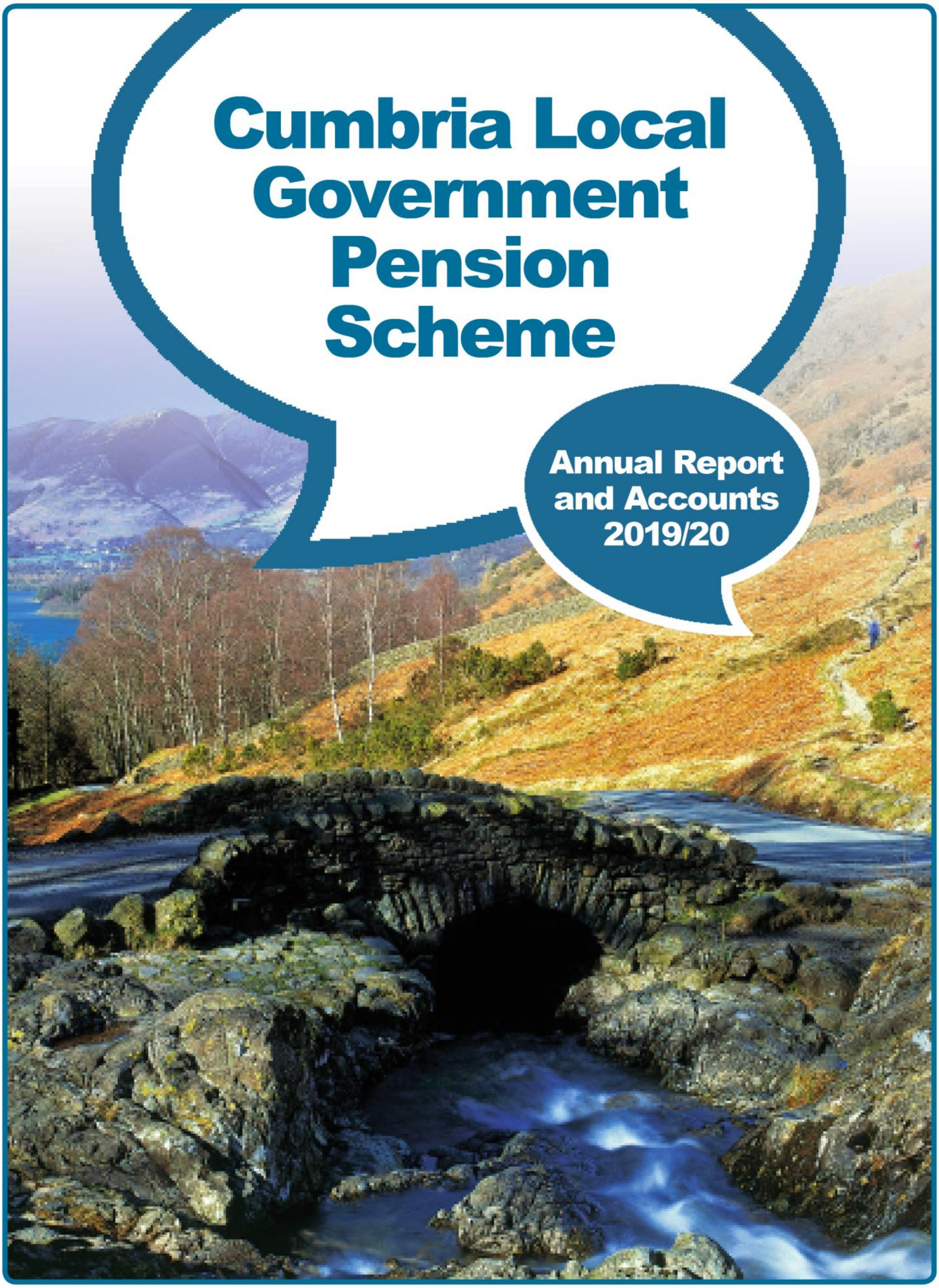
Cumbria County Council

Cumbria County Council

Cumbria Local Government Pension Scheme

Annual Report and Accounts 2019/20



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CUMBRIA LOCAL GOVERNMENT PENSION SCHEME ANNUAL REPORT AND ACCOUNTS 2019/20

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1. CHAIR'S INTRODUCTION

1 CHAIR'S INTRODUCTION

As Chair of the Pensions Committee of the Cumbria Local Government Pension Scheme (LGPS) it is my pleasure to present, on behalf of my fellow Members, the Annual Report for 2019/20.

2019/20 commenced in the same vein as recent years i.e. with continued regulatory challenge and market volatility. The first nine months of the year saw positive returns in most investment markets; global equity markets in particular saw the best calendar year performance in a decade. The last quarter of the financial year, however, was dominated by the effects of COVID-19 both in terms of the impact on the investment portfolio and the challenges the global response to the pandemic posed to the administration and governance of the Fund.

Despite these extraordinary external pressures, I am pleased to report that, by having clear long term strategic plans that are underpinned with robust internal performance measurement frameworks and effective governance arrangements throughout, the Fund has continued to deliver its overriding objective: to secure the payment of pensions benefits now and in the future to its members.

The Committee is aware that to maintain this performance the Fund must continue its active engagement at a national level across all core activities (investments, administration and governance) as well as being mindful of the risks the Fund is exposed to and attempting to mitigate these where possible.

2019/20 Summary Key Results:

Investment Portfolio: Against a backdrop which saw the worst quarter for global equity markets since 2008 and the FTSE All Share Index dropping by -18.5% over the financial year, the Fund returned -3.6% (net of fees) for the year. As at 31 March 2020 the value of the Cumbria LGPS Fund was £2,574m - a decrease of £129m from its value as at 31 March 2019 (£2,703m).

The Pensions Committee is primarily focussed on longer-term performance and I am pleased to report that the Fund has outperformed both its 5 and 10 year benchmarks (5 year: 5.6% p.a. against a benchmark of 5.2% and 10 year: 7.7% p.a. compared to a benchmark of 7.1%).

Pooling of Pension Assets: During 2019/20 the Fund continued to transition its assets to the Border to Coast Pensions Partnership Ltd (BCPP) in accordance with the government's requirement to pool assets in the LGPS.

During the year, the Fund completed the transition of its global equity portfolio (equating to £588m, approx. 20% of the Fund at the point of transition) to BCPP's externally managed Global Listed Equity Alpha Fund. Additionally, during the year, the Fund has approved new investments of £120m into BCPP Infrastructure Funds. These

1. CHAIR'S INTRODUCTION

investments bring the total of the Fund's portfolio invested (or committed to invest) into BCPP to approximately one third of the Fund's total portfolio.

Throughout the year I have continued to enjoy a positive relationship with the Chairs of other Partner Funds of BCPP and we continue to work together to share each Fund's respective views and find collaborative solutions to meet the many challenges that pooling presents. I was also pleased that Deirdre Burnet, Vice Chair of the Cumbria Local Pension Board attended four meetings in her capacity as a substitute Scheme Member Representative on the BCPP Joint Committee.

Administration Activities: 2019/20 has been another busy and challenging year in terms of benefits and administration for the LGPS.

During the year, the triennial valuation of the Fund's assets and liabilities as at 31 March 2019 was undertaken. This exercise, which formed a significant part of the Committee's work plan in 2019/20, identified that the funding value (i.e. the value of the Fund's assets divided by the Fund's liabilities) of Cumbria LGPS was 98.9% - an increase from 91% at the 2016 valuation. The valuation work ultimately determined the pension contribution rates to be made by employers within the Fund for the period 1 April 2020 to 31 March 2023.

Despite the challenges of COVID-19, the Fund's pensions administrator, Your Pension Service (YPS), has continued to ensure that a high quality service is provided to the 58,396 scheme members and 126 employers within the Fund.

The Fund has maintained a key focus on continuing to improve data held about our scheme members and ensuring that this is maintained to the standards expected by the Pensions Regulator.

During the year, it was determined that findings from two separate age discrimination cases against the Firefighters' Pension Scheme and the Judicial Pension Scheme applied to all public sector pension schemes including the LGPS. The Fund is awaiting the details of how these age discrimination cases will be resolved and the impact this will have for the LGPS and specifically the Cumbria Fund.

Governance: With Kerry Powell as Chair, the Cumbria LGPS Local Government Pension Board has had another successful year and their Annual Report is included at page 8.

The national Scheme Advisory Board are currently reviewing governance within the Local Government Pension Scheme through their "Good Governance Review". Cumbria LGPS has contributed to the consultations that are informing this review and we await the final outcomes of the review to assess if any changes are required to the governance of the Fund.

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

1. CHAIR'S INTRODUCTION

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

In accordance with the Fund's business plan for 2019/20 a full review of the strategy was undertaken during the year and this work was informed by the findings of the 2019 Triennial Valuation. The Pensions Committee approved the revised Investment Strategy in December 2019 and, in the final quarter of the year, the Fund started to transition to this new strategy as summarised in section 4.3 of this report, starting on p.36.

Following year end, in recognition of the impact of the COVID-19 pandemic on global markets and following consultation with the Investment Sub Group, the Director of Finance (S151 Officer) commenced an investment strategy 'sense-check'. This exercise considered whether the strategic asset allocations set out in the strategy remain appropriate and suggested a revised interim investment strategy.

The implementation of a revised strategy is not a quick task and the Fund will continue progressing to the new portfolio throughout 2020/21 and beyond. Further details of this new strategy are detailed in the Fund Policy Document – Appendix A to this annual report.

Summary:

All LGPS Funds will continue to face challenges in the coming years as they aim to maintain regulatory compliance, deliver good investment performance, achieve sound governance and improve scheme member and employer satisfaction. The Fund seeks to deliver against these objectives at the same time as meeting external demands and pressures coming from additional national regulatory requirements and the necessary management of cashflow.

However, I believe that, despite the challenges of COVID-19, the outlook for the LGPS as a whole and the Cumbria Fund in particular remains positive in the medium and long term. The embedded approach of the Pensions Committee, Local Pension Board and Officers of the Fund towards strong governance arrangements (including ensuring all involved in governing the Fund are appropriately trained), scheme member focused services and communication, performance driven monitoring and active outward facing engagement across all activities have placed Cumbria LGPS in a strong position to meet these challenges head on.

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

Finally, I would like to thank my fellow Committee Members for their contributions during 2019/20 and welcome new Members that have joined throughout the year.

1. CHAIR'S INTRODUCTION

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

Cllr. Melvyn Worth

Chair of Cumbria Pensions Committee
August 2020

1.1 ANNUAL REPORT OF THE CUMBRIA LGPS LOCAL PENSION BOARD FOR 2019/20

ANNUAL REPORT OF THE CUMBRIA LGPS LOCAL PENSION BOARD FOR 2019/20

As Chair of the Cumbria Local Pension Board (LPB) it is my pleasure to present the Annual Report for 2019/20 on behalf of my fellow Board members.

The Public Service Pensions Act (PSPA) 2013 introduced the requirement to have a Local Pension Board to assist in the governance of the Scheme. The Board was established in 2015 to assist Cumbria County Council as the Administering Authority to fulfil its functions which cover all aspects of governance and administration of the Cumbria Local Government Pension Scheme (LGPS).

The Council's Constitution requires the Board to meet 'as a minimum twice a year'. In recognition of the important role the Board has to play in supporting Cumbria County Council in its role of administering the Cumbria LGPS, meetings are scheduled on a quarterly basis. There were four meetings held during the year.

Membership

In accordance with the Board's Terms of Reference the Chair and Vice Chair rotated their roles during the year, and three Substitute Board members were appointed.

Work Programme during 2019/20:

2019/20 was another busy year for the Cumbria LGPS, with the Cumbria LPB continuing to focus on issues relating to Administration matters, in line with the expectations of the Pensions Regulator, and maintaining the high standard of data quality within the Fund. The Board were apprised of work undertaken by the Fund, reviewed Pension Committee decisions and noted the recommendations the Committee approved at its quarterly meetings and maintained an oversight of the key risks. The Board was allocated specific tasks by the Pension Committee associated with monitoring future progress against the Data Quality Improvement Plan and reviewing the action plan addressing areas for improvement suggested by the Pensions Regulator.

A workshop facilitated by CIPFA was held in April 2019 to consider in more detail the CIPFA Guide for Local Pension Boards, and how Boards add value to the governance and administration of the LGPS. In acknowledgement of the key role the Board has to play in supporting the Fund, the Board now formally report to Pensions Committee on a quarterly basis.

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

1.1 ANNUAL REPORT OF THE CUMBRIA LGPS LOCAL PENSION BOARD FOR 2019/20

Training during the year:

Training	Delivery	Date
CIPFA LPB Conference	External	June 2019
New Member Induction	Internal	June 2019
Taxation/Valuation/McCloud/Conflicts of Interest/Cost Transparency	Internal/External	September 2019
LGA Fundamentals	External	October-December 2019
AVCs	External	October 2019
BCPP Annual Conference	External	October 2019
LAPFF Conference	External	December 2019
Investment Products	External	December 2019
Data Security	Internal/External	January 2020
LGA Investment Governance	External	January 2020
CIPFA Spring Seminar	External	February 2020
Public Service & Trustee Toolkit	Individual	ongoing

Looking forward to 2020/21:

The Cumbria LGPS (alongside all other LGPS's) expects to continue to experience a number of challenges throughout 2020/21 across all functions of the Fund, including pensions' administration, investments and governance, which will be incorporated into the work of the Board.

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

- Continual improvement programme for the quality of data held by the Fund;
- Maintaining an oversight of the key risks of the Fund;
- Monitoring and improving any employer data submission issues;
- The added burden on administration work as the remedy for the McCloud discrimination case becomes clearer;
- The implications of the Scheme Advisory Board's review into Governance arrangements within the Fund;
- The impact that consultations, regulatory changes and publications may have on the Cumbria LGPS; and
- Consideration of the new UK Stewardship Code 2020 and the implications for the Cumbria LGPS in areas such as responsible investment and oversight, including consideration of the impacts of climate change.

Deirdre Burnet has, to date, attended four meetings in her capacity as a substitute Scheme Member Representative on the BCPP Joint Committee. The Board contributed to the development of the BCPP Responsible Investment Policy during the year, and will continue to support policy development.

1.1 ANNUAL REPORT OF THE CUMBRIA LGPS LOCAL PENSION BOARD FOR 2019/20

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

Finally, I would like to thank my fellow Board members for their contributions to the successful operation of the Board during 2019/20.

Kerry Powell
Chair of the Cumbria LGPS Local Pension Board
24 July 2020

Information on the work of the Cumbria Local Pension Board can be found on our web page on the Cumbria County Council website:
http://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=1164

2 THE LOCAL GOVERNMENT PENSION SCHEME

2.1 REGULATORY BACKGROUND

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

i. The Local Government Pension Scheme Regulations 2013 (as amended);
ii. The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
iii. The Local Government Pensions Scheme (Management and Investment of Funds) regulations 2016 (as amended).

Whilst the regulations are set on a national basis, individual Funds are managed by designated administering authorities at a local level. Throughout England and Wales there are 87 such authorities. Cumbria County Council is the Administering Authority for the Cumbria LGPS and as such is responsible for administering the Fund for the benefit of its own employees and the employees of scheduled bodies and admission bodies. Full details of the 126 employers participating within the Fund are set out in the Pension Fund Accounts on **Note 25**. Further details of the responsibilities and arrangements relating to Fund administration can be found in section 5.1 of this report.

2.2 MEMBERSHIP AND BENEFITS

Membership of the LGPS is open to all eligible employees of local government and other participating employers who are under 75 years of age. Teachers, Police Officers and Firefighters are excluded from the Scheme as they are members of separate statutory pension schemes. In line with regulations all eligible employees are automatically enrolled into Cumbria LGPS but have the freedom to opt-out should they so wish. Details of Cumbria LGPS membership numbers are set out in section 3.5.1 of this report.

The regulations specify the type and amounts of pension and other benefits payable in respect of Scheme members who leave, retire or die. They also determine the employee contribution rates payable (see 2.3.1 below) on an ongoing basis (subject to the cost cap mechanisms[1]).

More detailed information on the benefits of the Scheme and how to join it can be obtained by visiting the Your Pension Service website at:
http://www.yourpensionservice.org.uk/local-government-scheme/

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

2. THE LOCAL GOVERNMENT PENSION SCHEME

2.3 CONTRIBUTION RATES

2.3.1 EMPLOYEE CONTRIBUTION RATES

Employee contribution rates are set by regulation. During 2019/20 rates payable were between 5.50% and 12.50% and between 2.75% and 6.25% for the 50:50 section of the scheme:

Standard pay band table from 1 April 2019 to 31 March 2020		
If your whole time pay rate is:	You pay a contribution rate of:	50:50 Section
up to £14,400	5.50%	2.75%
£14,401 - £22,500	5.80%	2.90%
£22,501 - £36,500	6.50%	3.25%
£36,501 - £46,200	6.80%	3.40%
£46,201 - £64,600	8.50%	4.25%
£64,601 - £91,500	9.90%	4.95%
£91,501 - £107,700	10.50%	5.25%
£107,701 - £161,500	11.40%	5.70%
Over £161,501	12.50%	6.25%

2.3.2 EMPLOYER CONTRIBUTION RATES

Employer contribution rates are set by the Fund’s Actuary every 3 years as part of the Actuarial Valuation. The last valuation was undertaken as at 31 March 2019 which set employer contribution rates for 3 years from April 2020. For further detail see section 6.4 of this report. The next triennial valuation is scheduled to be undertaken based on the assets and liabilities of the Fund as at 31 March 2022.

