determine whether the Fund and employer will enter into such an arrangement:

1. The Administering Authority will firstly consider whether this is in the Fund's best interest. This decision will be based on a covenant review of the employer, to determine whether the exit debt is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).
2. For this, the Administering Authority will request any information it deems necessary. This may include updated financial information, including management accounts, financial projections, and any other relevant information. If this is not provided, then a DDA will not be entered into by the Administering Authority.
3. The Fund may request security to protect the Fund before entering into such an arrangement. This could include a lump sum up front to reduce the size of the termination deficit.
4. If the Administering Authority's assessment confirms that the exit payment is not immediately affordable, it will engage in discussions with the employer about the potential format of a Deferred Debt Agreement using the template Fund agreement that will be based on the principles set out in the Scheme Advisory Board's separate guide (available on the SAB's website at www.lgpsboard.org/index.php/empflexm). As part of this, the following will be considered and agreed:
 - a. What security the Participating Employer can offer (generally a DDA will only be allowed where the Fund are confident the employer can support the arrangement on an ongoing basis, but

7. ADMISSION & TERMINATION POLICY STATEMENT

- in certain cases security may still be required). Provision of security may also result in a review of the recovery period and other funding arrangements;
- b. The funding assumptions and investment strategy that would be applied to the employer;
 - c. The initial payment due (if any) and the updated secondary rate of contributions;
 - d. The financial information that will be required on a regular basis for covenant monitoring, and any other monitoring that will be required;
 - e. The responsibilities that would apply to the employer while they remain in the Fund;
 - f. What conditions would trigger changes to the recovery plan and also contributions (e.g. cash payment, provision of security)
 - g. What conditions would trigger changes to the DDA, including a cessation of the arrangement and an exit payment (or credit) becoming payable (e.g. removal of any security, a significant change in covenant, etc); and
 - h. The advice of the Actuary, covenant, legal and any other specialists necessary as determined by the Administering Authority.
5. The Administering Authority will then make a final decision on whether a DDA is appropriate and confirm the terms that are required.
6. Where a DDA is implemented, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the DDA in the interim if any of the agreed triggers are met.

(i) Fund discretion

Notwithstanding the above, where it is deemed to be appropriate the Director of Resources (Section 151 Officer) may use their discretion to:

- alter the basis and approach to the termination assessment;
- 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.

7.6.2 Fund Employers

7. ADMISSION & TERMINATION POLICY STATEMENT

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 the Council 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.

The Council 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 into the Fund, the Council can adopt a more relaxed approach in that:

- if a previous Fund employer has agreed to subsume any orphan liabilities in relation to the outgoing Fund employer, arrangements can be agreed in relation to the Rates and Adjustments 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, this will be taken into account in determining the terms upon which the deficit is calculated.

Where contractual comfort has not been obtained on entry into the Fund, the Council will be required to:

- monitor carefully the financial standing of the Fund employer and seek where considered necessary an alteration to the Rates and Adjustments 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.

7. ADMISSION & TERMINATION POLICY STATEMENT

Admission & Termination Policy

Appendix

Conditions of Participation for Admission Bodies

1. PAYMENTS

- 1.1. The Admission Body shall pay to the Council 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 the Council for credit to the Scheme the employee and employer pension contributions on a monthly basis in arrears. The payment must be paid to the Council 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 the Council.
- 1.4. The Admission Body shall pay to the Council for credit to the Scheme any deficit contribution or offset any surplus against employer contributions as assessed by the Actuary during each financial year the payments fall due.
- 1.5. The Admission Body shall pay to the Council 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 the Council.
- 1.6. Any employees' Additional Voluntary Contributions ("**AVCs**") or Shared Cost Additional Voluntary Contributions ("**SCAVCs**") are to be paid direct to such AVC body and/or AVC insurance company selected by the Council Contributions shall be paid within 19 calendar days of the end of each month in which the contributions have been deducted.
- 1.7. Where the Admission Body certifies that:
 - 1.7.1. an eligible employee is retiring by reason of redundancy or in the interests of efficiency; or
 - 1.7.2. an eligible employee is voluntarily retiring with the Admission Body's consent before age 60; or

7. ADMISSION & TERMINATION POLICY STATEMENT

- 1.7.3. 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 the Council for credit to the Scheme the sum notified to them in writing by the Council as representing the actuarial strain on the Scheme resulting from the immediate payment of benefits. Such sum to be paid within 30 calendar days of receipt of the written notification.
- 1.8. The Admission Body shall indemnify the Council against any financial penalty and associated costs and expenses incurred by the Council 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 the Council.
- 1.9. If any sum payable under this Agreement or the Regulations by the Admission Body to the Council 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) the Council may require the Admission Body to pay interest calculated in accordance with Regulations on the amount remaining unpaid.

2. ADMISSION BODY'S UNDERTAKINGS

- 2.1. The Admission Body undertakes:
- 2.1.1. to provide or procure to be provided such information as is reasonably required by the Council 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;
- 2.1.2. to comply with the reasonable requests of the Council to enable it to comply with the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (as amended);
- 2.1.3. to adopt the practices and procedures relating to the operation of the Fund as set out in the Regulations, the Council's Administration and Communications Policy and in any employer's guide or employer information published or held on the Council's pension administrator website;
- 2.1.4. 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

7. ADMISSION & TERMINATION POLICY STATEMENT

with the requirements of the Regulations and to keep such policy under review;

- 2.1.5. to notify the Council of each occasion on which it exercises a discretion under the Regulations and the manner in which it exercises that discretion;
- 2.1.6. to notify promptly the Council 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;
- 2.1.7. to immediately notify the Council and the Fund employer in writing of any matter which may affect or is likely to affect its participation in the LGPS and of any actual or proposed change in its status which may give rise to a termination of the admission agreement or in the case of a transferee admission body which may give rise to a termination of the Contract between the Admission Body and the Fund employer including but not limited to take-over, reconstruction, amalgamation, liquidation, receivership or a change in the nature of its business or constitution;
- 2.1.8. not to do anything which would prejudice the LGPS' status as a registered pension scheme; and
- 2.1.9. to make available for public inspection at the Council and the Fund employer's office a copy of the Admission Agreement.

3. ACTUARIAL VALUATIONS

- 3.1. The Council 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 the Council 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.

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- 3.3. The costs of obtaining the actuarial valuation and certificates (or revisions to them) as required by the Council 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 the Council.

4. RISK ASSESSMENT

- 4.1. The Admission Body shall carry out to the satisfaction of the Council, 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. The Admission Agreement shall provide that the Admission Body secures a guarantee in a form satisfactory to the Council from:
- 4.2.1. a person who funds the Admission Body in whole or part;
- 4.2.2. a person who owns or controls the exercise of the functions of the Admission Body; or
- 4.2.3. 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 the Council 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 the Council 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;

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- 5.3.2 any breach by the Admission Body of any of its obligations under this Agreement provided that the Council 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 the Council may specify;
- 5.3.3 the failure by the Admission Body to pay any sums due to the Council 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 the Council 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.

8. DISCRETIONS POLICY

8 DISCRETIONS POLICY

Introduction:

The following policy outlines Westmorland and Furness Council's ("the Council") discretions as the Administering Authority of the Cumbria LGPS (the "Fund") afforded to it under the LGPS Regulations. In all cases, the discretion outlines the normal approach the Council will use but the Council reserves the right to waiver from a discretion stated in extraordinary circumstances.

Regulatory references

The discretions held within this policy originate from various versions of the LGPS Regulations as shown in the list below. In the interests of brevity, a one or two letter prefix related to each set of Regulations has been used for each regulatory reference within the discretions policy. The prefix used are shown in square brackets.

- 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]
- The Local Government Pension Scheme Regulations 1995 (as amended) [prefix G]

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Regulation Reference	Brief Description	The Fund's Discretion
R3(5) & RSch 2, Part 3, para 1	<p>Active membership</p> <p>Whether to agree to an admission agreement with a body applying to be an admission body.</p>	<p>Depending on circumstances, and only in accordance with the published Fund Admissions Policy.</p> <p>This will be subject to the relevant body meeting the criteria set out in R3(5) & RSch 2, Part 3.</p> <p>Where an admission body of the description in paragraph 1(d) of RSch 2, Part 3 undertakes to meet the requirements of the Regulations, the Administering Authority must admit the eligible employees of that body to the Fund.</p>
R4(2)(b)	<p>Restriction on eligibility for active membership</p> <p>Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or Care Quality Commission.</p>	<p>Depending on circumstances, and only in accordance with the published Fund Admissions Policy.</p> <p>This will be subject to the relevant authority meeting the criteria set out in R4(2) & RSch 2, Part 3, para 1.</p>
RSch2, Part 3, para 14	<p>Admission bodies</p> <p>Whether to agree that an admission agreement may take effect on a date before the date on which it is executed.</p>	<p>To exercise this discretion where there have been delays in finalising an admission agreement.</p>
RSch 2, Part 3, para 9(d)	<p>Whether to terminate a transferee admission agreement in the event of:</p> <ul style="list-style-type: none"> - insolvency, winding up or liquidation of the body; 	<p>In the first instance, the terms of the relevant Admission Agreement will apply.</p>

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Regulation Reference	Brief Description	The Fund's Discretion
	<ul style="list-style-type: none"> - 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. 	<p>If the terms of the Admission Agreement are breached the Administering Authority will first try to resolve the breach where possible through reasonable means.</p> <p>Where the terms of the relevant Admission Agreement leave the decision open to the Administering Authority, the Administering Authority will terminate the admission agreement in accordance with the Termination Policy. However, in exceptional circumstances this may be varied.</p>
RSch 2, Part 3, para 12(a)	Define what is meant by "employed in connection with".	<p>After taking guidance from the transferor scheme employer, and in accordance with the Fund Admission Policy.</p> <p>However, in normal circumstances a member should spend at least 50% of their time on the relevant contract to remain eligible to be an active member in the LGPS.</p>
R16(1)	<p>Additional pension contributions</p> <p>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</p>	The Administering Authority will turn down a request where the monthly payment is below £20, or in the absence of a satisfactory medical report.

8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
	sum being paid is very small and could be paid as a single payment).	
R16(10)	Whether to require a satisfactory medical before agreeing to an application to pay an Additional Pension Contribution (APC) or Shared Cost APC and whether to turn down an application to pay an APC / SCAPC if not satisfied that the member is in reasonably good health.	<p>An application from an employee wishing to spread the cost will only be accepted if accompanied by a medical report provided by a registered medical practitioner stating that the employee is in reasonably good health. The employee must meet the cost of obtaining such a report.</p> <p>For the avoidance of doubt, all APCs for “lost pension” do not require a medical certificate.</p>
TP15(1)(d) A28(2)	<p>Additional voluntary contributions</p> <p>Whether to charge the member for provision of an estimate of additional pension that would be provided by the Fund in return for transfer of in-house AVC/SCAVC funds (where AVC/SCAVC arrangement was entered into before 1/4/14).</p>	<p>Members may request a quote for free that is valid for three months. In the exceptional case that the Administering Authority is asked to do another, it reserves the right to make a charge.</p>
R17(12)	<p>Additional voluntary contributions</p> <p>Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member.</p>	<p>To generally pay in accordance with expression of wish or a will but to retain absolute discretion in all cases where there are exceptional circumstances.</p> <p>Cases under £500 are determined by the Senior Manager – Pension & Financial Services.</p>

8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
		Cases over £500 determined by the S151 officer in consultation with the Chair and Vice Chair of the Pensions Committee.
R22(3)(c)	<p>Pension accounts</p> <p>Pension accounts may be kept in such form as is considered appropriate.</p>	<p>The Administering Authority will maintain a separate pension account in accordance with its approved Administration Policy.</p> <p>The account will be maintained within the Fund's electronic pension administration system.</p>
R30(8)*	<p>Retirement Benefits</p> <p>Where the former Scheme employer has ceased to be a Scheme employer – Administering Authority to decide whether to waive, in whole or in part, actuarial reductions on benefits drawn before Normal Pension Age under Regulation 30(5) or flexible retirement.</p>	The Administering Authority will refer requests to be considered by the S151 officer and assessed on their merits taking into account such factors as costs.
R32(7)	<p>Commencement of pensions</p> <p>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.</p>	The Administering Authority will not extend the time limit unless there are exceptional circumstances.

8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
R34(1)(a) B39 T14(3) L49, L50, L156, L157	<p>Commutation and small pensions</p> <p>Decide whether to trivially commute a member's 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).</p>	<p>Do this at the member's request where the capital value of their LGPS and all other scheme's/fund's do not exceed HMRC's limits and all benefits from these funds are commuted within a period of 12 months. Members are required to provide information on all their pension rights held in a HMRC tax-approved pension arrangement in order for the Fund to determine whether the benefits can be commuted. Members are required to declare that all information provided is correct and accurate and that if they are making a false statement, they will be liable for any tax charged by HMRC.</p>
R34(1)(b)	<p>Decide whether to trivially commute a survivor's pension under section 168 of the Finance Act 2004.</p>	<p>The Fund will exercise this discretion at the survivor's request.</p>
R34(1)(c)	<p>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.</p>	<p>To commute payment where requested by the member and in accordance with the guidance of the Government Actuary.</p>
R36(3) A56(2) L97(10)	<p>Role of the Independent Registered Medical Practitioner (IRMP)</p>	<p>This decision is delegated to the scheme employer.</p> <p>The Administering Authority requires each employer to provide details of the IRMPs they wish to use for ill</p>

8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
	Approve medical advisors used by employers (for ill health benefits).	health purposes and evidence of their medical qualifications.
R38(3)	<p>Early payment of retirement pension on ill health grounds: deferred and deferred pensioner members</p> <p>Where the former Scheme employer has ceased to be a Scheme employer – Administering Authority to 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.</p>	The Administering Authority will take the advice of the Fund IRMP before any decision is made.
R38(6)	Where the former Scheme employer has ceased to be a Scheme employer – Administering Authority to 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.	The Administering Authority will take the advice of the Fund IRMP before any decision is made.
R40(2),R43(2) & R46(2) TP17(5) to (8)	<p>Death Grants</p> <p>Decide to whom death grant is paid.</p>	To generally pay in accordance with expression of wish or will but to retain absolute discretion in all cases where there are exceptional circumstances.

8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
B23(2) & B32(2) & B35(2) & TSch1 L155(4) & L38(1) & L155(4) & E8		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.
R49(1)(c) B42(1)(c)	<p>No double entitlement</p> <p>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.</p>	The Fund will always pay the highest available benefit to a member of the Fund.
R54(1)	<p>Admission agreement funds</p> <p>Whether to set up a separate Admission agreement fund.</p>	The Administering Authority will not set up a separate admission agreement fund unless there were exceptional circumstances requiring this.
R55*	<p>Governance compliance statement</p> <p>Administering Authority must have in place a written Governance Compliance Statement (including the terms, structure and operational procedures appertaining to the Local Pensions Board.</p>	The Governance Policy Statement for the Fund is included as Part 2 of the Fund Policy Document.

8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
R58*	<p>Funding strategy statement</p> <p>Decide on funding strategy for inclusion in Funding Strategy Statement.</p>	<p>The Funding Strategy Statement is included as Part 6 of the Fund Policy Document.</p>
R59(1) & (2)	<p>Pensions administration strategy</p> <p>Whether to have a written Pensions Administration Strategy Statement.</p>	<p>The Administration & Communications Policy is included as Part 3 of the Fund Policy Document.</p>
R61*	<p>Communication policy statement</p> <p>Communication policy must set out policy on communicating with members, representatives of members, prospective members and employing authorities and format, frequency and method of communications.</p>	<p>The Administration & Communications Policy is included as Part 3 of the Fund Policy Document.</p>
R64(2A)	<p>Special circumstances where revised actuarial valuations and certificates must be obtained</p> <p>Whether to suspend, for 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.</p>	<p>The Administering Authority will consider applications for a suspension notice on a case by case basis. Decision to issue a suspension notice to be granted by the S151 Officer having taken advice from the Fund Actuary.</p>

8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
R64(2ZAB)	Whether to extend the period beyond 6 months from the exit date of the Scheme employer, by which to pay an exit credit.	The Administering Authority will consider applications to extend the timeframe for paying an exit credit on a case by case basis. The decision to provide a payment extension will be granted by the S151 Officer having taken advice from the Fund Actuary.
R64(4)	Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer.	<p>The Administering Authority will consider revisions of an employer's contribution rate if:</p> <ul style="list-style-type: none"> - there has been a significant change to the employer's membership which will have a material impact on their liabilities; or - there has been a significant change in the employer's covenant
R64(7A)	Decision to enter into a Deferred Debt Agreement.	The Administering Authority will consider applications to enter into a deferred debt agreement on a case by case basis. The decision to enter into a Deferred Debt Agreement will be granted by the S151 Officer having taken advice from the Fund Actuary.
R64A	<p>Revision of Rates and Adjustments Certificate: Scheme employer contributions</p> <p>Whether to obtain revision of employer's contribution rate in other circumstances.</p>	The Administering Authority will consider revisions of an employer's contribution rate if:

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Regulation Reference	Brief Description	The Fund's Discretion
		<ul style="list-style-type: none"> - there has been a significant change to the employer's membership which will have a material impact on their liabilities; or - there has been a significant change in the employer's covenant
R64B	<p>Revision of actuarial certificates: exit payments</p> <p>Whether to agree to spreading of an exit payment and obtain a revision to the Rates and Adjustments Certificate. Under Regulation 62 (actuarial valuations of pension funds) to show the proportion of the exit payment to be paid by the exiting Scheme employer in each year after the exit date over such period as the Administering Authority considers reasonable.</p>	<p>The Administering Authority will consider applications to spread exit payments on a case by case basis. The decision to permit the spreading of exit payments and the duration over which the exit payment should be paid to the Fund will be granted by the S151 Officer having taken advice from the Fund Actuary.</p>
R68(2) L80(5)	<p>Employer's further payments</p> <p>Whether to require any strain on Fund costs to be paid "up front" by the employing authority following redundancy, flexible retirement, or the waiver (in whole or in part) of any actuarial reduction on flexible retirement or any actuarial reduction that would otherwise have been applied to benefits when a member voluntarily draws before normal pension age.</p>	<p>The strain on Fund costs to be paid up front following redundancy, flexible retirement, or waiver of any actuarial reduction on flexible retirement or otherwise unless the Fund Actuary advises otherwise.</p>

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Regulation Reference	Brief Description	The Fund's Discretion
R69(1) L12(5) L81(1)	<p>Payment by Scheme employers to Administering authorities</p> <p>Decide frequency of payments to be made over to the Fund by employers and whether to make an admin charge.</p>	<p>The due date for employer contributions is the 19th of the month following the month to which they relate.</p> <p>Where invoices are issued for any payments the due date is one month from date of invoice.</p> <p>Administration charges are covered by the employer contribution rates.</p>
R69(4) L81(5)	Decide form and frequency of information to accompany payments to the Fund.	<p>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.</p> <p>This must be provided on a monthly basis and in appropriate electronic format as agreed by the Administering Authority.</p>
R70 TP22(2)	<p>Additional costs arising from Scheme employer's level of performance</p> <p>Whether to issue employers with notice to recover additional costs incurred as a result of the employer's level of performance.</p>	The Administering Authority will issue such a notice when an employer's level of performance gives rise to additional costs.

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Regulation Reference	Brief Description	The Fund's Discretion
R71(1) L82(1)	<p>Interest on late payments by Scheme employers</p> <p>Whether to charge interest on payments by employers overdue by more than 1 month.</p>	<p>The interest charge will be calculated in accordance with statutory requirements at 1% above base rate compounded quarterly.</p>
R76(4) A60(8) L99	<p>Reference of adjudications to Administering Authority</p> <p>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.</p>	<p>The Administering Authority's IDRPs procedure is separately documented.</p>
R79(2) A63(2) L105(1)	<p>Appeals by Administering Authorities</p> <p>Whether the Administering Authority should appeal against employer decision (or lack of a decision).</p>	<p>The Administering Authority will decide this depending on the particular circumstances of a complaint.</p>
R80(1)(b) TP22(1) A64(1)(b)	<p>Exchange of information</p> <p>Specify information to be supplied by employers to enable Administering Authority to discharge its functions.</p>	<p>Employers to supply information in accordance with the approved Administration Policy.</p>
R82(2) A52(2) L95	<p>Payments due in respect of deceased persons</p>	<p>To generally pay to the personal representatives but to retain absolute discretion to make a payment to a person or persons appearing to the Administering</p>

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Regulation Reference	Brief Description	The Fund's Discretion
	<p>Can make payments due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate/letters of administration where the grant amount does not exceed the amount specified in any order for the time being in force under section 6 of the Administration of Estates (Small Payments) Act 1965 and applying in relation to that person's death (currently £5,000).</p>	<p>Authority to be beneficially entitled to the estate in any cases where there are exceptional circumstances.</p> <p>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.</p> <p>This discretion is only in relation to amounts payable to the personal representatives – death grants are outside of the estate.</p>
<p>R83 A52A</p>	<p>Payments for persons incapable of managing their affairs</p> <p>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 or to apply the benefits in such manner as the Administering Authority may determine, for the benefit of the person entitled, or any beneficiaries of the person entitled.</p>	<p>In the case of an adult incapable of managing their affairs the Administering Authority would normally require power of attorney, but where this is not provided each case will be individually determined.</p> <p>In cases relating to children incapable of managing their affairs the Administering Authority 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.</p>

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Regulation Reference	Brief Description	The Fund's Discretion
		In both situations described determinations will be made by the S151 officer in consultation with the Chair and Vice Chair of the Pensions Committee.
R87	<p>Tax</p> <p>The Administering Authority may deduct from any payment of benefits under the LGPS any tax to which they may become chargeable under the Finance Act 2004.</p>	The Administering Authority will deduct tax and pay this to HMRC.
R98(1)(b)	<p>Bulk transfers</p> <p>Agree to bulk transfer payment</p>	The Administering Authority will agree to bulk transfer payments on the advice of the Fund actuary and, where necessary, with employer consultation, where the Administering Authority believes the amount transferred represents a fair valuation of benefits.
R100(6)	<p>Inward transfers of pension rights</p> <p>Extend normal time limit for acceptance of an inward transfer value beyond 12 months of becoming an active member of the LGPS.</p>	The Administering Authority will not extend the normal time limit unless there are exceptional circumstances and the Scheme employer also agrees to the extension of the normal time limit.
R100(7)	Allow transfer of pension rights into The Fund.	The Administering Authority will accept all non-club transfers following advice from the Fund actuary unless it is agreed otherwise in the terms of an employer's admission agreement or in a separate,

8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
		formal written agreement between the Administering Authority and employer (and its guarantor, if deemed necessary by the Administering Authority).
R105(2)	<p>Delegation</p> <p>Decide to delegate any function under the 2013 Regulations, including this power to delegate.</p>	Details are contained within the Administration Strategy set out in the Scheme policy document
R106(3)	<p>Local Pension Boards: Establishment</p> <p>Where the administration and management of a Fund is wholly or mainly shared by two or more Administering authorities, decide whether to establish a joint Local Pensions Board (if approval has been granted by the Secretary of State).</p>	Not applicable
R106(6)	Decide procedures applicable to the Local Pension Board including the establishment of sub-committees, formation of joint committees and payment of expenses.	The procedures are set out in the Terms of Reference for the Fund's Local Pension Board
R107(1)	<p>Local Pension Boards: Membership</p> <p>Decide appointment procedures, terms of appointment and membership of the Local Pension Board.</p>	The procedures are set out in the Terms of Reference for the Fund's Local Pension Board.

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Regulation Reference	Brief Description	The Fund's Discretion
RSch 1 TP17(9)(b) B25	<p>Cohabiting partner definition</p> <p>Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member.</p>	<p>Require evidence of cohabitation and financial interdependence in accordance with the criteria set.</p> <p>The evidence to determine financial dependence or interdependence will be assessed and agreed on a case by case basis and may include but not be restricted to items such as evidence of a joint bank account, shared utility bills, joint mortgage arrangements, insurance policies, joint loans etc.</p>
RSch 1 TP17(9)	<p>Eligible child definition</p> <p>Decide to treat a child (who has not reached the age of 23) as being in continuous education or vocational training despite a break.</p>	<p>The Administering Authority will treat a child as being in continuous education or training in all cases where the child is under age 18. Where the child is aged between 18 and 23, it ignores all breaks up to 6 months and will ignore longer breaks in exceptional circumstances.</p>
TP10(9)	<p>Interfund adjustments</p> <p>Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment).</p>	<p>In the absence of an election from the member, the Administering Authority will make the final decision.</p>

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Regulation Reference	Brief Description	The Fund's Discretion
TP18 & Sch 2, para 1(2)	<p>85 year rule</p> <p>Where the former Scheme employer has ceased to be a Scheme employer, the Administering Authority has to decide whether to “switch on” the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60.</p>	<p>The Administering Authority will only exercise this discretion in exceptional circumstances and will refer requests to be considered by the S151 officer and assessed on their merits, taking into account such factors as cost.</p>
TP3(1), TPSch 2 para 2(1) B30(5), B30A(5)	<p>Waiver of actuarial reduction</p> <p>Where the former Scheme employer has ceased to be a Scheme employer, the Administering Authority to decide 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):</p> <ul style="list-style-type: none"> 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; or 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 	<p>The Administering Authority will only exercise this discretion in exceptional circumstances and will refer requests to be considered by S151 officer and assessed on their merits, taking into account such factors as cost.</p>