2.4 REGULATORY CHANGES

The following key change to LGPS regulations was enacted during 2019/20:

2.4.1 EXIT CREDITS

Amendments to the LGPS Regulations 2013 that were laid on 14 May 2018, required Funds to pay an “exit credit” where an exiting employer’s net Funding Position within the Fund exceeded 100%. However, this took no account of any risk-sharing arrangements that some employers had with their letting authorities. This led to the scenario where an employer may have been protected through a risk sharing arrangement during their term in the LGPS, but also benefited from receipt of an exit credit at termination. To rectify this, the Ministry of Housing, Communities and Local Government (MHCLG) amended the regulations in 2020 so that Administering Authorities may determine the amount of any exit credit payment due, having regard

2. THE LOCAL GOVERNMENT PENSION SCHEME

to any relevant considerations, including representations from the exiting employer and their letting employer.

The amendment to the regulations required to give effect to these proposals came into force on 20 March 2020, however their effect is to be backdated to 14 May 2018. These amendments to the regulations have been reflected in the Fund's Admission and Termination Policy as set out in Appendix A-7.

2.5 OTHER MATTERS ARISING IN 2019/20

2.5.1 AGE DISCRIMINATION IN PUBLIC SECTOR PENSION SCHEMES

In 2015, the Government introduced reforms to public sector pension schemes (including the LGPS). In December 2018, the Court of Appeal ruled that the transitional protection offered as part of the reforms to some members of the Firefighters' and Judicial pension schemes were unlawful on the grounds of age discrimination.

In July 2019, the Government accepted that the discrimination, in what is referred to as the "McCloud" case, applied to all public sector pension schemes including the LGPS.

A consultation on the LGPS' proposed resolution to the McCloud case was issued in July 2020. The Fund will consider the impact of this proposed resolution on the Fund and its scheme members and respond to the consultation before the closing date on 8 October 2020.

2.5.2 GOOD GOVERNANCE REVIEW

During 2019/20 the Scheme Advisory Board (SAB), supported by Hymans Robertson, continued its review of the governance arrangements within the LGPS. The Fund contributed to this review through direct discussions with Hymans Robertson and through responding to consultations.

In November 2019 the SAB published the "Good Governance - Phase II Report". The report makes several recommendations for new standards of governance and administration and proposes how these can be measured and assessed independently. Draft statutory guidance on governance compliance statements and key performance indicators are currently being developed and the Fund will review these, once published, to assess any improvements that are required to the governance arrangements within the Cumbria LGPS.

2.5.3 COVID-19

The final quarter of 2019/20 was dominated by the impact of the COVID-19 pandemic both in terms of investment performance and challenges the global response to the pandemic posed to the administration and governance of the Fund.

2. THE LOCAL GOVERNMENT PENSION SCHEME

Section 4 of the annual report notes the impact that COVID-19 has had on the investments of the Fund during the year. The impact has been mitigated to an extent by the diverse portfolio of the Fund as presented in the Investment Strategy Statement.

Performance of the pension administration service has not suffered materially as a result of COVID-19 with all pensions continuing to be paid on time, new retirees being put into pension and payments such as death grants being paid in a timely manner.

As noted in section 3.2, the Fund has recognised the risks that COVID-19 poses to the Fund and it has sought to mitigate these risks where possible.

3 MANAGEMENT AND FINANCIAL PERFORMANCE

3.1 FUND MANAGEMENT AND ADVISORS

Officers responsible for the Fund

Julie Crellin
Director of Finance (Section 151 Officer)

Cumbria County Council
Finance Directorate,
Cumbria House,
117 Botchergate,
Carlisle,
CA1 1RD

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

Cumbria County Council
Finance Directorate,
Pensions & Financial Services,
Parkhouse Building,
Kingmoor Business Park,
Carlisle, CA6 4SJ

Pensions Committee

Details of the membership of the Committee during the year to 31 March 2020 are set out below. For further details of the role of the Pensions Committee, please see section 7.2.1.

County Council Elected Members
Mr MH Worth (Chair) Mr NH Marriner (Vice Chair) Mr SB Collins Mr J Airey Mr LN Fisher Dr S Haraldsen Mr P Thornton Mr M Wilson, from January 2020 Mrs H Wall, to December 2019
District Council Elected Member Mr J Mallinson, from August 2019
Trade Union Non-Voting Members Ms T Barber Mr J Keith, from June 2019

Updated details of the membership of the Pension Committee (including appointed substitutes, should they be required) are available at the following web address:
http://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=150

Local Pension Board

Details of the membership of the Local Pension Board during the year to 31 March 2020 are set out below. For further details of the role of the Local Pension Board, please see section 7.2.4.

3. MANAGEMENT & FINANCIAL PERFORMANCE

Local Pension Board Members	
Mrs K Powell (Chair from October 2019)	– Other Employers representative
Mrs D Burnet (Vice Chair from October 2019)	– Pensioner member representative
Mr D Southward	– Cumbria County Council representative
Mrs K Thomson	– Deferred member representative
Ms K Wilson	– Active member representative
Vacant	– District Council representative

Updated details of the membership of the Local Pension Board (including appointed substitutes, should they be required) are available at the following web address:
http://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=1164

Investment Managers

Manager	Core Asset Class	Notes
Aberdeen Standard Investments	Direct & Indirect property, UK corporate bonds and cash	
Apollo Management International	Multi Asset Credit	
Aviva	Long lease property	
Barings	Private Loan Funds	
BlackRock Investment Management	Alternatives	(to June 2012 – remaining funds held until maturity)
Border to Coast Pensions Partnership Limited (BCPP)	Active UK & Global equities, Private Equity and Infrastructure	LGPS Asset Pooling Investment vehicle
CQS	Multi Asset Credit	
HealthCare Royalty Partners	Healthcare royalties	
Insight Investments	Cash funds and securities	
JP Morgan	Infrastructure	
Legal and General Investment Management	Passive equities, gilts, cash and currency hedge	
Loomis Sayles	Global Equities	(to October 2019 – funds transitioned to BCPP)
M&G	Real estate debt & long lease property	
Nordea	Global Equities	(to October 2019 – funds transitioned to BCPP)
Pantheon Ventures	Private Equity	
Partners Group	Infrastructure & Multi Asset Credit	
PIMCO Investment Management	Multi Asset Credit	Invested in May 2020 (no funds held at 31 March 2020)
Schroder Investment Management	UK equities	(to December 2018 – funds transitioned to BCPP)

3. MANAGEMENT & FINANCIAL PERFORMANCE

Manager	Core Asset Class	Notes
SL Capital Partners	Private Equity Secondaries, Infrastructure	
Unigestion	Private Equity Secondaries	

Pool Operator
Border to Coast Pensions Partnership Ltd (BCPP)
www.bordertocoast.org.uk/contact/

Custodian
State Street Bank and Trust Company

Additional Voluntary Contribution providers:
Prudential
Scottish Widows
Standard Life
Equitable Life (to 31 December 2019)
Utmost Ltd (from 1 January 2020)

Actuary
Mercer Ltd

Legal Advisers
Cumbria County Council Legal Services
DLA Piper UK LLP
Institutional Protection Services (IPS) / Labaton Sucharow (class actions)

Bankers
National Westminster Bank PLC

Auditor
Grant Thornton UK LLP

Performance Monitoring
State Street Investment Analytics
Local Authority Pension Performance Analytics

Independent Advisors
Mr AJ Sutherland, Horizon Investment Advisory Limited
Mr TJA Gardener, TG Advisory Services Ltd (to September 2019)
Mrs C Scott, Giffordgate Limited (from March 2020)

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

3. MANAGEMENT & FINANCIAL PERFORMANCE

Telephone: 0300 323 0260

Good to know:

You can access details of your pension through My Pension On-Line available at: https://cumbrialive.yourpension.org.uk/

3.2 RISK MANAGEMENT

Risk management is the process by which the Council systematically identifies and addresses the risks associated with its activities; it is a key element of good governance for any organisation. Officers of the Fund maintain a Cumbria LGPS risk register (details of the format of the register and the methodology for measurement of risk can be found in the Governance Policy Statement at **Appendix A-2** of this report) and continually review and monitor risks throughout the year.

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

3.2.1 RISKS IDENTIFIED AT MARCH 2020:

The risk register presented to Pensions Committee in March 2020 identified 15 risks to the Pension Fund. Emerging risks associated with COVID-19 were becoming apparent by the March meeting and subsequent to this, two additional risks have been added to reflect the potential impact of COVID-19 on (a) the administration of the Fund, and (b) the value of the Fund and the potential consequential impact this would have on employer contributions.

Of the 17 risks in the risk register at 31 March 2020, there was one risk in the red category, four identified in the amber category and twelve in the green category. A summary of the risk register as at 31 March 2020 is shown below at 3.2.2. Full details of the red and amber risks are presented in section 3.2.3. The full risk register (excluding the aforementioned two new COVID-19 related risks) is available to view in the Agenda Report pack for the Cumbria Pensions Committee by accessing the following link:
http://councilportal.cumbria.gov.uk/ieListMeetings.aspx?CId=150&Year=0

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

3. MANAGEMENT & FINANCIAL PERFORMANCE

3.2.2 SUMMARY OF RISK REGISTER AT MARCH 2020:

	PENSION FUND RISKS	Q1	Q2	Q3	Q4	Target	DOT
1	1.1. Information security arrangements	15	15	15	15	10	→
2	1.2. Pensions administration processes	12	12	9	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	n/a	12	12	12	9	→
7	1.7 Scam Detection & Prevention	n/a	n/a	4	4	4	→
8	1.8 COVID-19 impact on Pensions Admin.	n/a	n/a	n/a	10	10	NEW
9	2.1. Pension Regulator Intervention	5	5	5	5	5	→
10	2.2. Regulatory changes	8	8	8	8	8	→
11	2.3. Financial irregularity	6	6	6	6	6	→
12	2.4 Loss of key personnel	4	4	4	4	4	→
13	2.5. Conflicts of Interest	4	4	4	4	4	→
14	2.6 Operational disaster	4	4	4	4	4	→
15	3.1 Investment performance	8	8	8	8	8	→
16	3.2 Availability of investment opportunities	n/a	n/a	6	6	6	→
17	3.3 COVID-19 impact on investments	n/a	n/a	n/a	12	12	NEW

CORPORATE RISK PROFILE
(Risk Score = Likelihood x Impact)

Likelihood \ Impact	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Most severe
5 Very Likely					
4 Likely			1.6		
3 Possible		2.3	1.2	3.3	1.1
2 Unlikely		1.3; 1.7; 2.4; 2.5	1.4; 3.2	1.5; 2.2; 3.1	1.8
1 Very unlikely				2.6	2.1

Summary of risk changes since last quarter

New Risks:

- Risk to Pensions Administration services due to the current Covid-19 pandemic.
- Risk to value of the Fund and impact on employer contributions due to the current Covid-19 pandemic.

Emerging Risks

- Whilst new risks have been added to the register for the impact of COVID-19, this position is still emerging. Mitigations and risk scores may change as the position is further clarified.
- In July, it is expected that a resolution to the McCloud judgement will be issued. At this stage, the Fund will be able to assess the risks of the resolution to the value of the Fund and the required work to appropriately respond to and implement the resolution.

3. MANAGEMENT & FINANCIAL PERFORMANCE

3.2.3 RED AND AMBER RISKS IDENTIFIED AT MARCH 2020

Risk:	Caused by:	Resulting in:	Mitigated by:
Information Security Arrangements There is a risk that the Council will experience a significant information security incident.	A concerted cyber attack on Council or Local Pensions Partnership (LPP) which operates as Your Pension Service (YPS) in Cumbria systems, inadequate information security arrangements, lack of training, awareness or human error.	Partial or total interruption to service delivery to scheme members, scheme employers, Fund Officers or LPP. Disclosure of personal data or a data breach leading to financial penalties, liability claims and reputational damage.	**Cumbria County Council (CCC) – Corporate Risk** The County Council maintains a detailed corporate risk register including the risk associated with Information Security Arrangements. The Fund adheres to the controls and measures in place detailed within the Corporate Risk Register. All staff within the team have completed the General Data Protection Regulation (GDPR) & Information Security e-learning training which is renewed on an annual basis. All Members have received training on information security. The Fund is compliant with the requirements of GDPR. Any data breaches by officers within the Fund are reported through the Council's data breach processes and also recorded on the Fund's breach register. In the event of systems being interrupted, the Council will implement the relevant Business Continuity Plan to ensure service continuity in a timely manner. Information security controls within the Council have strengthened and have been independently assessed in the following 3 areas: • GDPR: 'Substantial Assurance' Internal Audit opinion Jun 2019; • Cyber Security: 'Reasonable Assurance' Internal Audit opinion Jun 2019; and • PSN: Annual independent PSN Accreditation confirmed July 2019. **Local Pensions Partnership (LPP):**

3. MANAGEMENT & FINANCIAL PERFORMANCE

Risk:	Caused by:	Resulting in:	Mitigated by:
			Cyber security risks and controls in place. Services backed up to tape every night and held off site. Disaster recovery plan is tested twice yearly. Networks protected by fire walls to prevent authorised access. Intrusion Prevention Systems are in place and penetration tests are completed annually.
Pension Administration Processes There is a risk of delays in scheme members entering into pension or not receiving other services from the Fund in a timely manner.	Organisational restructure within YPS & personnel changes and the need for retraining	Customer dissatisfaction with the service which may lead to complaints	Formal agreement in place with Lancashire County Council for the discharge of pension administration functions through the Local Pensions Partnership (LPP) which operates as Your Pension Service (YPS) in Cumbria. This confirms Lancashire will exercise the same skill, care and diligence they would apply to the discharge of their own functions in relation to the administration of pensions. Formal quarterly meetings of LPP and Cumbria LGPS officers to review and consider standards of service provision against LPP internal KPIs. Regular (at least quarterly meeting) of operational group and ongoing dialogue with officers at LPP throughout the year. LPP host an annual Client Forum providing officers the opportunity to engage with representatives from other Funds with LPP as their pensions' administrator. The Deputy Director - Member Services of LPP attends all Cumbria Local Pension Board meetings and provides an update on performance and areas for development. Internal audit assurance is provided annually by Lancashire County Council that internal controls with LPP over the operation and administration of Cumbria Fire Service Pension Scheme data are adequate and effective. LPP also maintain their own internal audit programme and advise Officers of the findings of these reports.

3. MANAGEMENT & FINANCIAL PERFORMANCE

Risk:	Caused by:	Resulting in:	Mitigated by:
McCloud Judgement There is a risk that the Fund is unable to adequately comply with required administration processes arising from the resolution of the McCloud judgement.	Possibly an employer not having historic employment data for affected members; LPP not having appropriate resource to undertake the work; the Fund having insufficiently capacity to adequately review the results; or insufficient budget to fund the required project work	Possible legal breaches reportable to the Pensions Regulator; incorrect pension entitlements being calculated for pensioners; and loss of credibility with scheme members and employers.	This is an emerging risk and the Fund will be monitoring announcements from the Scheme Advisory Board as to additional information required from employers and additional workstreams for the Fund and LPP. The Fund will be discussing this emerging issue with LPP through its usual monitoring meetings and will be making preparations for managing the additional workloads.
COVID-19 Impact on Pensions Administration There is a risk that COVID-19 could have an impact on the delivery of pensions' administration services within the Fund.	This could be caused by resourcing issues within LPP, the Fund or individual employers such as staff sickness, excess workloads e.g. increased death cases, furloughed staff within Fund employers etc.	This could result in poor administration across the Fund including failure to pay pensions to scheme members, employers failing to make payment of contributions to the Fund and other breaches of adherence to regulatory requirements.	Staff of the Fund and at LPP are following government guidance and working from home where possible. Staff resources have been focused on providing essential administration services including payment of monthly payroll, commencing pensions for new pensioners and processing any payments payable following the notification of the death of a scheme member. A new telephony service suitable for home working arrangements has been procured by LPP to ensure an enhanced service for scheme members.
COVID-19 - Impact on Investments There is a risk that the current turbulence in the investment markets could impact onto employer contribution rates payable to the Fund.	This could be caused by market turbulence having a significant negative effect on the Funding Value of the Fund and individual employers.	This could result in employer contribution rates increasing at the 2022 valuation or the Actuary proposing a mid-term adjustment to contribution rates before 2022.	In order to protect Fund solvency and the affordability of employer contribution rates, the Fund seeks to dampen investment risk and deliver stable investment returns over the longer-term by investing in a diverse portfolio of assets. The Fund's long-term approach to investment and its diverse portfolio of investment assets meant that, whilst it was affected by the significant market movements, the impact on performance was not as extreme as that experienced in any one asset class alone.

3. MANAGEMENT & FINANCIAL PERFORMANCE

3.2.4 THIRD PARTY RISK

Employers:

- The 2019 valuation of the Fund was based on requirements set out within the 2016 CIPFA Guidance 'Preparing and Maintaining a Funding Strategy Statement in the LGPS'. This required the Actuary and the Fund to consider:
  - The *requirement* for contribution rates to be sufficient to secure the Fund's solvency within an appropriate deficit recovery period, and
  - The *desirability* of employer contribution rates remaining as stable as possible.

- Pension contribution payments from employers are monitored on a monthly basis. Late payments constitute a breach of regulatory obligation by the employer. Where such a breach occurs, this is reported to both the Pensions Committee and the Local Pension Board. Where the breach is considered to be materially significant, this will be reported to the Pensions Regulator. No material breaches were identified in 2019/20. The Fund will take any action necessary to protect other employers in the Scheme including (but not being limited to) charging interest on the late payments, claiming outstanding payments from the employers guarantor (if appropriate) or terminating the employer's participation in the Scheme.

Third party service providers:

- Significant emphasis is placed on undertaking robust due diligence work at the selection stage on the governance arrangements of prospective third parties such as investment managers and core service providers (such as the Fund's Custodian and Actuary). Once appointed, third party organisations are monitored on an ongoing basis throughout the year through mechanisms such as quarterly client review meetings focusing on both past performance and future plans and expectations, review of the pensions press and ISAE 3402/SSAE 16 Internal Control reports.

3.2.5 INVESTMENT RISK

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

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

The method of measuring manager performance is specific to each mandate (i.e. it will take into account factors such as the type of asset, whether it is a passive or actively managed portfolio and availability of relevant benchmarks) and is detailed in the Investment Management Agreements. Manager's performance targets are set to balance exposure to risk and required performance. Their performance against target

3. MANAGEMENT & FINANCIAL PERFORMANCE

is monitored throughout the year and reported to the Investment Sub Group every quarter.

3.2.6 INTERNAL CONTROL AND RISK MANAGEMENT

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

The Internal Control and Risk Management Policy (**Appendix A-11**) details the structure of internal controls & risk management considerations that already exist in the processes Officers undertake on a regular basis.

3.2.7 INTERNAL AUDIT

In 2019/20 the Internal Audit function of Cumbria County Council, as the Administering Authority of the Cumbria LGPS Pension Fund, undertook a review of the controls over payments within the Cumbria Pension Fund. This review was in response to a reported fraud in another local authority where an employee took advantage of weaknesses in internal controls. This review concluded that, based on the walk-through testing undertaken by internal audit, controls are in place for payments relating to the Cumbria Pension Fund.

3.3 FINANCIAL PERFORMANCE

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

3.3.1 CONTRIBUTIONS DUE FROM EMPLOYERS

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

In each circumstance of late payment, Officers from the Administering Authority liaised with the employer to determine why the payment was late and to work with the employer to ensure that the payment was made. As noted in section 3.2.4 the Fund called in the guarantee for one employer who had entered into administration owing contributions to the Fund in 2019/20.

There were no material breaches of employer statutory obligations to the Scheme in 2019/20 and consequently no breaches were reported to the Pensions Regulator.

The following table sets out employer and employee contributions made during 2019/20 by employer within the Fund.

3. MANAGEMENT & FINANCIAL PERFORMANCE

	Employer Contributions* £'000	Employee Contributions £'000
Employers - Scheduled Bodies		
Allerdale Borough Council	885	385
Appleby Grammar Academy	181	27
Barrow Borough Council	2,030	384
Burton Morewood Primary Academy	49	14
Caldew Academy	207	55
Carlisle City Council	1,936	744
Cartmel Priory Academy	97	22
Chetwynde School Academy	48	15
Cumbria Chief Constable	2,997	1,264
Cockermouth Academy	287	78
Copeland Borough Council	1,150	474
Cumbria Education Trust	931	225
Cumbria County Council	28,565	10,888
Dallam Academy	291	78
Dearham Primary Academy	69	20
Eden District Council	822	276
Fairfield Primary Academy	82	22
Furness Academy	449	103
Furness College	514	182
George Hastwell School Academy	138	33
Ghyllside Academy	97	25
Kendal College Further Education	379	112
Kendal MAT	66	16
Keswick Academy	321	82
Kirkbie Kendal Academy	208	53
Kirkby Stephen Academy	106	23
Lake District National Park Authority	704	343
Lakes College West Cumbria	439	154
Lunesdale Learning Trust	373	100
Orian Solutions	190	82
Queen Elizabeth Grammar Academy	144	28
The Queen Katherine School Academy	337	77
Richard Rose Academies	453	82
Settlebeck High Academy	76	18
South Lakeland District Council	1,710	603
Stanwix School Academy	85	21
Stramongate Academy	73	24
The Good Shepherd MAT	118	31
Trinity Academy	398	98
Walney Academy	162	40
West Lakes Academy	363	102
Less than 20 active members	759	256

3. MANAGEMENT & FINANCIAL PERFORMANCE

	Employer Contributions* £'000	Employee Contributions £'000
Total for Scheduled Body employers	**49,289**	**17,659**
Employers - Admitted Bodies		
Carlisle Mencap Hart St	68	21
Carlisle Leisure Ltd	34	40
Life Leisure	119	38
South Lakes Housing	38	38
West House	410	152
Less than 20 active members	645	158
Total for Admitted Body employers	**1,314**	**447**
Total Contributions received	**50,603**	**18,106**

* Employer contributions include Normal and Deficit recovery contributions

3.3.2 PERFORMANCE AGAINST BUDGET

The expenditure budget for administering the Cumbria LGPS for 2019/20 was £6.451m (excluding pooled fund costs and entry fees and transaction costs). The outturn for 2019/20 was £6.068m resulting in an underspend of £0.383m as detailed below.

3. MANAGEMENT & FINANCIAL PERFORMANCE

	2019/20 Revised Budget (£)	2019/20 Outturn Actual (£)	Budget v Actual Variance (£)
Administration			
- Pensions Administration	1,084	1,047	(37)
- Employee Costs	252	257	5
- Legal Advice	30	-	(30)
- Other	-	2	2
Administration Total	**1,366**	**1,306**	**(60)**
Investment Management			
- Fund Management Fees - Border to Coast	1,655	1,328	(327)
- Fund Management Fees - Other Managers	2,613	2,597	(16)
- Custody Fees	100	77	(23)
- Pooled Fund costs including Entry Fees*	-	6,541	6,541
- Transaction Costs*	-	118	118
Investment Management Total	**4,368**	**10,661**	**6,293**
Oversight & Governance			
- Employee Costs	299	318	19
- Pension Fund Committee	41	22	(19)
- Pension Board	16	15	(1)
- Investment consultancy fees	123	130	7
- Performance monitoring service	22	41	19
- Shareholder voting Service	9	10	1
- Actuarial fees	104	109	5
- Audit fees	25	32	7
- Legal & Tax	44	39	(5)
- Other (including bank charges)	34	44	10
Oversight & Governance Total	**717**	**760**	**43**
Total Pensions Expenditure	**6,451**	**12,727**	**6,276**
*Excluding pooled fund costs and transaction costs	**-**	**(6,659)**	**(6,659)**
Total Net Pensions Expenditure against Budget	**6,451**	**6,068**	**(383)**

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

Good to know:

Total Management expenses paid in 2019/20 (£12.727m adopting CIPFA's 'Management Costs Guidance') equates to 0.49% of the Fund net assets at 31 March 2020.

3. MANAGEMENT & FINANCIAL PERFORMANCE

Narrative on variances:

- **Pensions Administration -** Pensions Administration costs were underspent by £0.060m against the budget of £1.366m. This underspend was primary due to lower than expected costs at YPS due to delays by HMRC related to the Guaranteed Minimum Pension (GMP) reconciliation exercise and there being no requirement for external legal advice related to administration matters during the year.

- **Investment Management -** The investment manager fees (excluding pooled fund and transaction costs) account for approximately two thirds of the total Pensions budget. This element of the budget can be difficult to predict and influence due to the correlation with asset performance, and any manager or asset allocation changes. The full year spend on fund management and custody fees was £4.002m. This equated to £0.366m less than the budget of £4.368m. Pooled Fund and transaction costs (which are not included with the management budget) totalled £6.659m during the year.

- **Oversight & Governance** - The Fund overspent on the Oversight & Governance budget of £0.717m by £0.043m. The Fund spent £0.019m more than budgeted on performance monitoring due to timing of undertaking a new contract resulting in the charges for 2 years being paid in 2019/20. Other aspects of the Oversight & Governance budget overspent by a total of £0.024m.

The cash inflows and outflows of the Fund are monitored and managed by officers to ensure there is sufficient cash available to fulfil day to day requirements, more detailed work is also undertaken at month and quarter ends. Details of the Fund's cash flow management are included in reports to the Investment Sub-Group where necessary.

3.3.3 ANALYSIS OF POOL SET UP & ONGOING COSTS

The expenditure shown at 3.2.2 above includes costs relating to the set-up and ongoing running costs of the Fund's chosen pooling company, Border to Coast Pensions Partnership Ltd (BCPP). The below table – 'Cumbria Pension Fund's Allocation of BCPP Expenditure' - provides further detail of these costs. These reconcile to the figures in the Fund's 2019/20 accounts as follows:

3. MANAGEMENT & FINANCIAL PERFORMANCE

	2019/20 £'000
Border to Coast costs within accounts:	
Fund management fees *	1,328
Pooled fund costs (part of £6.541m) *	70
Total 'Border to Coast costs within accounts	1,398
Transition costs**	121
Indirect costs of investment **	20
Minor timing adjustments ***	247
Total 2019/20 costs per below table	**1,787**

* Included in the figures shown in Note 8 to the accounts.
** Charged directly to the investment fund as cost of Investment.
*** The majority of this relates to a 2019/20 invoice pre-paid in 2018/19.

Cumbria Pension Fund's Allocation of BCPP Expenditure

	2019/20 £'000	2018/19 £'000	2017/18 £'000	2016/17 £'000	Cumulative £'000
Set up Costs					
- Implementation					
Staff Costs	-	56	70	-	126
Recruitment	-	27	18	-	45
Legal & Tax advice	-	80	67	-	147
Procurement	-	8	-	-	8
ICT	-	23	17	-	40
Project Mngt Costs	-	31	-	-	31
Other Costs	-	14	7	10	31
- Total Implementation costs	-	239	179	10	428
Other Set up Costs					
- Sub-fund development and projects	187	175	-	-	362
Sub-total Set-up Costs	187	414	179	10	790
Governance and oversight of company					
- Equal allocation to partner funds	194	171	-	-	365
- Allocation on 'assets under management' (AUM)	70	-	-	-	70
	264	171	-	-	435
Investment Management Fees					
- Direct Sub-fund costs	1,104	13	-	-	1,117
- Indirect Sub-fund costs (on AUM)	111	-	-	-	111
	1,215	13	-	-	1,228
Transition Management Fees					
- Transition manager costs	121	50	-	-	171
Sub-total Ongoing Costs	1,600	234	-	-	1,834
Total Costs	1,787	648	179	10	2,624
Estimated fee savings due to pooling & LGPS discounts *(this does not take into account the set-up costs, costs to transfer assets, and non-investment related running costs of the pool).*	(739)	(444)	(335)	(332)	(1,850)

3. MANAGEMENT & FINANCIAL PERFORMANCE

Estimated savings due to pooling & LGPS discounts:
The Fund's allocation to UK listed equity has been invested in the pool for the full year in 2019/20; it is estimated that the pool delivered savings on management fees for these assets of £0.338m. The Fund's allocation to global listed equity was invested in the pool for six months during 2019/20, and it is estimated that this has delivered savings of £0.070m for this period. In addition to this the Fund has benefited from discounted management fees negotiated as a result of the pooling agenda, in particular on passive management.

Taking both the savings generated by the negotiated fee rates and the savings on the UK and global listed equity management fees, the estimated total savings in investment management fees arising from collaboration with pooling partners (including on passive management) were £0.739m in 2019/20, and cumulatively to date amount to £1.850m. This figure does not take into account the set up costs, costs to transfer assets, and non-investment related running costs of the pool.

One of the main aims of pooling is to deliver cost savings through economies of scale whilst generating the net returns required to fund members' current and future pensions. The joint submissions to Government by the BCPP partner funds in February 2016 and July 2016 detailed the pooling proposal and outlined the potential savings that could be achieved. Based on estimates of total investment costs and fees for each of the authorities in the pool (£126m as at March 2015), the proposal outlined potential savings per year of between £15m and £27m by March 2021, and between £21m and £39m by March 2024, excluding set-up costs and transition costs. Estimated break-even for the pool overall was expected to be achieved at best within 2 years and at worst within 5 years (March 2023).

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

3.3.4 Analysis of Pension Overpayments, Recoveries and Amounts Written Off

The Cumbria Pension Fund pays approximately 17,000 pensions every month and annual net pensions paid totalled £74.270m in 2019/20 (£70.525m in 2018/19). With such a large volume of pensioner payments, there is the risk of payment to a member of a pension greater than they are entitled to. The main cause of overpayments is the late notification of the death of a pensioner.

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

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Wherever possible the Fund, while sympathetic to individual circumstances, will attempt to recover any overpayment and will only write off an overpayment as a last resort when it is uneconomical to pursue or all other avenues have been exhausted.

	2019/20		2018/19		2017/18		2016/17		2015/16	
	£	Number of cases	£	Number of cases	£	Number of cases	£	Number of cases	£	Number of cases
Overpayments	78,393	136	140,060	112	45,917	105	156,755	163	48,643	92
Overpayments as % of annual pensions paid	0.11%		0.20%		0.07%		0.24%		0.08%	
Overpayments recovered in year	80,325	115	128,388	115	89,894	113	97,804	140	42,115	83
Overpayments in process of recovery	25,032	40	61,514	25	23,498	24	71,599	32	6,528	9
Overpayments in process of recovery as a % annual pensions paid	0.03%		0.09%		0.03%		0.11%		0.01%	
Overpayments written off	7,459	7	245	3	5,244	3	1,200	3	3,524	5

Some of the recoveries and write off's listed, above relate to cases which commenced in previous years.

3.4 Performance against Business Plan 2019/20

As part of its governance arrangements the Pensions Committee approves a detailed Business Plan and associated budget prior to the start of the year. The purpose of the Business Plan is to provide an annual action plan for the key priorities of the Fund. While the plan is reviewed annually it builds on those prepared for earlier years.

All work plan objectives in the 2019/20 Business Plan have either been completed during the year or are ongoing work that is on track for completion. A summary of delivery against the Business Plan during the year is presented as Note 1(d) to the Financial Statements of the Cumbria Pension Fund presented as Section 8 in this Annual Report.

3.4.1 Looking Forward - Business Plan 2020/21

Looking forward to 2020/21, the proposed key deliverables in the year (grouped under the three main service areas of Administration, Investment Management and Oversight and Governance) include:

Pensions Administration

- Appraising the impact of any revised regulations arising from the resolution to the McCloud age discrimination case and the re-running of the cost cap process and implementing any required changes to the scheme;
- Continuing to improve pension administration arrangements for the benefit of all members and employers of the Fund;
- Continual improvement programme for the quality of data held by the Fund;
- Continuing to monitor and improve employer data submission issues;

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- Maintaining effective communication and liaison with Fund employers to meet the data requirements of the Pensions Regulator; and
- Continuing with implementing Guaranteed Minimum Pension (GMP) reconciliations in accordance with HMRC guidelines.

Investment Management

- Investigating suitable investment options to implement the revised Investment Strategy approved by Pensions Committee in December 2019;
- Liaising with Border to Coast Pensions Partnership Ltd (BCPP) to ensure that suitable opportunities are available within the pool for the Fund to transition to its amended investment strategy; and
- Retendering for the Custodian and Performance Monitoring contract.

Oversight & Governance

- Completion of the 2019/20 Cumbria LGPS Annual Accounts and Annual Report incorporating any new regulatory/technical changes;
- Assessing the impact of and respond to consultations that will have an impact on the structure and performance of the Fund. This will specifically include the SAB's review into Good Governance in the LGPS;
- Reviewing governance arrangements in response to financial, regulatory and structural changes;
- Reviewing and updating Fund risks, policies and strategies;
- Reviewing, measuring and delivering training to Members and Officers as outlined in the Training Plan; and
- Retendering for the legal services contract.

As the impact of COVID-19 becomes clearer, the Fund's work plan will be reviewed and amended where appropriate to ensure it addresses any relevant issues arising as a result of the pandemic.

3.5 ADMINISTRATION MANAGEMENT PERFORMANCE

Cumbria LGPS has an arrangement with Lancashire County Council for the provision of pension administration. Lancashire County Council has contracted for this service (for both the Lancashire and Cumbria LGPS Funds) to be undertaken by the Local Pension Partnership (LPP), which operates in Cumbria as Your Pension Service (YPS). This is a not for profit arrangement providing pension administration services to the public sector. YPS's performance against key pension administration indicators in

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2019/20 for Cumbria LGPS was 97% against a target of 95% as set out in the table below.