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Regulation Reference	Brief Description	The Fund's Discretion
	<p>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; or</p> <p>c) on compassionate grounds (pre 1 April 2016 membership) and in 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; or</p> <p>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.</p>	
TPSch 2, para 2(3)	<p>Employer's further payments</p> <p>Whether to require any strain on Fund costs to be paid "up front" by Scheme employer if the Scheme employer "switches on" the 85 year rule for a member voluntarily retiring (other than flexible retirement) prior to age 60, or waives an actuarial reduction under</p>	<p>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.</p>

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Regulation Reference	Brief Description	The Fund's Discretion
	TPSch 2, para 2(1) or releases benefits before age 60 under B30(1) or B30A.	
TP15(1)(c), TSch1 & L83(5)	Additional contributions Extend the time period for capitalisation of added years contract.	The Administering Authority will not extend the time period.
TP3(13) A70(1) & 71(4)(c) T12 & 109 L110(4)(b)	Abatement Decide policy on abatement of pensions following re-employment.	The Administering Authority will not abate pensions following re-employment.
L12(5)	Members' contributions Frequency of payment of councillors' contributions.	Determined that councillors are not eligible for membership of the LGPS.
L47(2)	Pay child's pension to another person for the benefit of the child.	The Administering Authority 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

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Regulation Reference	Brief Description	The Fund's Discretion
		officer in consultation with the Chair and Vice Chair of the Pensions Committee.
L147	<p>Discharge of liability for pension credit rights</p> <p>Discharge Pension Credit liability (in respect of Pension Sharing Orders for councillors and pre 1/4/08 Pension Sharing Orders for non-councillor members).</p>	The Administering Authority will discharge pension credit liabilities by conferring appropriate rights under the LGPS on the ex-spouse or ex-civil partner. Alternatively, the ex-spouse or ex-civil partner may request a transfer of those rights to a HMRC tax-approved pension arrangement.
TSch 1 L23(9)	<p>Permanent reductions in pay</p> <p>Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts /restrictions occurring pre 01/04/08).</p>	Always pay the highest benefit to or on behalf of a member of the Fund.
G(F7)	<p>Remarriage and cohabitation</p> <p>Whether to pay spouse's pensions for life for pre 1.4.98 retirees / pre 1.4.98 deferreds who die on or after 1.4.98 (rather than easing during any period of remarriage or cohabitation).</p>	The Administering Authority will pay a spouse's pension for life.
A45(3) & L89(3)	<p>Recovery of outstanding contributions</p>	The Administering Authority will adopt this discretion.

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Regulation Reference	Brief Description	The Fund's Discretion
	Outstanding employee contributions can be recovered as a simple debt or by deduction from Benefits.	

9.0 TRAINING POLICY

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Cumbria LGPS Pension Fund Training Policy

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9.0 CUMBRIA LGPS PENSION FUND TRAINING POLICY

9.1 Introduction

A major factor in the governance arrangements of the Cumbria LGPS Pension Fund (“the Fund” or “the Cumbria Pension Fund”) is ensuring Committee Members, Local Pension Board 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 knowledge and understanding.

This Training Policy of Cumbria Local Government Pension Scheme sets out the policy agreed by the Pensions Committee concerning the training and development of –

- the Members of the Pensions Committee and the Investment Sub Group, including substitutes;
- the Members of Cumbria Local Pension Board including any independent chair and substitutes; and
- Officers of Cumbria County Council responsible for the management of the Local Government Pension Scheme (LGPS),

collectively referred to ‘members of the governing body’ for the purposes of this Policy.

The Training Policy is established to ensure members of the governing body have the appropriate skills and knowledge to perform their respective duties in the administration of the Fund. In setting the Training Policy the Fund takes into account the requirements relating to the following four areas:

a) The Pensions Regulator Codes of Practice

The Pensions Regulator issues Codes of Practice which set out its expectations for the management of pension funds including knowledge and understanding of the people involved. Whilst the Codes of Practice are not a legislative requirement, in the event of any investigations undertaken or any enforcement action, the Pensions Regulator does refer to them.

At the time of writing, a new code is expected to be issued by the Pensions Regulator which will replace the current Code of Practice no. 14 – ‘Governance and administration of public service pension schemes’. The requirements of the draft version of the new code have been taken into account in this Policy.

b) CIPFA Knowledge and Skills Code of Practice and Framework

In 2021 CIPFA published an updated Code of Practice on LGPS knowledge and skills (“CIPFA Code of Practice”) which updated guidance for Members and Officers of Pension Committees in the LGPS within a knowledge and skills framework which reflects the latest developments in the area for the LGPS.

The CIPFA knowledge and Skills framework for the LGPS sets the skill set for those responsible for pension scheme financial management and decision

9. TRAINING POLICY

making. The Framework covers eight areas of knowledge identified as the core requirements-

- Pensions legislation and guidance
- Pensions Governance
- Funding Strategy and actuarial methods
- Pensions administration and communications
- Pensions financial strategy, management, accounting, reporting and audit standards
- Investment strategy, asset allocation, pooling, performance and risk management
- Financial markets and products
- Pension services procurement, contract management and relationship management

The CIPFA Code of Practice recommends (amongst other things) that LGPS administering authorities adopt the following statements-

- adopt key principles of the Code of Practice on LGPS Knowledge and Skills;
- recognise that effective management, governance, decision making and other aspects of delivery of the Fund can only be achieved where those involved have the requisite knowledge and skills to discharge the duties and responsibilities allocated to them;
- put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of LGPS knowledge and skills for those responsible for the management, delivery, governance and decision making of the Fund;
- confirm that the policies and practices are guided by reference to the CIPFA LGPS Knowledge and Skills Framework;
- ensure there are adequate resources in place to ensure all staff, members and other persons responsible for the management, decision making, governance and other aspects of the Cumbria Pension Fund to acquire and retain the necessary LGPS skills and knowledge;
- report annually on how its Training policy has been put into practice throughout the year in the Fund's Annual report; and
- delegate the responsibility for the implementation of the requirements of the CIPFA Code of Practice to an appropriate officer (for the Cumbria Pension Fund this is the Deputy S151 Officer - Pensions) who will act in accordance with the Fund's Training policy and where they are a CIPFA member with CIPFA Standards of Professional Practice.

The Cumbria Pensions Committee fully supports the CIPFA Code of Practice and adopts its principles. The CIPFA Code of Practice and Framework are seen as meeting the requirements of the Public Sector Pensions Act 2013.

c) CIPFA Principles of Investment Decision Making and Disclosure

The CIPFA Principles of Investment Decision Making and Disclosure was published in response to the government's report updating the Myners Principles, this indicates 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. Details of how the Fund complies with these principles please refer to the Fund's Investment Strategy Statement.

d) MiFID ii (Markets in Financial Instruments Directive)

The Fund's investment managers undertake both quantitative and qualitative tests to assess whether the Fund as a client can demonstrate their expertise, experience and knowledge to be treated as professional client in accordance with MiFID ii (Markets in Financial Instruments Directive). These tests seek to assess whether the Administering Authority can demonstrate sufficient collective understanding to be capable of making investment decisions in complex asset classes whilst being cognisant of the nature of the risks involved. The training policy and subsequent reporting assists the Fund in ensuring knowledge and skills are acquired and maintained.

9.2 Policy objectives

The Fund's objectives relating to knowledge and understanding 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
- To demonstrate the Fund's status as a professional client under the EU directive, MiFID ii (Markets in Financial Instruments Directive) to investment managers, hence accessing appropriate investment products
- 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 demonstrate compliance with relevant legislation and guidance.

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 Training Policy

The Training Policy will apply to all Members of the Pensions Committee (including substitutes) and Local Pensions Board (including any independent

chair and substitutes) and appropriate Officers who advise the Committee and Board (including but not limited to the Section 151 Officer and the Deputy Section 151 Officer – Pensions), regardless of experience.

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 Pension Fund 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.

9.6 Resources

Members are required to invest sufficient time in their learning and development so as to acquire and maintain sufficient knowledge and skills to be effective. The Fund will provide the necessary support from Officers and Advisors and where appropriate will recommend and fund places at external training events.

The Fund will maintain a list of items the members of the governing body should be familiar with, in a 'Member Handbook'.