Indicator	Target %	Actual 2019/20 %	Actual 2018/19 %	Actual 2017/18 %
Estimate benefits within 10 working days	95	94	91	98
Payment of retirement benefits within 10 working days	95	96	90	99
Payment of death benefits within 10 working days	95	96	83	98
Implement change in pensioner circumstance by payment due date	95	99	98	99
Respond to general correspondence within 10 working days of receipt	95	97	78	95
Action transfers out within 15 working days	95	99	84	97
Action transfers in within 10 working days	95	98	84	98
Pay refunds within 10 working days	95	97	93	99
Provide leaver statement within 15 days	95	97	93	97
Amend personal records within 10 working days	95	100	99	100
	95	**97**	**91**	**98**

Please note the target was 90% prior to 2019/20

YPS and their client Pension Funds, including Cumbria LGPS, are currently reviewing the performance indicators used to assess performance of the pensions administration service. This will aim to ensure that performance is assessed by focussing on customer experience thereby "putting the customer at the heart of everything we do" a key objective of Cumbria County Council, as the Administering Authority of the Cumbria Pension Fund.

3.5.1 NUMBER OF SCHEME MEMBERS IN THE FUND

Over the last four years the Fund has seen a 7% increase in the numbers of Scheme Members as detailed below:

Membership Category	31-Mar-20	31-Mar-19	31-Mar-18	31-Mar-17	31-Mar-16
Actives	**16,989**	16,453	17,034	16,832	16,270
Deferred	**24,420**	25,202	24,436	23,793	23,339
Pensioners	**16,987**	16,185	15,796	15,373	14,910
TOTAL	**58,396**	**57,840**	**57,266**	**55,998**	**54,519**

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During the year 1,097 scheme members were put into pension of which 46 of these scheme members converted their pension into a cash lump sum. The breakdown of new pensioners is set out in the table below.

Retirement Method	Active Members	Deferred Members	Total
Ill Heath	16	-	**16**
Normal Retirement	116	-	**116**
Early Retirement	169	742	**911**
Late Retirement	54	-	**54**
TOTAL	**355**	**742**	**1,097**

3.5.2 Employers in the Fund

As at 31 March 2020, there were 126 employer bodies within the Fund (127 at March 2019). During the year, one Academy employer joined the Fund and two Academies merged with others already in the Fund.

The table below provides a summary of employers as at 31 March 2020 split between those with and without active members in the Fund.

	Scheduled Bodies	Admitted Bodies	Total
Employers with active members	70	34	**104**
Employers with liabilities but no active members	12	10	**22**
TOTAL	**82**	**44**	**126**

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

4 INVESTMENT POLICY AND PERFORMANCE REPORT

4.1 INTRODUCTION

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

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

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

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

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

The purpose of the FSS is:

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

4.2 INVESTMENT MANAGEMENT, ADMINISTRATION AND CUSTODY

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

4. INVESTMENT POLICY & PERFORMANCE

To facilitate effective management of the Fund's assets through efficient use of the Pension Committee's time and to enable tactical investment decisions to be taken and actioned more nimbly, the Fund operates a tiered investment governance structure. The Committee controls asset allocation (which current empirical evidence has been shown to drive over 85% of performance) while tactical investment decisions and investment manager monitoring have been delegated to Officers in consultation with the Investment Sub Group. (For further details of the governance arrangements within Cumbria LGPS see section 7.2)

The Committee have delegated the day to day management of the Fund's investments to professional investment managers, appointed in accordance with the Local Government Pension Scheme (LGPS) regulations, whose activities are specified in detailed investment management agreements and regularly monitored. These managers include the Border to Coast Pensions Partnership Ltd (BCPP), formed and owned by twelve (prior to 1 April 2020, eleven thereafter following the merger of two funds) partner LGPS funds including Cumbria, in order to collectively pool investment assets; more detail on pooling is included in section 4.4.

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

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

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

4.3 ASSET ALLOCATION

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

The Fund underwent a full review of the Investment Strategy in 2019/20 following the completion of the Triennial Actuarial Valuation of the Fund. The key principles for the revised Investment Strategy agreed by the Pensions Committee in December 2019 were:

- Return generation - at a 98.9% funding level (as at 31 March 2019) the Fund was in a strong funding position. However, this funding level represents the position at a snapshot in time i.e. Cumbria LGPS is an open fund which is continuing to accrue liabilities and therefore needs to continue to generate sufficient return to meet those liabilities. As such the revised strategy was

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designed to continue to, over the long term, deliver a similar expected return as the previous strategy.

- Stability for employers - stability of the funding level is also important to help protect Fund employers from sudden and potentially significant fluctuations in contribution levels. In recognition of this the review sought to design a strategy which delivers both a return in line with the funding strategy and reduced volatility to help protect those employers with lower funding levels and are more vulnerable to sudden changes in employer contributions.

- Inflation risk – the Fund's inflation-linked discount rate means that it is largely protected against day to day inflation volatility, however there is a risk that, if inflation was to rise sharply and asset values do not keep pace with any increase, the Fund's strong funding position would potentially weaken and impact employer contributions. In order to mitigate some of this risk, the Strategy increased the percentage of assets held by the Fund that are more closely linked to inflation e.g. long lease property, index-linked gilts and (to an extent) infrastructure equity/debt.

- Volatility risk - equities are expected to produce good returns over the long term and provide a good source of liquidity. As such they play an important role in the Strategy. However, equities are volatile and, at the time of the review, dominated the Fund's risk exposure. In recognition of this the strategy reduced the allocation to public and private equity in favour of assets with a similar expected return but less volatility.

- Illiquidity premium – the Fund is long-term and can lock up capital for longer to take advantage of the additional premium this offers. The Strategy seeks to increase the Fund's exposure to less liquid assets in order to benefit from the illiquidity premium, whilst also ensuring that it is able to meet its cashflow requirements.

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

The process of implementing changes in asset allocation to enable the Fund to reach its revised allocation targets commenced immediately following Committee approval in December 2019, with the following changes being made in the period to 31 March 2020:

- The selection of suitable investments for the alternatives portfolio, including new investment commitments made to BCPP private markets funds launched in the year (Border to Coast Infrastructure 2019, Border to Coast Private Equity 2020 and Border to Coast Infrastructure 2020) and Partners Group Private Market Credit Fund V;

- The continuation of capital drawdowns to previously agreed commitments to infrastructure, private equity and private debt funds;

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- The reduction of the listed equity allocation and ending of the equity protection product; and

- The selection of suitable investments to a new 12% allocation to Multi-Asset Credit funds.

Following year end, in recognition of the impact of the COVID-19 pandemic on global markets and following consultation with the Investment Sub Group, the Director of Finance (S151 Officer) commenced an investment strategy 'sense-check'. This exercise considered whether the strategic asset allocations set out in the strategy remain appropriate. The results, considered in August and September, recommended some small revisions to the interim Investment Strategy, recognising the ongoing uncertainties in investment markets, reduced future investment return expectations, implications for employer contribution rates, and the need to maintain the funding level of the Fund. Given the significant ongoing uncertainties in the markets, it is anticipated that further work will be undertaken on the review of the target Investment Strategy in 2021.

Ongoing implementation of changes towards the revised Investment Strategy has been incorporated within the Fund's business plan for 2020/21.

Investment asset allocation once Investment Strategy has been fully implemented:

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

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

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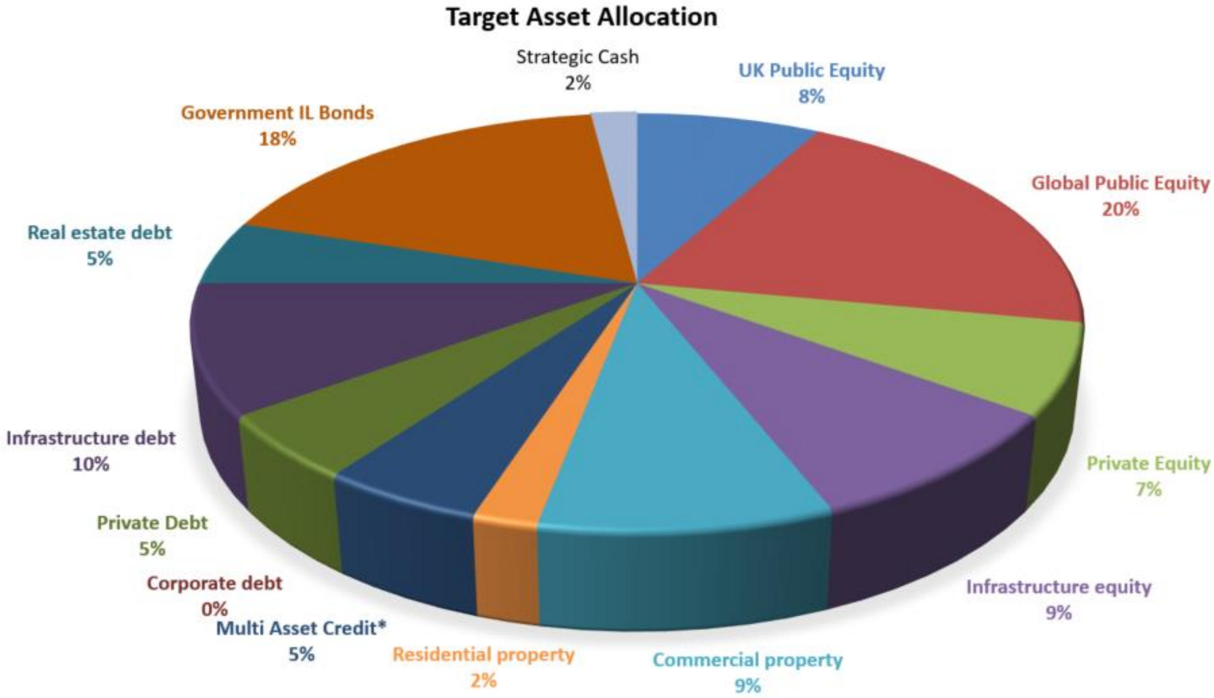
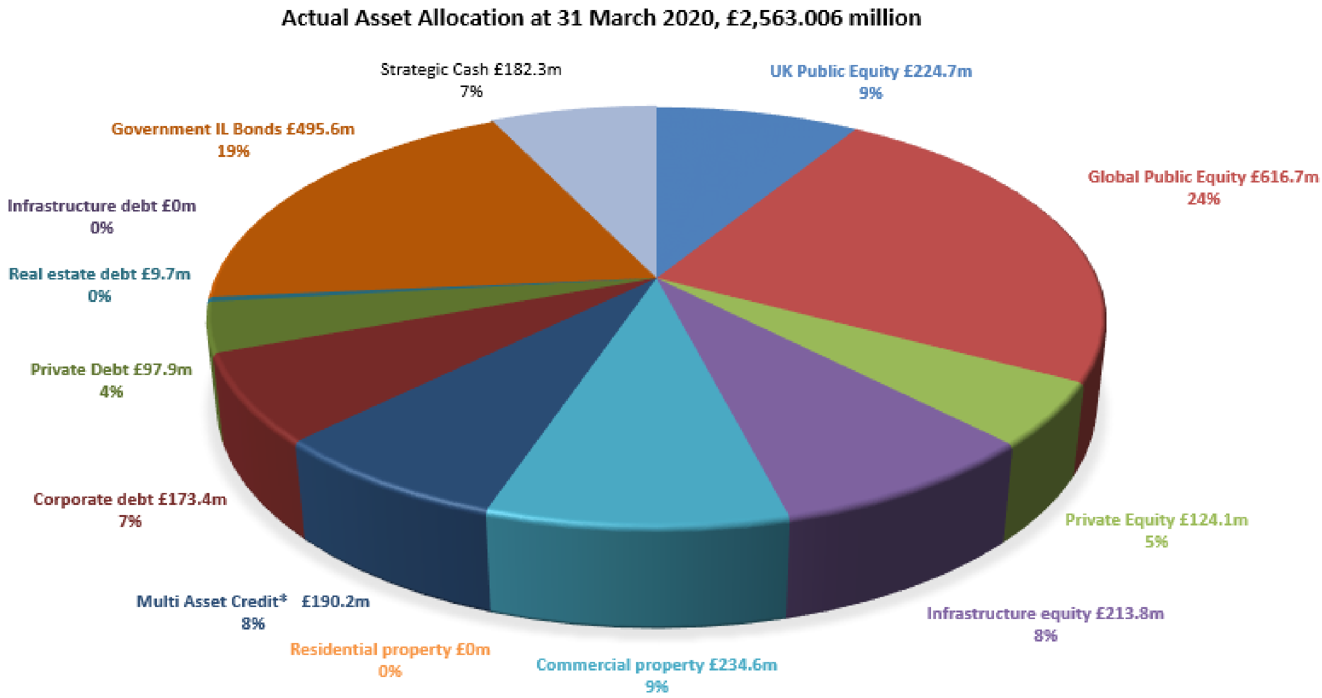


* Also known as Diversified Credit

Investment assets as at 31 March 2020:

The following chart shows the distribution of the total investment assets held by the investment managers across all the asset classes at the year-end:



* Also known as Diversified Credit

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Assets held in investment pooling arrangements: As at 31 March 2020, the investments managed by the BCPP Pool totalled £707.549m, with the remaining £1,855.457m investments managed outside of the pool, as shown in the following table.

Manager	Asset Class	31 March 2019		31 March 2020	
		£'000	%	£'000	%
Investments Managed by Border to Coast Pensions Partnership Ltd					
Border to Coast UK Equity	Equities	268,002	9.9%	223,894	8.7%
Border to Coast Global Equity Apha	Equities	-	-	472,433	18.4%
Border to Coast UK Equity	Infrastructure Funds	-	-	6,480	0.3%
Border to Coast UK Equity	Private Equity Funds	-	-	4,742	0.2%
	Managed by Pool	**268,002**	**9.9%**	**707,549**	**27.6%**
Investments Managed outside Border to Coast Pensions Partnership Ltd	**Assets outside Pool**	**2,429,599**	**90.1%**	**1,855,457**	**72.4%**
Total Net Investments		**2,697,601**	**100.0%**	**2,563,006**	**100.0%**

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

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

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

Changes in assets during the year: The table below sets out the change in the proportion of the Fund's portfolio held in assets identified in the Investment Strategy between 1 April 2019 and 31 March 2020:

	Assets as at 1 April 2019	Assets as at 31 March 2020	Movement
UK Equities	13%	9%	(4%)
Global Equities	36%	24%	(12%)
Fixed Interest / Corporate Bonds	6%	7%	1%
Index Linked Bonds	18%	19%	1%
Multi-Asset Credit	0%	7%	7%
Alternatives	19%	18%	(1%)
Property	6%	9%	3%
Cash & Derivatives	2%	7%	5%
	100%	**100%**	**0%**

Where the Fund holds a greater percentage of its portfolio in an asset class than is targeted in the Investment Strategy Statement (ISS), this is referred to as the Fund being "overweight". Similarly, where the Fund holds a lower percentage of its portfolio

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in an asset class than the target, this is referred to the Fund being "underweight" in that asset class. The current ISS, detailing the targets for each asset class can be found in **Appendix A-4.**

The key changes in asset holdings since the start of the year are reductions in the percentage of the portfolio held in Global equities of 12% to reduce the strategic overweight following transition to BCPP, resulting in an increase in cash holdings of 5% and new multi-asset credit investments of 7%. These moves have arisen as a result of ongoing work to achieve the target investment allocation as per the ISS. Other changes mainly reflect the relative performance from the asset type and conversion to sterling.

The Fund is temporarily overweight in global equities and multi-asset credit, whilst it progresses towards the targeted strategic asset allocation as per the ISS (this position is reviewed quarterly at the Investment Sub Group and reported to each Pensions Committee meeting). This overweight position will reduce as the Fund meets current commitments to and completes further allocations to alternatives. At 31 March 2020 commitments to infrastructure, private equity, private and real estate debt alternatives totalled £859m (approximately 33% of Fund assets compared to the target ISS allocation to alternatives of 36%) of which £456m (approximately 18% of Fund assets) had been invested, elements of which have already been returned to the Fund as profits are generated (hence, as detailed in the pie chart above, the total value of alternatives as at 31 March 2020 was £445.5m). The further drawdown of these

current committed and as yet unallocated amounts will be funded from the overweight elements.

4.4 INVESTMENT ASSET POOLING – BORDER TO COAST PENSIONS PARTNERSHIP LTD (BCPP)

4.4.1 BACKGROUND

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

As at 31 March 2020 the shareholders were the administering authorities for the pension funds of Bedfordshire, Cumbria, Durham, East Riding, Lincolnshire, Northumberland, North Yorkshire, South Yorkshire, Surrey, Teesside, Tyne & Wear, and Warwickshire. At that date the Fund has an unquoted UK equity investment of £0.833 million as one of the twelve shareholders in BCPP. N.B. With effect from 1 April 2020 the Tyne & Wear and Northumberland pension funds were merged, following the laying of regulations in Parliament in May 2020.

As pooling is aimed at investing collectively to deliver cost savings at scale and efficiencies, each Pension Fund and Pensions Committee will remain with its sovereignty unchanged. Cumbria LGPS has retained the decision making powers

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regarding investment strategy and asset allocation, but has delegated the majority of the investment management function to BCPP. It is important to note that neither the scheme members nor the employers in the Cumbrian Fund are directly affected by pooling of LGPS assets.