Members are provided with access to an online 'Pensions Knowledge Library' which as well as containing reference documents, also contains background reading on a range of areas.

The Annual Learning Programme (as detailed at item 9.10) may include various resources or methods of training delivery including:

- In-house sessions from officers and/or advisors
- Bespoke training delivered by external providers but specifically designed for the Fund
- External courses, seminars and webinars
- Shared training with other Schemes or Frameworks.

Where possible the Fund will endeavour to schedule internal training sessions to coincide with scheduled meetings of the Pensions Committee or Local Pensions Board.

Officers will recommend external events to members on a regular basis (as and when available), allocation of places will be based on the Annual Learning

Programme (section 9.10) and in such a way as to balance the provision of training and the costs. External events have the benefits of providing exposure to wider sources of information and also allows Members the opportunity to network with peers, advisors and officers from other funds.

Members should be aware that they are likely to receive direct invitations to many other external conferences and seminars, However, those recommended by officers should be prioritised. Should members receive any direct invitations, it is requested that these be forwarded to officers for consideration of the value and relevance of the event - it is unlikely that Fund will approve costs to attend events if they are not considered to be appropriate.

Members of the governing body are asked to share any material such as presentations from all external events attended with officers so that the material can be added to the 'Pensions Knowledge Library' for the benefit of all members.

In addition, those attending events will also be expected to provide feedback to Officers following attendance at events so that they can be assessed on a VFM basis for possible attendance by others in future years.

All members of the governing body are encouraged to read relevant media (for example magazines, news articles) to enhance their knowledge of the pensions and investment industry in general and where possible the LGPS in particular.

Costs associated with complying with this Policy will be paid by the Fund. Members and Officers will be required to agree any costs in advance. Any hospitality received whilst undertaking the Learning Programme should be declared to Officers, in advance where possible or as soon as possible upon return from any event.

9.7 Induction

All new members will be required to start a programme of learning immediately on appointment, if not before. Prior to taking part in any decision making, new members will be required to become familiar with the 'Members Handbook'.

A senior officer of the Pensions team will also hold an induction meeting with new Members to provide an oversight of the LGPS, details of the Cumbria Pension Fund and outline the key governance arrangements for the Fund including the responsibilities of Committee and Board members.

Members are required to ensure they undertake sufficient training to enable them to demonstrate a basic level of knowledge and understanding needed to manage the Fund within six months of their appointment, as required.

9.8 Maintenance of knowledge and understanding

A 'Knowledge Assessment' exercise will be undertaken on an annual basis (usually in late Autumn) to identify both group and individual knowledge gaps. This will inform a Learning Programme plan (the current plan is set out below at 9.10). The Learning Programme will be developed taking into account current

knowledge and understanding and also forthcoming workloads, including LGPS national changes or Fund-specific issues. The Learning Programme will be flexible, allowing members to update areas of learning and to acquire new knowledge.

The results of the annual Knowledge Assessment will be reported to Pensions Committee and Local Pension Board. Pensions Committee will be asked to approve the annual Learning Programme for the Fund, the Local Pensions Board then review and may add to the plan should they feel any additional learning is required by its Members before approving the Board's own combined learning programme.

Individual Members of the Pensions Investment Sub Group (ISG) Members will be expected to be knowledgeable in relevant investment matters in order to enable them to fulfil the functions of the ISG.

9.9 Compliance and reporting

The Fund is obliged to publish records of Members learning records which will include attendance at events and other learning activities undertaken. Annual learning records, and meeting attendance records, are included in the Fund's Annual Report and will be reported to the Pensions Committee and Local Pension Board on a regular basis.

Through the year, Officers will maintain a log of all events attended for each individual member together with any other learning such as completion of any online training modules or other appropriate and measurable Pensions related learning. It is therefore important that members notify Officers of any self-directed activity they undertake.

It is the individual member's responsibility to ensure their learning records and attendance records at training events and Committee or Board meetings are correct. Officers will share the records with members on a regular (typically bi-annual) basis during the year.

Failure of individual members to participate in the Learning Programme reflects on the requirement for the Administering Authority to ensure that those involved in the governance of the Fund have the requisite knowledge and skills and therefore could be escalated by Officers.

As such, members who do not show a general level of attendance at meetings and engagement in learning opportunities or training events may be reported to Council or nominating bodies (as appropriate). Members of the Local Pension Board could be referred to the appointments panel and ultimately asked to step down from the Board.

9.10 2023/24 Learning Programme

The 2023/24 Learning Programme is set out in the table of training topics below. The Programme would usually be informed by the annual Knowledge Assessment (as noted at 9.8 above) together with up and coming national legislative / policy

9. TRAINING POLICY

changes. However, due to the anticipated significant change in the membership of the Pensions Committee and Board Members following the LGR process, this year's programme is more of an Induction Programme. As such it is based to a large degree on the acquisition of both general and LGPS specific Pensions knowledge and skills.

It also seeks to ensure that the training covers the key themes and developments which drive the Fund's business plan for 2023/24, including:

- Ensuring that Members understand the Fund's investment pooling arrangements including: the ongoing development of Border to Coast Pensions Partnership Ltd (BCPP) sub-fund offerings and national developments in relation to the pooling of investments; and
- Keeping Members and Officers abreast of relevant developments in the LGPS, the wider pensions world and investments markets, such as:
 - The Government's response to the Scheme Advisory Board's (SAB's) Report on Good Governance in the LGPS and the Pension Regulator's updated Codes of Practice. Both of these are expected imminently; and
 - LGPS Governance and Climate Risk Reporting – the Government is preparing to issue regulations and/or statutory guidance for LGPS funds aimed at further enhancing the reporting of climate related financial information.

Finally (and importantly), it is designed to provide sufficient training for Officers and Members to ensure they continue to 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.

Training Topics
Regulatory framework relating to the Pensions environment and the Local Government Pension Scheme ('the Scheme').
Administration and rules of the Scheme, it's Funding and governing bodies.
Governance arrangements of the Scheme, and how this works within a Local Authority environment.
Regulations relating to Investments of the Scheme, Investment Strategy and LGPS Pooling.
Cumbria Pensions governance structure, including conflicts of interest, Policies such as the training policy, the role of the Board, reporting of breaches and other compliance reporting requirements.
Cumbria's Pension Administration provider Local Pensions Partnership Administration (LPPA), arrangements for the service provision and oversight, internal roles vs LPPA including current and forthcoming issues.

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Training Topics
Review of the Fund's current Asset Allocation, basic funding information, roles of the Fund's Advisors, Consultants, Officers and Members including the Investment Sub Group (ISG).
LGPS Pooling, our pool Border to Coast Pensions Partnership (BCPP), the Fund's role as both Shareholder and Customer, including the oversight and governance of BCPP.
Stewardship Reporting including ESG (Environmental, Social and Governance factors) including the role of BCPP and our membership of LAPFF (Local Authority Pension Fund Forum)
Current Investment related issues including Inflation, a review of the Investment Strategy, possible transition of BCPP UK Direct property to BCPP and increased climate reporting requirements.
The implications of the resolution to the McCloud age discrimination case and the expected Cap on Exit payments for the public sector schemes and specifically the Cumbria Pension Fund (once both sets of regulations have been finalised).
The implications for the Fund of the Pension Regulator's Consolidated Code of Practice (once it has been finalised).
The implications of the LGPS Governance and Climate Risk Reporting regulations and statutory guidance (once it has been finalised).

In addition, other items on topical or emerging issues will be included as appropriate, and the proposed training topics may therefore change depending upon emerging issues.

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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 Westmorland and Furness 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 advisor 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 Pensions 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 advisors including independent advisors, auditors, actuaries, legal advisors 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

10.2 Requirements

10.2.1 This section clarifies the full extent of the legal requirements and to whom they apply.

10.2.2 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 advisor 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 advisor 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 Practice⁶ including in the following areas:

- implementing adequate procedures;
- judging whether a breach must be reported;
- submitting a report to The Pensions Regulator; and
- whistleblowing protection and confidentiality.

⁶ www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx#s16855

10.2.4 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 Resources (S151 Officer); Senior Manager: Pensions & Financial Services and the Chief Legal Officer (Monitoring Officer) (see 10.3.3 for further details), provided that requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence).

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 Pensions 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 10.3.5 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 Resources (S151 Officer);
- Senior Manager: Pensions & Financial Services (Deputy S151 Officer 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 <https://www.westmorlandandfurness.gov.uk/> & 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.