4.4.2 INVESTMENTS IN THE POOL

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

The Fund will perform an annual review of assets that are determined to be held outside the pool to ensure that it continues to demonstrate value for money.

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

The Fund undertakes due diligence before and during the transition of assets to BCPP to ensure the interests of Cumbria LGPS are upheld. Both the Pensions Committee and the Investment Sub Group (ISG) consider progress in their quarterly meetings, which in 2019/20 included consideration of options for the Fund's 20% actively-managed global equity allocation as set out below.

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

BCPP have also launched a structure for the Fund to invest in private markets i.e. unquoted pooled funds in alternative investments. During 2019/20, the Cumbria Investment Sub Group agreed to commit £50m to be invested in the Border to Coast Infrastructure 2019 fund, followed by an increased commitment of £70m to the Infrastructure 2020 fund for launch from April 2020. Likewise, commitments have been made of £50m to the Private Equity 2019 fund (during the prior year), followed by an increased commitment of £70m to the Private Equity 2020 fund. These commitments will be invested in underlying funds chosen by BCPP over three to four years starting from April 2019 and April 2020 respectively.

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

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Details of the BCPP set-up costs, savings to date and expected future benefits are outlined in section 3.3.3.

4.5 INVESTMENT PERFORMANCE

Good to know:

In 2019/20 the Fund outperformed its Fund specific benchmarks for the 5 and 10 year periods.
The investment outperformance for the five year period of 0.4% means that the active management of investments has gained the Fund (after the investment management fees are paid) around £9.8m per year for three years over a benchmark return.

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

The twelve month period to 31 March 2020 was influenced by a number of external factors including Brexit, the USA - China trade dispute and political uncertainty in the UK ahead of the general election. However, the main factor influencing Fund performance during the year was the impact of the COVID-19 pandemic in the final

quarter. The pandemic had a significant effect on global investment markets, for example equities saw a sell-off of historic proportions which wiped out gains generated in the first three quarters of the year. Corporate bonds were also affected by the sell-off as investors sought out assets perceived to be lower risk such as long-dated government bonds.

Along with other major currencies, sterling briefly dropped to a record low against the US dollar in late March 2020. Demand for dollars surged as investors, concerned over the UK's impending departure from the EU and the size of the government's fiscal stimulus package, turned to the perceived safety of the US currency.

Global Equities saw an overall downturn in 2019/20 of -6.7%, although there were variations by region. The UK and Asia Pacific suffered the largest falls over the 12 months declining by –18.5% and -17.7% respectively whilst Europe, North America, and Japan fared a little better declining by -8.0%, -2.8% and -2.1% respectively.

4.5.1 INVESTMENT PERFORMANCE OF THE FUND AGAINST BENCHMARK (NET OF FEES):

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

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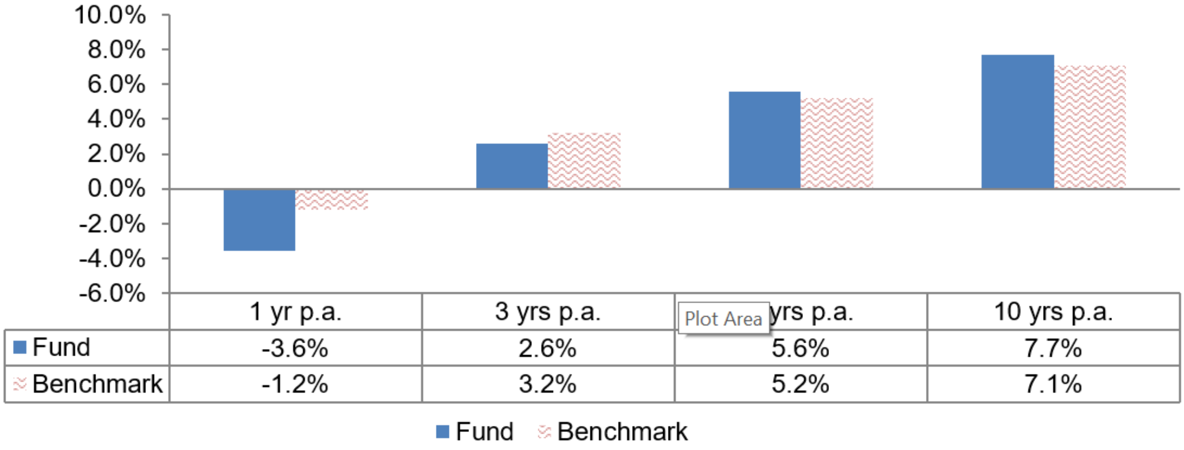

The investment out performance for the five year period shown above of 0.4% means that the active management of investments has gained the Fund (after the investment management fees are paid) around £9.8m per year for five years over a benchmark return.

4.5.2 INVESTMENT FUND MANAGER PERFORMANCE (NET OF FEES)

Fund Manager	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
Aberdeen Standard (Property)	(3.9)	3.1	6.1	8.2
Border to Coast UK Equity	(15.5)	n/a	n/a	n/a
Border to Coast Global Equity	not a full year	n/a	n/a	n/a
Legal & General	(2.6)	2.0	6.3	8.8
Aberdeen Standard (Corporate Bonds)	0.5	1.7	3.3	n/a

Source: State Street Investment Analytics

The Fund Manager mandates above cover 69% (£1,777m) of the fund in segregated and index-tracking mandates, the balance is invested in Alternative pooled funds

4.5.3 FUND RETURNS OVER 1, 3, 5 AND 10 YEARS BY ASSET CLASS (NET OF FEES):

To 31 March 2020	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
Equities	(10.4)	1.0	5.0	7.6
Fixed Income	(3.9)	(0.5)	3.5	6.8
Alternatives	6.8	7.7	10.0	10.0
Property	(3.6)	3.5	5.9	8.3
Total Assets	**(2.7)**	**2.8**	**5.7**	**7.7**

Source: PIRC LGPS Universe tables 2019/20

NB: The figures in the above table are based on the unaudited accounts prior to an updated valuation of Tier 3 investments, primarily for private equity (which is included in 'Alternatives'), reducing the value of these investments by £16m.

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Investment performance benchmarking

The Fund works with Pensions & Investment Research Consultants (PIRC) to compare its performance in relation to both its own benchmark and to the investment performance of other Local Authority Pension Funds that are signed up to PIRC's Local Authority Pension Performance Analytics (LAPPA) service. At the time of writing the peer group LGPS Universe constructed by PIRC comprised 62 funds with an aggregate value of almost £180bn.

PIRC calculated that the average return achieved by its LGPS Universe for the year to 31 March 2020 was -4.8%. The Fund performance for the year (at approx. -2.8%) meant that it ranked in the 20th percentile position (i.e. the top quartile) of the PIRC LGPS universe. Analysis by PIRC indicates that the key drivers of the Fund's outperformance against the PIRC LGPS universe average was the Fund's reduction in exposure to equity and increase in the level of alternatives held during the year. As detailed at section 4.3, these changes took place as a result of the review of the Fund's Investment Strategy.

Over the medium and longer term periods of 3, 5, 10 and 20 years to 31 March 2020, PIRC assessed the Fund's performance as consistently in the top quartile of the PIRC LGPS universe. Furthermore, PIRC's analysis of risk and return, undertaken over the last 5 and 10 year periods, indicated that these top quartile returns were achieved at lower than average levels of volatility.

4.5.4 INVESTMENT FUND MANAGER COSTS AND THE CODE OF TRANSPARENCY

The fund management fees of £3.925m and transaction costs (broker fees) of £0.118m shown in the Accounts - Note 8 Management Expenses Additional Information are the investment management fees as invoiced to the Fund and / or as disclosed in standard accounting information provided to the Fund by Investment Managers.

It is recognised, however, that the reporting of fees by investment managers is not always consistent (even between investment managers in the same asset class) and that there may be additional 'hidden' costs over and above those invoiced or disclosed in traditional reporting to clients. In response to this a voluntary Code of Transparency, covering the provision of transparent and consistent investment cost and fee information between investment managers and Funds, was developed and approved by the Scheme Advisory Board (SAB) and launched in May 2017. Fund managers to the LGPS are being encouraged to sign up to this Code and as at March 2020, there were over 130 signatories.

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

The Scheme Advisory Board has procured a collation and compliance system for all parties (funds, pools & investment managers) to use, as supplied by Byhiras. This

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compliance system aims to make the process of collation more efficient than the current ad hoc arrangements, ensure the SAB can monitor compliance for the Funds and the pools and streamline the process for the managers providing the data.

The majority of the Fund's investment managers have signed up to the transparency code and some have opted to use the new compliance system. The Fund has reviewed the submissions of cost transparency templates received from those managers (either direct or through the new system) for the year 2019-20.

The templates received from the segregated managers, pooled equity managers and the passive managers for 2019/20 show additional costs, both explicit (e.g. transaction taxes) and implicit ones (e.g. implicit transaction costs as described below), calculated by those managers (i.e. over and above the management fees reported by the Fund in the accounts as 'fund management fees') of approximately £4.034m. These costs were incurred in the course of normal transactions and trading of the portfolios;

- Approximately 20% of the costs were explicit (actual) costs including transaction costs such as taxes and broker commissions.
- The remainder were 'implicit transaction costs' (i.e. opportunity costs) this is defined as the loss of value implied by the difference between the price at which a deal was struck and the mid-market price of an asset at the time the order was placed (i.e. how much the market moved, in the time it took to complete the transaction). The bulk of these implicit transactions costs were within the externally managed global equity portfolio, held with BCPP and relate to periods of either increased trading during the transition of the assets between managers or trading of assets during periods of highly volatile market pricing, especially in March when the scale of the COVID-19 pandemic had a negative impact on all global investment markets.

The templates received from the pooled fund Alternative asset managers for 2019/20 show additional costs incurred by those managers (i.e. over and above the management fees reported by the Fund in the accounts as 'pooled fund costs including entry fees') of approximately £1.762m. These costs were incurred in the course of normal transactions and trading of the assets; and include both operational and administrative costs of the fund and other direct and indirect transaction costs.

In October 2019 the Fund transitioned from Loomis Sayles and Nordea (two Global equity segregated portfolio managers) to the Border to Coast Authorised Contractual Scheme (ACS) externally managed pooled Global Equity Alpha fund. There were additional costs incurred during this transition which are not included above as they are related to a specific decision to change our Investment Manager as part of the pooling of LGPS assets and are therefore not specific to ongoing charges of an Investment Manager. This transition was undertaken within the ACS and managed by BCPP, the appointed transition manager (Blackrock) and transition consultant (Inalytics) on behalf all of the Partner Funds. Within this process there was an agreed cost sharing protocol which resulted in a cost of £0.121m to the Fund.

In addition to the above, the Fund's UK directly held property manager has declared costs of £0.839m relating to the stamp duty, agents, legal and other fees that are incurred at the point of buying and selling investment properties. These costs are capitalised at the date of the transaction but are detailed here for completeness.

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It is anticipated that Byhiras, the third party system recently procured by the LGPS Scheme Advisory Board appointed will provide greater consistency and completeness in reporting by managers; such that, when the full 2020/21 year cost transparency data has been received, it will enable the Fund to further enhance the reporting of 'hidden' investment costs in future years, and continue in its aim to follow best practice within LGPS accounting.

4.6 INVESTMENT GOVERNANCE

4.6.1 RESPONSIBLE INVESTMENT POLICIES AND THE STEWARDSHIP CODE

Cumbria LGPS is committed to being a responsible owner and believes that responsible investment, incorporating environmental, social and governance (ESG) factors into investment decisions, can help to improve the long-term value for shareholders.

The Fund's investment guidelines stress the overriding importance of financial considerations in selecting investments, and the Fund aims to fulfil its fiduciary duty to its employers and members by considering investments primarily for maximisation of

return, or minimisation of risk. ESG issues, including the impact of climate change can have a material impact on the value of financial assets, and are considered across all asset classes where, in the view of the manager, such considerations may affect performance. If the same risk or return can be achieved from two investments then ESG considerations could be a deciding factor. This process ensures that the Administering Authority does not prefer its own particular interests to those of other Fund employers and members.

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

Cumbria LGPS takes its responsibilities as an asset owner (shareholder) seriously and adheres to the Principles of the Stewardship Code (2012). It views stewardship as part of the responsibilities of share ownership and therefore, an integral part of the investment strategy. As global investors, Cumbria LGPS expect the principles of good stewardship to apply globally whilst recognising the need for local market considerations.

Cumbria LGPS is a Tier 1 signatory to the UK Stewardship Code (2012) and includes its Statement of Compliance with the UK Stewardship Code (2012) in Appendix A-4. Cumbria expects its investment managers to also adhere to the Stewardship Code.

In October 2019, the Financial Reporting Council (FRC) issued an updated UK Stewardship Code (2020). The Fund is currently working towards applying to become a signatory of the new Code. The earliest opportunity for LGPS Fund's to do this is in June 2021 - 3 months after the first year-end following the implementation of the Code.

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It is expected that the Government will legislate in the future on reporting and disclosure on pension funds' approach to climate change. In particular the Government's Green Finance Strategy (July 2019) has set an expectation that all large asset owners will be disclosing in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) by 2022. The Fund will monitor developments and amend the Fund Policy Document and working practices as required to reflect any legislative change or identified best practice.

Good to know:

Cumbria LGPS is a Tier 1 signatory to the UK Stewardship Code (2012), and publishes a Statement of Compliance with the UK Stewardship Code in its Annual Report and Accounts (Annex B to the Investment Strategy Statement).

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

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

4.6.2 VOTING AND ENGAGEMENT ARRANGEMENTS

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

The responsibility for the exercise of voting rights is currently delegated to the investment managers (BCPP and Legal and General) however Cumbria LGPS has the opportunity to override votes if considered appropriate. Cumbria LGPS expects its investment managers 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.

Actively managed listed equities: Following the transfer of the global active equity allocation from Nordea and Loomis Sayles in September 2019, all of the Fund's investments in actively managed liquid equities are now held with Border to Coast Pensions Partnership Ltd (BCPP). BCPP has a collaborative voting policy which is enacted on behalf of the Partner Funds by specialist voting advisor, Robeco. This policy aims for the Pool to exercise collective shareholder voting rights effectively through leveraging the benefits of scale.

- Details of the BCPP Corporate Governance and Voting Guidelines can be found at:

https://www.bordertocoast.org.uk/app/uploads/2020/02/Border-to-Coast-Corporate-Gov-Voting-Guidelines-2020-Final-for-publishing-pdf.pdf

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

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

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 ethical policies and practices of the companies in which the pooled funds invest. The Members are satisfied that the Fund Managers Corporate Governance policy reflects the key principles Responsible Investment, and ESG issues.

- Details of Legal and General Investment Management's approach to Corporate Governance and responsible investment can be found at:

https://www.lgim.com/uk/en/capabilities/corporate-governance/

Both investment managers are Tier 1 signatories to the Stewardship Code (2012), and have signed up to the United Nations Principles for Responsible Investment (PRI).

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

Cumbria LGPS is also a member of the Local Authority Pensions Fund Forum (LAPFF), and has been able to use the expertise of the Forum to enhance understanding of Corporate Governance issues. LAPFF is a collaborative shareholder engagement group which brings together 82 local authority pension funds and six pools from across the UK with combined assets of over £300 billion. LAPFF seeks to protect the investments of its members by promoting the highest standards of corporate governance and corporate social responsibility (i.e. responsible action by the companies in which its members invest) on ESG issues. LAPFF meets on a quarterly basis and issues voting alerts including advice on how Funds might wish to vote where voting issues arise in relation to particular companies.

Through its membership of LAPFF and ownership of BCPP the Fund supports the following organisations:-

- Climate Action 100+
- Task Force on Climate-related Financial Disclosures (TCFD)
- Workforce Disclosure Initiative (WDI)

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- Institutional Investors Group on Climate Change (IIGCC)
- Transition Pathway Initiative (TPI)
- 30% Club
- United Nations supported Principles for Responsible investment (PRI)

Key voting and engagement issues affecting Cumbria LGPS investments during 2019/20:

Climate change continues to be a major priority to companies and their shareholders and it is also acknowledged that this issue is increasingly important to Scheme Members of the Fund. The challenges presented by climate change continue to be a key area of focus in voting shares of the Fund, along with wider governance issues and executive remuneration.

As an example of how responsible investing can influence corporate policy, at the BP Plc AGM in May 2019 a shareholder resolution was put forward requesting the company report on alignment between its strategy and the Paris Agreement, including how activities contribute to climate change, its targets towards reaching emission reductions and any links of these targets to executive remuneration. Prior to the vote there had been significant engagement with a wide audience of investors and in advance of the AGM the management themselves recommended a vote in favour of the resolution, the vote was carried by 99.14%.

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

BCPP has engaged with its partner Funds, including Cumbria LGPS, and other external partners to consider in depth the implications of climate change on its investment approach. This has informed BCPP's approach to climate change in its responsible investment policy and guidelines.

LAPFF have continued with their active engagement, challenging companies on executive pay arrangements, and climate change policies, in addition to other key corporate governance issues, such as board diversity and independence. Details of this engagement has been provided to Pensions Committee Members on a quarterly basis.

4.6.3 COMPLIANCE WITH THE UPDATED MYNERS PRINCIPLES

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

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

4. INVESTMENT POLICY & PERFORMANCE

BCPP have also confirmed their compliance with the updated Myners principles.

Good to know:

During 2019/20 the Fund was fully compliant with the updated Myners Principles.

5 FUND ADMINISTRATION REPORT & ADMINISTRATION STRATEGY

5.1 FUND MEMBER AND PENSIONER ADMINISTRATION

As stated in the Governance Policy Statement **Appendix A-2**, it is the responsibility of the Pensions Committee to exercise the Council's responsibility as Administering Authority for the management of Cumbria LGPS, and the Director of Finance is responsible for securing the satisfactory provision of this service.

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

- Lancashire County Council (whose performance is reported to and monitored by the Pensions Committee and Pension Board); and
- Officers within the core Cumbria Pensions team.

Cumbria LGPS has an arrangement with Lancashire County Council for the provision of pension's administration. Lancashire County Council has contracted for this service (for both the Lancashire and Cumbria LGPS Funds) to be undertaken by the Local Pension Partnership (LPP), which operates in Cumbria as Your Pension Service (YPS).

Monitoring of the service provision is a continual process which includes, at a strategic level, quarterly Board Meetings and, at a more detailed service level, quarterly review meetings between officers from Cumbria LGPS and LPP. Where escalation is required, officers of the Fund would raise this with Lancashire County Council as the provider for the service.

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

The Cumbria Fund and Lancashire County Council continue to work together with LPP to seek to ensure that members receive a high quality, progressive service at a reasonable cost.

5.2 COMMUNICATIONS

Clear and concise member communication and access to information is vital in ensuring members are able to make well informed choices about their pension benefits, and be kept updated about the LGPS. Changes to the LGPS, annual allowances and taxation as well as other regulatory changes are examples of times when members need clear, timely communication from the Fund.

The Fund's administration function is focussed on improving communication and extending ways for members to access the administration team at Your Pension Service; be that face to face, electronically or by phone or letter. The YPS website is

5. FUND ADMINISTRATION REPORT & ADMINISTRATION STRATEGY

also available at all times for members to get information about areas such as the retirement process, combining of service and tax issues.

A core objective of the Fund during 2019/20 has been the continued engagement with employers and stakeholders, keeping members informed about their pensions and engaging with the industry and government on wider pension and investment issues.

In order to deliver this core objective and in accordance with regulation 61 of the Local Government Pension Scheme Regulations 2013 the Fund prepares, maintains and publishes a written statement of its policy concerning communication with members, representatives of members and employing authorities (‘the Policy’).

The Policy forms part of the Administration Policy set out in **Appendix A-3** of this report. The Policy referenced contains details of how information is provided to members, their representatives and employers and in what format. In addition to this further information on the Fund’s methods of communication is set out in the following sections (5.2.1 to 5.2.3).

5.2.1 METHODS OF COMMUNICATION - ELECTRONIC MEDIA:

To make information more easily accessible to members and to provide value for money the principal method of communication is via electronic media (although where requested paper copies of all documentation are available). Through the Your Pension Service website **(www.yourpensionservice.org.uk/local-government-scheme/**) Cumbria LGPS enables Fund members, their representatives and employers to access detailed documents and information for example:

- A summary of the benefits of the Scheme and how to join the Fund;
- The Fund’s Policy document;
- The Actuary’s triennial valuation at March 2007, March 2010, March 2013, March 2016 and March 2019;
- Prior year Annual Reports including that for 2018/19 (the 2019/20 Annual Report will also be available once published);
- A range of guides, factsheets and forms;
- Online copies of the various forms members may wish to use in connection with their Scheme membership;
- Updates on latest developments affecting the Scheme & Fund newsletters;
- Information for Employers including:
    - employer guides;
    - details of communications and conferences;
    - a range of other guides and factsheets; and
    - a useful links page.
- Employer Self Service – this enables employers to view pension database records for their employees and to calculate estimated benefits for their employees; and
- Member Self Service – this allows members to go online at the YPS website (http://www.yourpensionservice.org.uk/) and, once logged in, to view documents and to access and amend information, including:
    - Doing their own pension forecasts;
    - Check and amend their contact details and address details;

5. FUND ADMINISTRATION REPORT & ADMINISTRATION STRATEGY

- Check their pension fund membership and their records;
- View their nomination(s) and amend their nomination(s) online;
- View their annual pension benefit statement; and
- View and download Fund documents, guides, factsheets and leaflets.

In addition to this key documentation relating to Cumbria LGPS is also available on Cumbria County Council's website at:
www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp

5.2.2 METHODS OF COMMUNICATION - NON-ELECTRONIC MEDIA:

The Fund recognises that not everyone has access to the internet and this information can also be obtained by calling YPS on 0300 323 0260 or by writing to Your Pension Service, PO Box 1382, Preston, Lancashire, PR2 0WQ.

5.2.3 METHODS OF COMMUNICATION - OTHER:

During the year the dedicated Engagement Team within Your Pensions Service carried out a variety of training events, presentations and pension surgeries. The team visited five Fund employers to support, maintain and improve working relationships. They also delivered one to one training to one employer to encourage the use of the Employer Self-Service facility.

There were four annual pension surgeries for members, which also focused on enrolling members to My Pension Online, once again contributing to an increase in sign up to the service. In addition to this the team gave three Scheme Basics presentations to members and three events were held by employers at which YPS was in attendance and available to give information and answer members' questions.

The Annual practitioners' conference was held on 6th November and 51 payroll and HR practitioners were present. The event included training on the Retirement Process, an annual pensions update including any regulatory changes, and there was also an opportunity for employers to meet the team and discuss all aspects of the service.

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

5.3 ARRANGEMENTS FOR GATHERING ASSURANCE OVER THE EFFECTIVE AND EFFICIENT OPERATION OF FUND ADMINISTRATION

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

5. FUND ADMINISTRATION REPORT & ADMINISTRATION STRATEGY

In addition to this, to take advantage of sharing best practice, enhanced training opportunities and so as to benchmark itself against other Funds, the Administering Authority was a subscriber to the following bodies during 2019/20:

- Local Authority Pension Fund Forum (LAPFF);
- CIPFA Pensions Network;
- CIPFA Benchmarking;
- Local Authority Pension Performance Analytics;
- Local Government Employers (LGE);
- Local Government Association (LGA); and
- Society of County Treasurers (SCT).

5.4 VALUE FOR MONEY

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

Further detail about the performance of the Fund's administration functions during 2019/20 is included in section 3 of this report, specifically:

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

Cumbria Pension Fund has subscribed to the CIPFA Pensions Administration Benchmarking Club for 2019/20 to assess its performance and costs against other LGPS Funds.

Results of this benchmarking exercise were expected to be received in November 2020 however CIPFA have advised that due to the impacts of the COVID-19 pandemic the output from the benchmarking exercise will not be made available until the end of November and therefore it has not been possible to include it in the Annual Report before the publication deadline of 1 December 2020.

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

5.5 DATA QUALITY

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

Whilst the Fund has a high level of scheme member data which is considered to be present and accurate, it continually strives to improve its data quality. In recognition of this, during 2018/19, the Fund developed a data improvement plan. The plan details

5. FUND ADMINISTRATION REPORT & ADMINISTRATION STRATEGY

actions to be taken to ensure that data quality is continually reviewed, metrics for success and progress made to date.

In June 2019, the Pensions Committee requested that the Cumbria Local Pension Board monitor future progress against the data quality improvement plan and actions taken to improve data quality across the Fund with any specific issues arising being fed back to the Committee.

During the year good progress was made in key areas such as reducing the number of scheme members who had left their employment but employers had not provided the required information. The Fund saw a reduction of 53% in the number of these "pending leavers" during the year.

The Fund completed its annual Scheme Return to the Pensions Regulator in November 2019 including data quality scores. Using the scoring mechanism as set out by the Pensions Regulator, the Fund reported that 97.46% of its common data (e.g. NI Number, address etc.) was present and accurate and the scheme specific conditional data (e.g. employment details, contribution history etc.) was scored as being 87.95% present and accurate.

In recognition of the vital importance of data quality, the Fund's risk register includes a specific risk – that member data is incomplete or inaccurate – which is reported on to both the Committee and Board on a quarterly basis. Further detail of this is set out in section 3.2.2 of this document.

5.6 INTERNAL DISPUTE RESOLUTION PROCEDURE

Although the majority of problems relating to members benefits are normally the result of misunderstandings or incorrect information and can therefore be dealt with informally, the LGPS Regulations provide a formal complaint procedure known as the Internal Dispute Resolution Procedure (IDRP). This formal process consists of two stages, although most of the complaints received are resolved during the first stage. More detailed information can be found by going to the Active Members section of the Your Pension Service website at the following web address:
www.yourpensionservice.org.uk/local-government-scheme/
and downloading the guide entitled 'IDRP Employee's Guide' from the "Members, Active, Deferred & Pensioner" section then the "Guides, Leaflets and Forms" tab. Alternatively Your Pension Service can be contacted by telephone on 0300 323 0260.

The Fund undertook 16,397 calculations/enquiries during 2019/20 and received 56 complaints (equivalent to 0.3% of cases completed in 2019/20) and 9 compliments.

Additionally, the Administering Authority received 9 new Stage 1 Internal Dispute Resolution Procedure (IDRP) appeals in 2019/20. There were 4 further appeals that had reached Stage 2 of the process and all of these cases were concluded during the year. The Ombudsman received 3 appeals during the year, 2 after Stage 1 of the process and a further 1 after Stage 2. One of these cases was closed without determination as it was deemed resolved and the other 2 remain outstanding.

5. FUND ADMINISTRATION REPORT & ADMINISTRATION STRATEGY

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

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

6 ACTUARIAL REPORT ON THE FUND

6.1 INTRODUCTION

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

The most recent valuation was carried out as at 31 March 2019 with the results of this valuation being used to set employer contribution rates for the period 1 April 2020 to 31 March 2023. The 2019 valuation was undertaken in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

The 2019 Actuarial Valuation Report (including the Rates and Adjustments Certificate as at 31 March 2020) is available on the Cumbria County Council website at: **http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp**

The next full Actuarial Valuation is scheduled to take place as at 31 March 2022, and will set employer contribution rates from 1 April 2023.

6.2 2019 VALUATION

The latest valuation was undertaken based on the Fund's position as at 31 March 2019. The resultant employer contributions are effective from April 2020 to March 2023.

The methodology and core assumptions on which the 2019 valuation was based were proposed by the actuary and accepted by Pensions Committee at their meeting in September 2019. These included:

- Discount rate for past service of CPI plus 1.25%
- Discount rate for future service of CPI plus 2.00%
- Average deficit recovery period of 12 years.

Pensions Committee also agreed that no explicit adjustment would be included within the valuation to reflect the potential outcome of the McCloud judgement and the cost cap until further national guidance is issued.

6.3 FUNDING LEVEL

The funding level of the Fund as at 31 March 2019 was 99% compared to 91% in 2016 and 78% in 2013. However, it should be noted that the variation in the funding level between 2013 and 2016 was partially due to a change in the methodology in 2016 on which the valuation was calculated.

6. ACTUARIAL REPORT ON THE FUND

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

	31 March 2019	31 March 2016	31 March 2013
	£	£	£
Total Assets	**2,703**	**2,047**	**1,659**
Liabilities:			
Active members	930	737	744
Deferred pensioners	607	502	429
Pensioners	1194	1018	943
Total Liabilities	**2,731**	**2,257**	**2,116**
Past service surplus / (shortfall)	**(28)**	**(210)**	**(457)**
Funding level	**99%**	**91%**	**78%**

The impact of growth within the Fund's investment portfolio during 2019/20 offset by the impact of COVID-19 in the last quarter of the year has resulted in an estimated funding position of 91% as at 31 March 2020 based on the parameters used for the 2019 valuation.

6.4 EMPLOYER CONTRIBUTION RATES

In addition to calculating the value of the assets and the liabilities of the Fund the purpose of the triennial actuarial valuation is to set employer contribution rates for the next three years. The rates for 2019/20 were set by the 2016 Actuarial Valuation. In setting employer contribution rates during the 2016 Valuation the Actuary and the Fund were required to consider:

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

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

6.4.1 PRIMARY CONTRIBUTION RATE

The primary contribution rate is set by the Actuary at each Actuarial Valuation. This is the average rate payable by employers within Cumbria LGPS to ensure that there are sufficient assets built up to meet the future benefit payments in respect of future service.

Individual employers' rates will vary from the primary contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable in 2019/20 can be found at 6.5 and in the 2016 Actuarial Valuation Report at the web address detailed at 6.1.

6. ACTUARIAL REPORT ON THE FUND

Details of the employer contribution rates payable from April 2020 to March 2023 can be found in the 2019 Actuarial Valuation Report also available at the same web address

Figure 6.4.1 Primary Contribution rate:

	31 March 2019	31 March 2016	31 March 2013	31 March 2010
Normal contribution rate for retirement and death benefits	24.2	21.0	20.0	18.3
Allowance for administrative expenses	0.8	0.6	0.5	0.4
Total normal contribution rate	25.0	21.6	20.5	18.7
Average member contribution rate	6.4	6.3	6.3	6.2
Average Primary Contribution rate	**18.6**	**15.3**	**14.2**	**12.5**

6.4.2 CONTRIBUTIONS TO REDUCE THE HISTORIC DEFICIT

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

The average deficit recovery period for the Fund was set at 12 years with the maximum recovery period for an employer being 13 years (reduced from 16 years in the 2016). The Fund is therefore expected to be fully funded by 2033 (the same as at the 2016 valuation).

6.5 ACTUARIAL CERTIFICATE

Attached below is the actuarial certificate from the 2019 valuation and the employer contribution rates for the period April 2020 to March 2023.

6. ACTUARIAL REPORT ON THE FUND

Rates and Adjustments Certificate issued in accordance with Regulation 62

Name of Fund	**Cumbria Local Government Pension Scheme**

Primary Contribution Rate

I hereby certify that, in my opinion, the primary rate of the employers' contribution for the whole Fund for each of the three years beginning 1 April 2020 is 18.6% of pensionable pay.

The primary rate of contribution for each employer for the three year period beginning 1 April 2020 is set out in the attached schedule.

Secondary Contribution Rate

I hereby certify that, in my opinion, the secondary rate of the employer's contribution for the whole Fund for each of the three years beginning 1 April 2020 is as follows:

2020/21	£5.4 million plus 0.1% of pensionable pay
2021/22	£5.6 million plus 0.1% of pensionable pay
2022/23	£5.7 million plus 0.1% of pensionable pay

The secondary rate of contribution for each employer for each of the three years beginning 1 April 2020 is set out in the attached schedule. The above secondary rates, and the secondary rates for each employer, where appropriate include a provision for the costs of the McCloud judgment as set out in the notes to Appendix H.

Contribution Amounts Payable

The total contribution payable for each employer is the total of the primary and secondary rates as detailed in the attached schedule. Contributions will be paid monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically) or at intervals agreed with the Administering Authority unless otherwise noted in the schedule.

6. ACTUARIAL REPORT ON THE FUND

Further Adjustments

A further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of three years covered by this certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's Actuary and the Administering Authority. Cumbria County Council will also make a payment of 60% of the capitalised cost of each retirement on the grounds of ill-health of one of its own members. Again, this cost will be calculated in accordance with methods agreed from time to time between the Fund's Actuary and the Administering Authority.