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 10.3.3 before you submit a report to The Pensions Regulator you should refer the suspected breach to the appropriate level of authority to assist in determining whether a report needs to be made. Cumbria County Council has determined that the appropriate persons are the Director of Resources (S151 Officer) (or in their absence the Senior Manager – Pensions & Financial Services (Deputy S151 Officer LGPS)) and/or the Chief Legal Officer (Monitoring Officer) (their deputy) 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 Local Government Pensions Committee (LGPC) Secretariat (part of the LG Group - <http://www.lgpsregs.org/>). If timescales allow, legal advice or other professional advice can be sought.

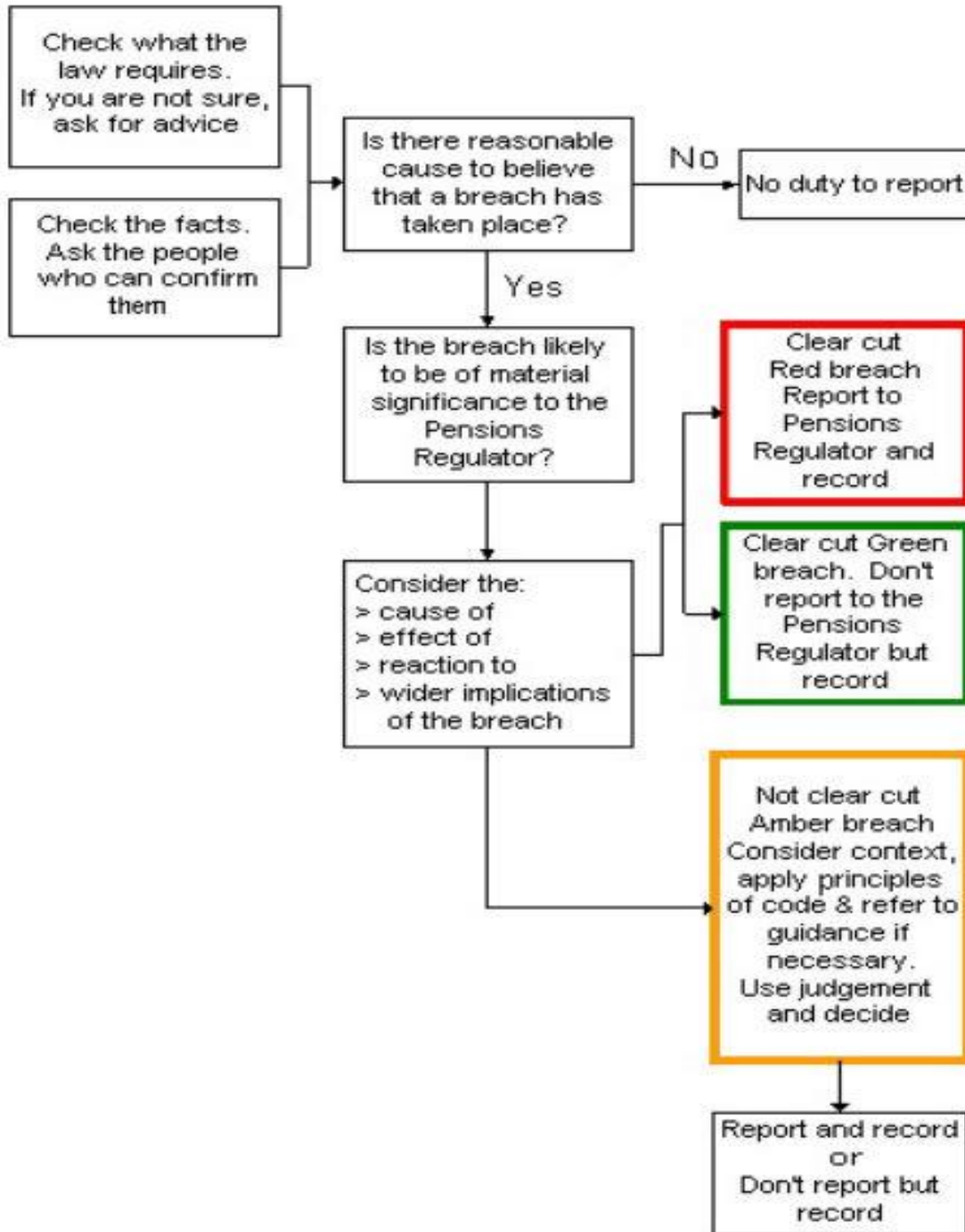
The matter should not be referred to any of these officers if doing so will alert any person responsible for a possible serious offence to the investigation. If that is the case, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – 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 S151 Officer 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.

Decision-tree: deciding whether to report



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). Westmorland and Furness 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 S151 Officer 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 Pensions 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** 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:

- full fund name (Cumbria Local Government Pension Scheme);
- description of breach(es);
- any relevant dates;
- name, position and contact details;

10. POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

- role in connection to the fund; and
- employer name or name of Administering Authority (the latter is Westmorland and Furness 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.

10.4 Review and maintenance of the policy:

10. POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

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.

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 Pensions Regulator.

3. The cause of the breach

- 3.1. Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:
 - dishonesty;
 - poor governance or poor administration, i.e. failure to implement adequate administration procedures;
 - slow or inappropriate decision-making practices;
 - incomplete or inaccurate advice; or
 - acting, or failing to act, in deliberate contravention of the law.
- 3.2. When deciding whether a cause is likely to be of material significance individuals should also consider:
 - whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake.
 - whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant N.B. historical information should be considered with care, particularly if changes have been made to address previously identified problems.

4. The effect of the breach

- 4.1. Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:
 - Committee/Board members not having the appropriate degree of knowledge and understanding, which may result in them not fulfilling their roles, the Fund not being properly governed and administered and/or the Administering Authority breaching other legal requirements;
 - Conflicts of interest of Committee or Board members, which may result in them being prejudiced in the way in which they carry out their role and/or the

Annex A

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

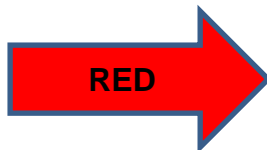
- 5.1. Where prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, notify any affected members The Pensions Regulator will not normally consider this to be materially significant.
- 5.2. A breach is likely to be of concern and material significance 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.

Traffic light framework for deciding whether or not to report

It is recommended that those responsible for reporting use the traffic light framework when deciding whether to report to The Pensions Regulator. This is illustrated below:



Where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance.

These must be reported to The Pensions Regulator.

Example: Several members' benefits have been calculated incorrectly. The errors have not been recognised and no action has been taken to identify and tackle the cause or to correct the errors.



Where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance. They might consist of several failures of administration that, although not significant in themselves, have a cumulative significance because steps have not been taken to put things right.

You will need to exercise your own judgement to determine whether the breach is likely to be of material significance and should be reported.

Example: Several members' benefits have been calculated incorrectly. The errors have been corrected, with no financial detriment to the members. However, the breach was caused by a system error which may have wider implications for other public service schemes using the same system.



Where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance.

These should be recorded but do not need to be reported.

Example: A member's benefits have been calculated incorrectly. This was an isolated incident, which has been promptly identified and corrected, with no financial detriment to the member. Procedures have been put in place to mitigate against this happening again.

All breaches should be recorded even if the decision is not to report.

When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. Some useful examples of this framework is provided by The Pensions Regulator at the following link:

<https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/communications-and-reporting-detailed-guidance/complying-with-the-duty-to-report-breaches-of-the-law>

11 INTERNAL CONTROL & RISK MANAGEMENT POLICY

11.1. Background

- 11.1.1. 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.
- 11.1.2. 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.
- 11.1.3. 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.
- 11.1.4. It is not possible to eliminate all risks. Accepting and actively managing risk is therefore a key part of the risk management strategy.
- 11.1.5. 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.
- 11.1.6. 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.

11.2. Regulatory requirements and Guidance

- 11.3. The following regulations and guidance have been taken into consideration in the drafting of this policy:

11.4. Pensions Act 2004:

- 11.4.1. 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.

11.5. The Pensions Regulator:

11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY

- 11.5.1. 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 Westmorland and Furness 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.
- 11.5.2. 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.
- 11.5.3. 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.
- 11.5.4. 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.

11.6. Other relevant guidance:

- 11.6.1. CIPFA's publication 'Managing Risk in the Local Government Pension Scheme' (2018 edition)
- 11.6.2. CIPFA's publication 'Delivering Good Governance in Local Government: Framework' (2016 Edition)
- 11.6.3. CIPFA's 'Preparing and Maintaining a Funding Strategy Statement in the LGPS' (2016 Edition)
- 11.6.4. CIPFA's guidance on Investment Pooling and Governance Principles, (published in 2016)

11.7. Review of policy

- 11.7.1. The undertakings set out within this Internal Control and Risk Management policy will be reviewed and published annually.
- 11.7.2. This Internal Control and Risk Management Policy was approved at the Cumbria Pensions Committee on 14 March 2023.

11.8. Application to the Fund

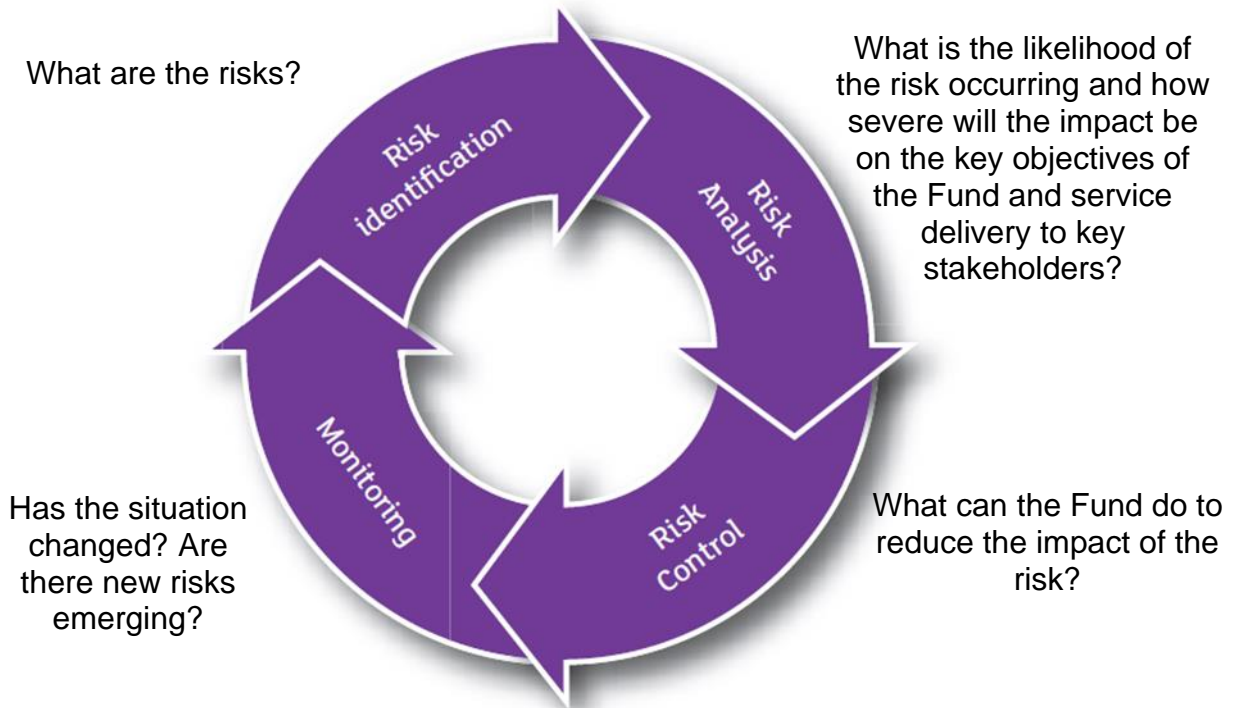
- 11.8.1. The Administering Authority adopts the principles contained in CIPFA's Managing Risk in the LGPS document and The Pensions Regulator's Code of Practice in relation to the Fund. This Internal Control & Risk Management Policy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

11.9. Responsibility

- 11.9.1. The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Director of Resources (S151 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.
- 11.9.2. 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 Director of Resources (S151 Officer).
- 11.9.3. 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.
- 11.9.4. 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.

11.10. Process

- 11.10.1. 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:



11.11. Risk Identification:

11.11.1. 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.

11.11.2. 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 (BCPP) 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.

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11.11.3. 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.

11.12. Risk Analysis:

11.12.1. 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

11.12.2. When considering risk ratings, the Fund will have regard to the existing controls in place and these will be summarised in the risk register.

11.13. Risk Control:

11.13.1. 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.

11.13.2. 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;

11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY

- *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.

11.13.3. The Fund's risk register details all further action in relation to a risk and the owner for that action.

11.13.4. 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)

11.14. Risk Monitoring:

11.14.1. 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.

11.14.2. 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 2023) is shown below, indicating the matrix of risk profiles that are considered.

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PENSION FUND RISKS		Q1	Q2	Q3	Q4	Target	DOT	CORPORATE RISK PROFILE (Risk Score = Likelihood x Impact)																																										
1	1.1. Information security arrangements	15	15	15	15	15	→	<table border="1"> <tr> <td>Impact</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Likelihood</td> <td>1 Insignificant</td> <td>2 Minor</td> <td>3 Moderate</td> <td>4 Major</td> <td>5 Most severe</td> </tr> <tr> <td>5 Very Likely</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>4 Likely</td> <td></td> <td>2.4</td> <td>1.6</td> <td></td> <td></td> </tr> <tr> <td>3 Possible</td> <td></td> <td>2.3</td> <td>1.2; 3.3; 3.4</td> <td>3.5</td> <td>1.1</td> </tr> <tr> <td>2 Unlikely</td> <td></td> <td>1.3; 1.7; 2.5</td> <td>1.4; 3.2; 2.7</td> <td>1.5; 2.2; 3.1;</td> <td></td> </tr> <tr> <td>1 Very unlikely</td> <td></td> <td></td> <td></td> <td>2.6</td> <td>2.1</td> </tr> </table>	Impact						Likelihood	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Most severe	5 Very Likely						4 Likely		2.4	1.6			3 Possible		2.3	1.2; 3.3; 3.4	3.5	1.1	2 Unlikely		1.3; 1.7; 2.5	1.4; 3.2; 2.7	1.5; 2.2; 3.1;		1 Very unlikely				2.6	2.1
Impact																																																		
Likelihood	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Most severe																																													
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2 Unlikely		1.3; 1.7; 2.5	1.4; 3.2; 2.7	1.5; 2.2; 3.1;																																														
1 Very unlikely				2.6	2.1																																													
2	1.2. Pensions administration processes	6	6	6	9	6	↑																																											
3	1.3. Scheme member communication	4	4	4	4	4	→																																											
4	1.4. Data quality	6	6	6	6	3	→																																											
5	1.5. Payment of contributions	8	8	8	8	8	→																																											
6	1.6. McCloud Judgement	12	12	12	12	9	→																																											
7	1.7 Scam Detection & Prevention	4	4	4	4	4	→																																											
8	2.1. Risk of significant regulatory breach	5	5	5	5	5	→																																											
9	2.2. Regulatory changes	8	8	8	8	8	→	<p>Summary of risk changes since last report to Pensions Committee</p> <p>New risks added in Q4:</p> <ul style="list-style-type: none"> No new risks have been added to the risk register in Q4. <p>Risks removed in Q4:</p> <ul style="list-style-type: none"> No risks have been removed from the register in Q4. <p>Risk Score Changes in Q4:</p> <ul style="list-style-type: none"> The risk score associated with Pensions Administration Processes (Risk 1.2) has been increased to reflect the performance of LPPA. Whilst the service improved in Q3 (see section 5.1 of the report) Officers will continue with enhanced monitoring and challenge of LPPA until improvements are sustained. Consequently the likelihood score has been increased from 2 "unlikely" to 3 "possible". <p>Emerging Risks</p> <ul style="list-style-type: none"> Biodiversity loss: refers to the decline or disappearance of biological diversity, understood as the variety of living things that inhabit the planet and it can have direct human health impacts, affecting livelihoods, income and local migration. Biodiversity loss is considered to be caused by five primary drivers: habitat loss, invasive species, overexploitation (hunting/fishing), pollution and climate change associated with global warming. Although the scale and extent is not yet clear and could be influenced by many factors including future regulatory changes, the Cumbria Pension Fund recognise that biodiversity loss should be acknowledged as a key emerging risk. 																																										
10	2.3. Financial irregularity	6	6	6	6	6	→																																											
11	2.4 Loss of key personnel	4	4	8	8	4	→																																											
12	2.5. Conflicts of Interest	4	4	4	4	4	→																																											
13	2.6 Operational interruption	4	4	4	4	4	→																																											
14	2.7 Local Government Reorganisation	6	6	6	6	6	→																																											
15	3.1 Investment performance	8	8	8	8	8	→																																											
16	3.2 Availability of investment opportunities	6	6	6	6	6	→																																											
17	3.3 Russian invasion of Ukraine	9	9	9	9	9	→																																											
18	3.4 Inflation	9	9	9	9	9	→																																											
19	3.5 Climate Change	n/a	n/a	12	12	12	→																																											

11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY

- 11.14.3. 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 Director of Resources (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.
- 11.14.4. 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.
- 11.14.5. The risk register of the Cumbria Pension Fund identifies the highest risk to the Fund is the risk associated with information security arrangements. In recognition of this risk and the potential severity of outcomes in the event that such an incident materialises, a review of cyber security arrangements was undertaken to assess the readiness of the Fund for such an incident.
- 11.14.6. Following this review a Cyber Governance Strategy has been drafted to set out the Fund's approach to effectively manage cyber risks. Whilst this will be a formal policy of the Fund, it will not be published within the Fund Policy Document or on the Fund's website due its confidential content.