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

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

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

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

Regulation 62(8)

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

6. ACTUARIAL REPORT ON THE FUND

Signature:		**Signature:**	
Name:	John Livesey	**Name:**	Mark Wilson
Qualification:	Fellow of the Institute and Faculty of Actuaries	**Qualification:**	Fellow of the Institute and Faculty of Actuaries

Date of signing: 31 March 2020

6. ACTUARIAL REPORT ON THE FUND

SCHEDULE TO THE RATES AND ADJUSTMENTS CERTIFICATE DATED 31 MARCH 2020 (APPENDIX H)

Employer	Primary rate 2020/21 to 2022/23	Secondary rates			Total Contribution rates		
		2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Major Authorities							
Cumbria County Council (see note 4)	18.4%	£2,613,500	£2,676,200	£2,740,400	18.4% plus £2,613,500	18.4% plus £2,676,200	18.4% plus £2,740,400
Carlisle City Council	18.5%	1.4%	1.4%	1.4%	19.9%	19.9%	19.9%
Barrow Borough Council	19.5%	1.1% plus £8,300	1.1% plus £8,500	1.1% plus £8,700	20.6% plus £8,300	20.6% plus £8,500	20.6% plus £8,700
South Lakeland District Council	19.2%	0.9% plus £48,800	0.9% plus £50,000	0.9% plus £51,200	20.1% plus £48,800	20.1% plus £50,000	20.1% plus £51,200
Allerdale Borough Council	18.8%	£522,800	£535,300	£548,100	18.8% plus £522,800	18.8% plus £535,300	18.8% plus £548,100
Copeland Borough Council	18.1%	£234,800	£240,400	£246,200	18.1% plus £234,800	18.1% plus £240,400	18.1% plus £246,200
Eden District Council	19.5%	(£194,700)	(£199,400)	(£204,200)	19.5% less £194,700	19.5% less £199,400	19.5% less £204,200
Lake District National Park Auth	17.4%	£54,500	£55,800	£57,100	17.4% plus £54,500	17.4% plus £55,800	17.4% plus £57,100
Cumbria Police & Crime Commissioner	18.4%	(£9,600)	(£9,800)	(£10,000)	18.4% less £9,600	18.4% less £9,800	18.4% less £10,000

6. ACTUARIAL REPORT ON THE FUND

Employer	Primary rate 2020/21 to 2022/23	Secondary rates			Total Contribution rates		
		2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Cumbria Chief Constable	18.4%	£22,300	£22,800	£23,300	18.4% plus £22,300	18.4% plus £22,800	18.4% plus £23,300
Further / Higher Education Employers							
Lakes College West Cumbria	18.8%	Nil	Nil	Nil	18.8%	18.8%	18.8%
Furness College	17.7%	Nil	Nil	Nil	17.7%	17.7%	17.7%
Kendal College	18.1%	£43,200	£44,200	£45,300	18.1% plus £43,200	18.1% plus £44,200	18.1% plus £45,300
Former Grant Maintained Schools/Academies							
Richard Rose Academy	18.5%	£245,900	£251,800	£257,800	18.5% plus £245,900	18.5% plus £251,800	18.5% plus £257,800
Furness Education Trust	18.9%	£235,900	£241,600	£247,400	18.9% plus £235,900	18.9% plus £241,600	18.9% plus £247,400
West Lakes Academy	17.7%	£145,600	£149,100	£152,700	17.7% plus £145,600	17.7% plus £149,100	17.7% plus £152,700
Seaton Infant School	17.4%	£13,900	£14,200	£14,500	17.4% plus £13,900	17.4% plus £14,200	17.4% plus £14,500
Kirkbie Kendal School	21.4%	£78,200	£80,100	£82,000	21.4% plus £78,200	21.4% plus £80,100	21.4% plus £82,000
Queen Elizabeth Grammar School	20.1%	£59,000	£60,400	£61,800	20.1% plus £59,000	20.1% plus £60,400	20.1% plus £61,800

6. ACTUARIAL REPORT ON THE FUND

Employer	Primary rate 2020/21 to 2022/23	Secondary rates			Total Contribution rates		
		2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Eaglesfield Paddle CofE VA Primary School	21.7%	£21,800	£22,300	£22,800	21.7% plus £21,800	21.7% plus £22,300	21.7% plus £22,800
The Queen Katherine School	20%	£132,100	£135,300	£138,500	20% plus £132,100	20% plus £135,300	20% plus £138,500
Caldew School	19.1%	£89,300	£91,400	£93,600	19.1% plus £89,300	19.1% plus £91,400	19.1% plus £93,600
Dallam School	19%	£113,400	£116,100	£118,900	19% plus £113,400	19% plus £116,100	19% plus £118,900
Lunesdale MAT - incorporating	18.7%	£173,600	£177,800	£182,100	18.7% plus £173,600	18.7% plus £177,800	18.7% plus £182,100
Settlebeck High School	19.3%	£25,300	£25,900	£26,500	19.3% plus £25,300	19.3% plus £25,900	19.3% plus £26,500
Kirkby Stephen Grammar School	20%	£53,200	£54,500	£55,800	20% plus £53,200	20% plus £54,500	20% plus £55,800
Appleby Grammar School	20.9%	£61,400	£62,900	£64,400	20.9% plus £61,400	20.9% plus £62,900	20.9% plus £64,400
Cumbria Education Trust	18.9%	£294,900	£301,900	£309,100	18.9% plus £294,900	18.9% plus £302,900	18.9% plus £309,100
Trinity School	21.2%	£111,800	£114,500	£117,200	21.2% plus £111,800	21.2% plus £114,500	21.2% plus £117,200
Keswick School	19.9%	£109,300	£111,900	£114,600	19.9% plus £109,300	19.9% plus £111,900	19.9% plus £114,600
Cartmel Priory CofE School	20%	£26,700	£27,300	£28,000	20% plus £26,700	20% plus £27,300	20% plus £28,000

6. ACTUARIAL REPORT ON THE FUND

Employer	Primary rate 2020/21 to 2022/23	Secondary rates			Total Contribution rates		
		2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Dearham Primary	21%	£16,400	£16,800	£17,200	21% plus £16,400	21% plus £16,800	21% plus £17,200
Arnside National CofE School	23.9%	£6,500	£6,700	£6,900	23.9% plus £6,500	23.9% plus £6,700	23.9% plus £6,900
Broughton Primary School	18.5%	£11,000	£11,300	£11,600	18.5% plus £11,000	18.5% plus £11,300	18.5% plus £11,600
Burton Morewood CofE Primary School	18.9%	£9,500	£9,700	£9,900	18.9% plus £9,500	18.9% plus £9,700	18.9% plus £9,900
Castle Carrock School	21.4%	£8,800	£9,000	£9,200	21.4% plus £8,800	21.4% plus £9,000	21.4% plus £9,200
Stramongate School	18.6%	£32,800	£33,600	£34,400	18.6% plus £32,800	18.6% plus £33,600	18.6% plus £34,400
Gilsland CofE Primary	22.1%	£1,200	£1,200	£1,200	22.1% plus £1,200	22.1% plus £1,200	22.1% plus £1,200
Great Corby Primary School	20.3%	£4,800	£4,900	£5,000	20.3% plus £4,800	20.3% plus £4,900	20.3% plus £5,000
Ghyllside Primary	19.8%	£19,300	£19,800	£20,300	19.8% plus £19,300	19.8% plus £19,800	19.8% plus £20,300
Crosby on Eden CofE School	17.6%	£800	£800	£800	17.6% plus £800	17.6% plus £800	17.6% plus £800
Penny Bridge	23.4%	£3,300	£3,400	£3,500	23.4% plus £3,300	23.4% plus £3,400	23.4% plus £3,500
Energy Coast UTC	15.4%	(£4,600)	(£4,700)	(£4,800)	15.4% less £4,600	15.4% less £4,700	15.4% less £4,800

6. ACTUARIAL REPORT ON THE FUND

Employer	Primary rate 2020/21 to 2022/23	Secondary rates			Total Contribution rates		
		2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Chetwynd School	22%	£7,400	£7,600	£7,800	22% plus £7,400	22% plus £7,600	22% plus £7,800
Stanwix School	20.4%	£28,900	£29,600	£30,300	20.4% plus £28,900	20.4% plus £29,600	20.4% plus £30,300
The Good Shepherd	19.6%	£26,900	£27,500	£28,200	19.6% plus £26,900	19.6% plus £27,500	19.6% plus £28,200
Walney Secondary School	20.4%	£58,600	£60,000	£61,400	20.4% plus £58,600	20.4% plus £60,000	20.4% plus £61,400
Fairfield Primary School	19.1%	£34,100	£34,900	£35,700	19.1% plus £34,100	19.1% plus £34,900	19.1% plus £35,700
Cockermouth School	20.1%	£106,500	£109,100	£111,700	20.1% plus £106,500	20.1% plus £109,100	20.1% plus £111,700
George Hastwell School	19.1%	£42,700	£43,700	£44,700	19.1% plus £42,700	19.1% plus £43,700	19.1% plus £44,700
Kendal MAT (Castle Park)	22.3%	£20,800	£21,300	£21,800	22.3% plus £20,800	22.3% plus £21,300	22.3% plus £21,800
Northside Academy	13.7%	£1,700	£1,700	£1,700	13.7% plus £1,700	13.7% plus £1,700	13.7% plus £1,700
Bassenthwaite Academy	20.5%	£2,200	£2,300	£2,400	20.5% plus £2,200	20.5% plus £2,300	20.5% plus £2,400
James Rennie Academy	17.1%	£93,600	£95,800	£98,100	17.1% plus £93,600	17.1% plus £95,800	17.1% plus £98,100
Flimby Academy	16.8%	£17,100	£17,500	£17,900	16.8% plus £17,100	16.8% plus £17,500	16.8% plus £17,900

6. ACTUARIAL REPORT ON THE FUND

Employer	Primary rate 2020/21 to 2022/23	Secondary rates			Total Contribution rates		
		2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Cumbria Academy for Autism	14.4%	Nil	Nil	Nil	14.4%	14.4%	14.4%
Designated / Resolution Employers							
Cumbria Waste Management	19.1%	£25,100	£25,700	£26,300	19.1% plus £25,100	19.1% plus £25,700	19.1% plus £26,300
Keswick Town Council	18.9%	£4,800	£4,900	£5,000	18.9% plus £4,800	18.9% plus £4,900	18.9% plus £5,000
Wigton Town Council	19.4%	£27,100	£27,800	£28,500	19.4% plus £27,100	19.4% plus £27,800	19.4% plus £28,500
Kendal Town Council	20.8%	Nil	Nil	Nil	20.8%	20.8%	20.8%
Cockermouth Town Council	15.1%	Nil	Nil	Nil	15.1%	15.1%	15.1%
Cleator Moor Town Council	22.6%	Nil	Nil	Nil	22.6%	22.6%	22.6%
Ulveston Town Council	29.4%	£400	£400	£400	29.4% plus £400	29.4% plus £400	29.4% plus £400
Maryport Town Council	21.8%	£1,500	£1,500	£1,500	21.8% plus £1,500	21.8% plus £1,500	21.8% plus £1,500
Orian Solutions Limited	24.5%	(£265,000)	(£271,400)	(£277,900)	24.5% less £265,000	24.5% less £271,400	24.5% less £277,900
Workington Town Council	17.9%	£6,000	£6,100	£6,200	17.9% plus £6,000	17.9% plus £6,100	17.9% plus £6,200
Penrith Town Council	19.9%	Nil	Nil	Nil	19.9%	19.9%	19.9%
Aspatria Town Council	20.7%	Nil	Nil	Nil	20.7%	20.7%	20.7%

6. ACTUARIAL REPORT ON THE FUND

Employer	Primary rate 2020/21 to 2022/23	Secondary rates			Total Contribution rates		
		2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Grange Town Council	24.8%	Nil	Nil	Nil	24.8%	24.8%	24.8%
Egremont Town Council	19.5%	£100	£100	£100	19.5% plus £100	19.5% plus £100	19.5% plus £100
Whitehaven Town Council	22.4%	Nil	Nil	Nil	22.4%	22.4%	22.4%
Brampton Parish Council	N/A	£1,600	£1,600	£1,600	£1,600	£1,600	£1,600
Admitted Bodies							
West House	17.9%	(£26,600)	£11,400	£48,700	17.9% less £26,600	17.9% plus £11,400	17.9% plus £48,700
Home Group (Copeland)	21.6%	(£30,600)	(£31,300)	(£32,100)	21.6% less £30,600	21.6% less £31,300	21.6% less £32,100
Cumbria Deaf Association	28.7%	Nil	Nil	Nil	28.7%	28.7%	28.7%
Eden Housing Association Limited	18.2%	Nil	Nil	Nil	18.2%	18.2%	18.2%
Lakeland Arts Trust	23.0%	£13,300	£13,600	£13,900	23% plus £13,300	23% plus £13,600	23% plus £13,900
Glenmore Trust (The)	23%	Nil	Nil	Nil	23%	23%	23%
Care Quality Commission	24.5%	(£30,200)	(£30,900)	(£31,600)	24.5% less £30,200	24.5% less £30,900	24.5% less £31,600
Cumbria Cerebal Palsy Society	26%	Nil	Nil	Nil	26%	26%	26%

6. ACTUARIAL REPORT ON THE FUND

Employer	Primary rate 2020/21 to 2022/23	Secondary rates			Total Contribution rates		
		2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Higham Hall College	24.7%	(£21,200)	(£21,700)	(£22,200)	24.7% less £21,200	24.7% less £21,700	24.7% less £22,200
Oaklea Trust (The)	24.1%	(£3,900)	(£4,000)	(£4,100)	24.1% less £3,900	24.1% less £4,000	24.1% less £4,100
Morton Community Centre	24.3%	(£5,100)	(£5,200)	(£5,300)	24.3% less £5,100	24.3% less £5,200	24.3% less £5,300
Kendal Brewery Arts Centre	29%	(£9,200)	(£9,400)	(£9,600)	29% less £9,200	29% less £9,400	29% less £9,600
Soundwave	24.8%	(£1,600)	(£1,600)	(£1,600)	24.8% less £1,600	24.8% less £1,600	24.8% less £1,600
Harraby Community Centre	31.4%	Nil	Nil	Nil	31.4%	31.4%	31.4%
Longtown Memorial Hall CC	34.5%	(£5,800)	Nil	Nil	34.5% less £5,800	34.5%	34.5%
South Lakes Housing	22.6%	Nil	Nil	Nil	22.6%	22.6%	22.6%
Carlisle Leisure Ltd	17.9%	(£77,200)	(£79,100)	(£81,000)	17.9% less £77,200	17.9% less £79,100	17.9% less £81,000
North Country Leisure (Copeland)	20.6%	(£30,500)	(£31,200)	(£31,900)	20.6% less £30,500	20.6% less £31,200	20.6% less £31,900
FCC Environment (prev FOCSA)	26.3%	(£10,300)	(£10,500)	(£10,800)	26.3% less £10,300	26.3% less £10,500	26.3% less £10,800
Carlisle Leisure (Allerdale)	29.8%	(£18,500)	(£18,900)	(£19,400)	29.8% less £18,500	29.8% less £18,900	29.8% less £19,400
Tullie House Trust	22.6%	(£36,800)	(£37,700)	(£38,600)	22.6% less £36,800	22.6% less £37,700	22.6% less £38,600

6. ACTUARIAL REPORT ON THE FUND

Employer	Primary rate 2020/21 to 2022/23	Secondary rates			Total Contribution rates		
		2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
People First	22.8%	Nil	Nil	Nil	22.8%	22.8%	22.8%
North Country Leisure (South Lakes)	21.5%	(£5,900)	(£6,000)	(£6,100)	21.5% less £5,900	21.5% less £6,000	21.5% less £6,100
SLS (Cumbria) Ltd - Queen Katherine	23.6%	£300	£300	£300	23.6% plus £300	23.6% plus £300	23.6% plus £300
SLS (Cumbria) Ltd - St Herberts	26.8%	Nil	Nil	Nil	26.8%	26.8%	26.8%
Caterlink (William Howard)	23.6%	£6,900	£7,100	£7,300	23.6% plus £6,900	23.6% plus £7,100	23.6% plus £7,300
Caterlink (West Lakes Ac)	24.5%	£400	£400	£400	24.5% plus £400	24.5% plus £400	24.5% plus £400
Carlisle Mencap - Hart St	23.1%	£2,300	£2,400	£2,500	23.1% plus £2,300	23.1% plus £2,400	23.1% plus £2,500
Carlisle Mencap - Huntley Ave	24%	(£9,100)	(£9,300)	(£9,500)	24% less £9,100	24% less £9,300	24% less £9,500
Life Leisure	20.5%	£9,400	£9,600	£9,800	20.5% plus £9,400	20.5% plus £9,600	20.5% plus £9,800
Mellors Catering (Rockcliffe)	18.4%	£300	£300	£300	18.4% plus £300	18.4% plus £300	18.4% plus £300
Mellors Catering (Kirkby Stephen)	20%	Nil	Nil	Nil	20%	20%	20%
Mellors Catering (Appleby)	20.9%	Nil	Nil	Nil	20.9%	20.9%	20.9%

6. ACTUARIAL REPORT ON THE FUND

Other interested bodies with no pensionable employees

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

Important notes to the Certificate:

1. The percentages shown are percentages of pensionable pay and apply to all members, including those who are members under the 50:50 option under the LGPS.

2. With the agreement of the Administering Authority employers may also opt to pay their future service contributions in the April of the year in question, and deficit contributions in either April 2020 or the April of the year in question. The cash amounts payable will be reduced in return for this early payment as follows:
   - Payments made in the April of the certified year will be reduced by 1.78% (i.e. the above amounts will be multiplied by 0.9822)
   - 2021/22 payments made in April 2020 will be reduced by 5.24% (i.e. the above amounts will be multiplied by 0.9476)
   - 2022/23 payments made in April 2020 will be reduced by 8.57% (i.e. the above amounts will be multiplied by 0.9143)

3. Where % contributions are being paid in advance, for these cases the employer will need to estimate in advance the pensionable pay for the entire period (subject to an agreed adjustment with the Administering Authority) and a balancing adjustment to reflect the actual pensionable pay over the period would be made at the end of the period (no later than 30th April as appropriate following the year-end). Consideration will be required for employers in surplus as at 31 March 2019, where any surplus offset would be made up front before any reduction for early payment is applied. Further information on the policy for prepayments can be provided by the Fund upon request. It should be noted that only certain employers will be able to pay their primary rate in advance due to the operational complexity.