11.15. Key risks to the effective delivery of this Policy

- 11.15.1. 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 Advisors 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.

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11.16. Costs

All costs related to this Policy are met directly by the Fund.

APPENDIX A: GLOSSARY

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

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

Actuarial Valuation – An actuary formally reviews the assets and liabilities of the pension Fund and produces a report on the Fund's financial position.

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 BCPP 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*).

Beneficiaries (in relation to Stewardship) – This refers to Scheme Members and Scheme employers, please see separate definitions below.

Bid price – Price at which a security or unit in a pooled fund can be sold.

Bonds – Certificate of debt issued by a government or company, promising regular payments on a specified date or range of dates, usually with final capital payment at redemption.

Buy and Hold Credit - An approach to bond investment that is very different to an index-tracking or traditional active approach. In the case of “buy and hold” investing, the starting point of the portfolio construction process is not the index weight of the bonds, but a basket of bonds that the manager believes have a high probability of honouring the payment obligations due. As such the investor’s return expectation has a “margin of safety” and is not dependant on a change in sentiment in credit markets. The intention is typically to hold the bonds until maturity (and to be prepared to sell bonds if the default risk increases). Constant duration portfolios are also available.

Career Average Revalued Earnings (CARE) Scheme – The pension at retirement will relate to your average salary over your career (while paying into the pension scheme). More precisely for the LGPS, it is based on pensionable earnings, increased in line with inflation as measured by the Consumer Price Index (CPI).

CIPFA – Chartered Institute of Public Finance & Accountancy.

Class Action – An action where an individual represents a group in a court claim. The judgement 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 lawsuit.

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.

Coronavirus (COVID-19) – The World Health Organisation (WHO) declared the outbreak of Coronavirus to be a global pandemic on 11 March 2020. Investment markets have seen significant volatility as a result of concerns relating to the Coronavirus Pandemic.

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.

Currency Hedge – This is one way for pension funds to reduce the volatility of their foreign currency exposures, by using derivatives to convert exposures back to the domestic currency.

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.

Deficit recovery period – A reasonable period of time over which a pension fund will aim to repair its funding level to meet its statutory objective of 100% solvency, taking into account employer circumstance where possible.

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.

Designated Body – Also known as Resolution body – please refer below.

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.

Diversified Credit – Also known as Multi Asset Credit – please refer below.

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.

DLUHC – Department of Levelling Up, Housing and Communities, the UK government department with responsibility for Local Government. Formerly called the Ministry of Housing, Communities and Local Government (“MHCLG”).

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.

ESG (Environmental, Social and Corporate Governance) - A set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights. ESG is the catch-all term for the criteria used in what has become known as socially responsible investing. Socially responsible investing is among several related concepts and approaches that influence and, in some cases govern, how asset managers invest portfolios. See also Socially Responsible investing.

Exchange Traded Fund (ETF) - Fund that tracks an index; but can be traded like a stock.

Fiduciary Duty - A legal obligation of one party to act in the best interest of another. The obligated party is typically a fiduciary, that is, someone entrusted with the care of money or property.

Final Salary – Another term for the defined benefit pension schemes where employee benefits are based on the person's final salary when they retire. The LGPS 2014 Scheme has moved from this to a CARE (career average) scheme.

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

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

Futures Contract – A contract that is traded on an organised exchange and subject to rules of the exchange. It is an obligation that the buyer and seller settle the contract through purchase or sale of an underlying asset at the future date.

Gilts – These are the simplest form of UK government bond. A conventional gilt is a bond issued by the UK government which pays the holder a fixed cash payment (or

coupon) every six months until maturity, at which point the holder receives his final coupon payment and the return of the principal.

Governance - The procedures and practice associated with decision-making, performance and control, which provide structures and satisfy expectations of accountability in large, mainly commercial, organisations.

IFRS – International Financial Reporting Standards. Aim to standardise the reporting and information disclosed in the financial accounts of companies and other organisations globally.

Independent Registered Medical Practitioner (IRMP) – Independent Registered Medical Practitioners qualified in occupational health medicine who are asked to make an assessment under the LGPS ill health retirement regulations.

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.

Joint Committee – this is the term used to refer to the committee of Partner Fund councillors. Its primary purpose is to exercise oversight over investment performance of the collective investment vehicles comprised in the BCPP Pool.

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.

Loans and Receivables – are also known as ‘Financial assets held at amortised cost’ in the context of IFRS9 (International Financial Reporting Standards)

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.

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”). Now called Department of Levelling Up, Housing and Communities (“DLUHC”).

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 (also known as Diversified Credit).

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.

Other Registerable Interests – Including the receipt of gifts or hospitality worth over £100; and membership / being in position of general control or management of a body to which they are appointed or nominated by the Council.

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.

Partner Funds - The term used to describe the 10 other LGPS Pension Funds who are equal owners of BCPP along with Cumbria. A list of partner funds can be found at: <https://www.bordertocoast.org.uk/partner-funds/>

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*).

Pecuniary Interests – Including the ownership of securities and other assets, any employment, office, trade, profession or vocation carried out for profit or gain.

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.

Proxy Voting – Also known as Shareholder Voting – please refer below.

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.

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.

S151 Officer – Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a S151 Officer, also known as a Chief Financial Officer (CFO), to have responsibility for those arrangements.

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.

Scheme Members – are predominantly employees and ex-employees of local public sector organisations including local authorities, the police authority (non-uniformed), schools, and academies. Additionally, a small number of scheme members are employees and ex-employees of either community bodies or private companies to whom services and therefore staff have been contracted out.

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

Shareholder Rights & Responsibilities - Rights exist primarily through shareholdings (but can be derived through other means). The shareholder role includes responsibilities for appointing directors and auditors and ensuring that appropriate governance structures are in place. Good governance is about ensuring that company policies and practices are robust, and its operations are effective and responsibly delivered in relation to its stakeholders.

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 and responsibility to vote on matters of 'corporate policy' at the underlying company's AGM (Annual General Meeting). UK shareholders have the most favourable set of rights in the world in their ability to control directors of corporations. UK company law gives shareholders the ability to;

- remove the board of directors with a simple majority of votes;
- change the company constitution with a three quarter vote (unless a higher figure is in the constitution);
- wind up (i.e. liquidate) the company with a three quarter vote; and
- veto any sale of a significant percentage of company assets.

The number of votes corresponds to the number of shares owned. The shareholder does not need to be present at the meeting, and many shares are voted 'by proxy'. Managers invariably hand over the process of voting to proxy voting agencies.

In practice many shareholders delegate the voting function to Investment Managers (who have stewardship of their assets).

Resolutions which are voted upon include:

Approval of Annual Report and Accounts

Approval of Remuneration Policy, and Remuneration Report

Election/Re-election of Directors

Appointment/Re-appointment of auditors

Approve dividend

Approve political donations

Voting is the key to exercising ownership rights, and influencing investee company policy

Socially Responsible Investing – An investment that is considered socially responsible because of the nature of the business the company conducts. Common themes for socially responsible investments include avoiding investment in companies that produce or sell addictive substances (like alcohol, gambling and tobacco) and seeking out companies engaged in social justice, environmental sustainability and alternative energy/clean technology efforts. See also ESG.

Solvency – A level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Stewardship - The responsible allocation, management and oversight of capital to create long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

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.

Stranded Assets – are defined as assets that have been prematurely devalued or converted to liabilities. In recent years, the issue of stranded assets caused by environmental factors, such as climate change and society's attitudes towards it, has become increasingly high profile.

Supranational Institutions – Owned or established by governments of two or more countries, usually established by international treaties and generally not subject to commercial law; they include multilateral insurance companies, monetary funds and regional public policy institutions.

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.