6. ACTUARIAL REPORT ON THE FUND

4. Cumbria County Council will also make a payment of 60% of the capitalised cost of each retirement on the grounds of ill-health of one of its own members. This cost will be calculated in accordance with methods agreed from time to time between the Fund's Actuary and the Administering Authority.

5. Where the secondary rate is a £ deduction to the primary rate due to an employer being in surplus, the total annual contributions payable by each employer will be subject to a minimum of £nil i.e. no monies can be refunded to an employer whilst they participate in the Fund.

6. Employers have been notified of the potential additional cost arising from the McCloud judgment. However, the Fund has included within the actuarial assumptions a margin of prudence which in many cases is expected to cover the additional liabilities. Once the final remedy for McCloud is known, the position will be reviewed. Whilst it is possible that the Fund may require additional contributions from employers at that point in time, based on the Administering Authority's current knowledge and understanding of the likely outcome it is more likely that the position will simply be left, to be reviewed as part of the next actuarial valuation. In the event that additional contributions are required before then, this certificate will then be updated to reflect these changes. Any contribution changes will take effect from a date to be determined by the Administering Authority.

7. The pension increase recharges in relation to former employers will continue at the current levels.

7 GOVERNANCE & THE GOVERNANCE COMPLIANCE STATEMENT

7.1 INTRODUCTION

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

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

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

The purpose of each is summarised as follows:

- **Governance Policy Statement (including the Governance Compliance Statement)** (see **Appendix A-2**) – sets out the roles and responsibilities, describes risk management (which is also considered in section 3.2 of this report), and reports compliance against a set of best practice principles.

- **Administration Strategy & Communications Policy** (see **Appendix A-3**) – details the formal arrangements for pensions and benefits administration for the Fund, and the communications with members, employers and pensioners.

- **Investment Strategy Statement** (see **Appendix A-4**) – details how the Fund's assets are invested, the fund managers and benchmarks, the investment beliefs of the Fund and the Fund's compliance with the updated Myners Principles and Stewardship Code.

- **Cash Investment Policy** (see **Appendix A-5**) – the management of the pension fund cash, bank account and investment of surplus cash.

- **Funding Strategy Statement** (see **Appendix A-6**) – identifies how the Fund's pension liabilities will be funded in the longer term and addresses solvency issues.

- **Admissions and Termination Policy** (see **Appendix A-7**) – details the policy on employer admissions and the methodology on cessation from the Fund.

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

- **Discretions Policy** (see **Appendix A-8** and section 7.5 below) – detailing the policy regarding the exercise of certain discretions to assist in the management of the Fund.

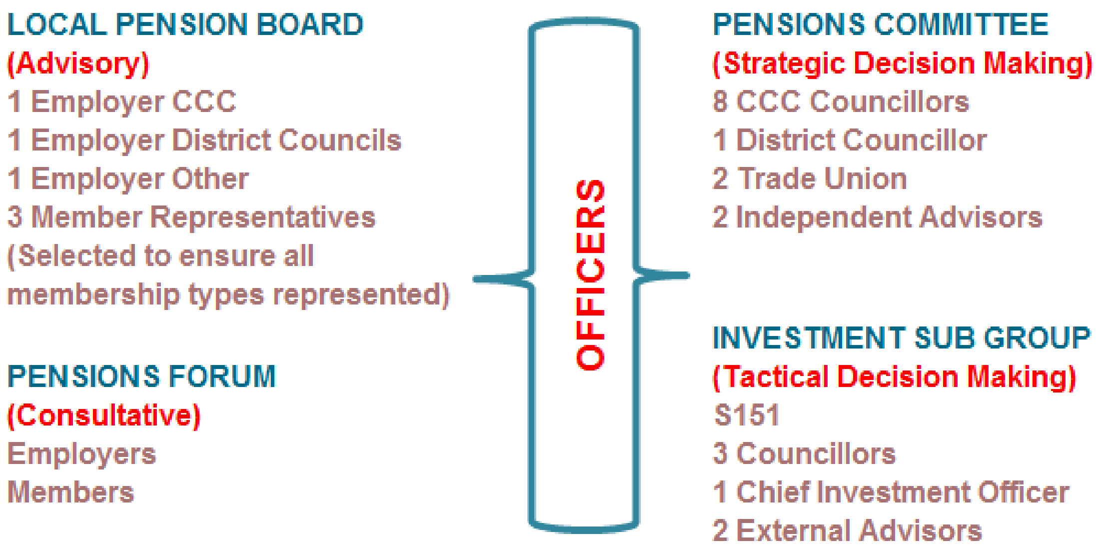
- **Training Policy** (see **Appendix A-9**) – sets out the policy concerning the training and development of members of all committees and officers responsible for management of the Fund.

- **Policy & Procedure on Reporting Breaches of the Law** (see **Appendix A-10**) – sets out the policy and procedures to be followed by persons involved with the Cumbria LGPS in relation to reporting breaches of the law.

- **Internal Controls & Risk Management policy** (see **Appendix A-11** and also 3.2.6) – details the structure of internal control & risk management considerations that are effective within the Fund.

7.2 GOVERNANCE ARRANGEMENTS WITHIN THE CUMBRIA LGPS

During 2019/20 the management arrangements of Cumbria LGPS consisted of five elements: Cumbria Pensions Committee (7.2.1), Cumbria Investment Sub Group (7.2.2), Cumbria Pensions Forum (7.2.3), Cumbria LGPS Local Pension Board (7.2.4) and Advisors and Officers (7.2.5).



7.2.1 CUMBRIA PENSIONS COMMITTEE

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

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

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

Advice is given by Cumbria County Council's Section 151 Officer (who is the Director of Finance), the Council's pensions finance team and by two independent advisors. The current 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 Ltd, and by other consultants, lawyers, custodians and wider service providers.

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

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

7.2.2 CUMBRIA PENSIONS INVESTMENT SUB GROUP

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

The Investment Sub Group consider, and continually review the investment management structure for the Pension Fund and are responsible for advising the Director of Finance (S151 Officer) on the appointment and termination of tactical investment managers (less than 5% of the Fund) and the establishment and review of performance benchmarks and targets for investment. The group also considers the detail of any regulatory changes to investment limits or national policy changes that are made in this area, reporting to the Pensions Committee on their findings and recommendations.

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

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

7.2.3 CUMBRIA PENSIONS FORUM

The purpose of the Cumbria Pensions Forum is to seek the views of stakeholders within the Cumbria LGPS and provide information on performance across the management disciplines of the Fund and discuss items of common interest in relation to pensions. Membership of the Forum is open to all employer bodies within the Fund. Further details of the Forum, including its Terms of Reference are detailed in in the Governance Policy Statement detailed **Appendix A-2**.

The Forum meets annually and during 2019/20 met on 21st November 2019. The meeting presented an overview of the actuarial valuation process and provided employers with the opportunity to discuss their interim valuation results with Officers and the Actuary.

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

7.2.4 CUMBRIA LGPS LOCAL PENSION BOARD

The Board is constituted under the Public Service Pension Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014. The Board's role is to assist the Administering Authority to fulfil its functions in relation to all aspects of governance and administration of the Pension Fund. The Board has no remit as a decision making body. Further details of the Pension Board, including its Terms of Reference are detailed in in the Governance Policy Statement detailed **Appendix A-2**.

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

7.2.5 ADVISORS AND OFFICERS

Advice is given by Cumbria County Council's Director of Finance (S151 Officer), the Council's Pensions Finance Team and by two independent advisors; Mrs Clare Scott and Mr Alistair Sutherland. The current advisors are appointed for their complementary knowledge and experience of investments, actuarial matters and wider pensions issues.

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

7.2.6 CONFLICTS OF INTEREST

Each Member of the Pension Committee and Cumbria Local Pension Board formally considers conflicts of interest at each meeting and the outcome is declared in the public minutes. As detailed in note 16 to the accounts during 2019/20 any related party transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

7.3 TRAINING 2019/20

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

- Updated Myners Principles (as detailed in the Investment Strategy Statement in Appendix A-4 of this report);
- Pensions Regulations and the Pensions Regulator;
- CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills;
- LGPS Governance Compliance Statement; and
- The Committee's own Training Policy (see Appendix A-9 of this report).

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

These policies and practices are guided principally by reference to a comprehensive framework of knowledge and skills requirements as set down in the CIPFA Pensions Finance/Technical Knowledge and Skills Frameworks (KSF) and the Pensions Regulator's Public Service "Trustee Knowledge and Understanding" (TKU) Toolkit. Both these frameworks are LGPS specific and have been devised to ensure those charged with governance in the LGPS (i.e. members of the Pensions Committee, Pension Board, Officers and Advisors) have capability and capacity to undertake their duties.

A training policy (see **Appendix A-9**) and an outline training plan designed to cover the Knowledge and Skills Framework is produced annually by Cumbria LGPS and is updated throughout the year as any knowledge and skills gaps are identified either through emerging events or changes to Committee or Board Membership. The Training Plan incorporated in the Training Policy relates to 2020/21 (the 2019/20 Training Plan is set out in the 2018/19 Annual Report which can be found at:
www.cumbria.gov.uk/Finance/finance/lgpsarchive.asp

Training undertaken by members of the Cumbria Local Pension Board during 2019/20 is referenced in the Annual Report of the Local Pension Board (see section 1.1).

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

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

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

DATE	TRAINING COURSE / INFORMATION REPORT
3 dates in 19-20	New Committee Member Training by officers on the core roles and functions of the Pensions Fund and the Pensions Committee, together with Cumbria LGPS Key information and an update of National issues.
Apr & Nov 19	Briefing session detailing the key attributes of Private Residential Property Investment Funds, and Multi Asset Credit asset classes and the formulation of an Investment Strategy.

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

DATE	TRAINING COURSE	ATTENDEES	
		Members	Officers
Apr-19	LGA Pensions in a Digital era		2
"	Engagement on ESG - Robeco		1
"	LGIM – Climate Emergency webinar		1
May-19	LAPF – Local Authority Conference		1
Jun-19	LGIM – Integrating ESG into investments		1
"	CIPFA - Risk Management in the LGPS		2
"	CIPFA – LGPS LPB Annual Conference	1	
Jul-19	Hymans – Getting to Grips with Climate Change webinar		1
"	LAPF – Strategic Investment Forum		1
"	LGA – Pensions aggregation		1
"	AON – Demographic Horizons webinar		1
"	Investor Collaborations on ESG – Church of England		1
"	BPP – Investment Management Certificate 2		1
Aug-19	ESG & Climate Change reporting – Share Action		1
Sep-19	Pensions for Purpose – Impact Investing		1
"	FT – LGPS Forum 2019		1
Oct-19	LGA – Fundamentals Training (Day 1)	3	
"	LGA – Insight Training, Pensions		1
"	Prudential – the Benefits of AVC's	5	4
"	BCPP Annual Conference	5	3
"	CIPFA – Future in Mind		2
"	HMRC – Managing Pension Schemes workshop		1
Nov-19	Your Pension Service – Annual Practitioners Conference		4
"	LGA – Fundamentals Training (Day 2)	3	
"	Room 151 – Asset Allocation Forum		1
"	CIPFA - Pensions Network Annual Conference		2
"	Annual LGPS Pension Managers Conference		2

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

DATE	TRAINING COURSE	ATTENDEES Members	Officers
"	Cumbria LGPS – Annual Pensions Forum	5	7
Dec-19	LAPFF – Annual Conference	1	1
"	LGA – Fundamentals Training (Day 3)	3	
Jan-20	LPB – Date Security Training	5	4
Feb-20	LGA – LGPS Governance Conference	2	1
"	CIPFA – Financial Reporting workshop		1
"	CIPFA – Pensions Audit and Accounts 2019-20		2
"	Management Development Course		1
"	CIPFA – LPB Spring Seminar	1	
Mar-20	CEM – Cost Reporting Workshop webcast		2
"	Hymans – Good Governance webinar		1

7.3.1 Summary of Committee, Sub Group and Local Pension Board attendance and formal training in 2019/20:

Committee Member (member of Pensions Committee only unless otherwise indicated)		Voting rights?	Attendance at meetings / total meetings	Training received (days)
Cllr. MH Worth	Chair - Committee & Investment Sub Group	Yes	10 / 11	4.0
Cllr. NH Marriner	Vice Chair - Committee & Investment Sub Group	Yes	11 / 11	3.5
Cllr. SB Collins	Committee & Investment Sub Group	Yes	11 / 11	6.0
Cllr. J Airey		Yes	2 / 4	1.5
Cllr. LN Fisher		Yes	4 / 4	4.0
Cllr. S Haraldsen		Yes	2 / 4	2.0
Cllr. P Thornton		Yes	1 / 4	1.0
Cllr. H Wall	*Until December 2019*	Yes	2 / 4	1.5
Cllr. M Wilson	*From January 2020*	Yes	0 / 1	0.5
Cllr. J Mallinson	Co-opted District Councillor *From August 2019*	Yes	0 / 3	0.5
T Barber	Employee representative	No	1 / 4	1.0
J Keith	Employee representative	No	2 / 4	4.5

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

Local Pension Board Member		Voting rights?	Attendance at meetings / total meetings	Training received (days)
Mrs D Burnet	Chair until October 2019, now Vice Chair	Yes	4 / 4	11.0
Mr D Southward	Vice Chair until October 2019	Yes	3 / 4	1.5
Vacant	*District Council representative*	Yes	0 / 4	
Mrs K Powell	Chair from October 2019	Yes	3 / 4	2.5
Mrs K Thomson		Yes	2 / 4	1.0
Ms K Wilson		Yes	3 / 4	3.0

7.4 AUDIT

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

The Fund's external auditor Grant Thornton has issued a Draft Audit Findings Report from its review of the 2019/20 Pension Fund accounts. Whilst the audit is not yet complete, Grant Thornton have noted that they anticipate to provide the Pension Scheme with an unmodified audit report and that, subject to completion of their remaining work, the Auditor anticipates issuing an unqualified audit opinion following the Audit & Assurance Committee meeting on 23 November 2020.

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

There is one prior recommendation from the auditors in the 2018/19 Audit Findings Report relating to the process for uploading journals into the financial system. Management introduced further internal controls to mitigate this risk in July 2019 which falls into this period of audit. This had no impact on the financial statements or disclosure notes included within the Annual Accounts of the Fund.

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

7.5 DISCRETIONS

All employers within the Fund are required by regulations to formulate, publish and keep under review a policy statement in relation to the exercise of a number of

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

discretionary functions under the LGPS Regulations 2013 (as amended). These discretionary functions relate to:

- funding of additional pension (16(2)(e)) & (16(4)(d));
- flexible retirement (30(6));
- waiving of actuarial reduction (30(8)); and
- award of additional pension (31).

Following the introduction of the 2014 Scheme, Cumbria LGPS updated the Administering Authority discretions policy. Additionally, each employer within the LGPS is required to review and update their individual employer discretions policy and submit these to the Administering Authority.

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

During the year, the Fund made 53 discretions in accordance with its Discretions Policy. Fifty of these discretions, related to the payment of grants payable on the death of scheme members, two related to late aggregation requests and one related to a late transfer request.

7.6 REPORTING BREACHES OF THE LAW

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

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

Breaches of both the law and of Fund policies are reported to both the Pensions Committee and the Local Pension Board. Where the breach is considered to be materially significant, this will be reported to the Pensions Regulator. No material breaches have been identified during 2019/20.

Please note: the Policy & Procedure on Reporting Breaches of the Law is shown in the Fund Policy Document at **Appendix A-10**.

8. THE PENSION FUND ACCOUNTS

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8 FINANCIAL STATEMENTS AND NOTES TO THE ACCOUNTS

8.1 THE FINANCIAL STATEMENTS

PENSION FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2020

	Notes	2018/19		2019/20	
		£000's	£000's	£000's	£000's
Dealings with members, employers and others directly involved in the fund					
Contributions	3		64,102		68,709
Transfers in from other pension funds	4		3,000		6,160
			67,102		**74,869**
Benefits	5		(83,204)		(91,117)
Payments to and on account of leavers / employer exit	6		(4,889)		(7,017)
Net additions / (deductions) from members			**(20,991)**		**(23,265)**
Management expenses	7 & 8		(20,381)		(12,727)
Net additions / (deductions) including fund management expenses			**(41,372)**		**(35,992)**
Returns on investments					
Investment Income		52,667		47,623	
Taxes on Income		(233)		(206)	
Net investment income	9	52,434		47,417	
Profit / (losses) on disposal of investments and changes in the market value of investments	10(d)	128,241		(140,307)	
Net return on investments			**180,675**		**(92,890)**
Net increase (decrease) in the net assets available for benefits during the year			**139,303**		**(128,882)**
Net assets at the start of the year			**2,563,457**		**2,702,760**
Net assets at the end of the year			**2,702,760**		**2,573,878**

8. THE PENSION FUND ACCOUNTS

NET ASSETS STATEMENT AS AT 31 MARCH 2020

	Notes	31 March 2019 £'000	31 March 2020 £'000
Investment assets	10	2,706,212	2,568,403
Investment liabilities	10	(8,611)	(5,397)
Total net investment assets		**2,697,601**	**2,563,006**
Long term assets	12a	328	-
Current assets	12b	7,056	12,586
Long term liabilities	13a	-	-
Current liabilities	13b	(2,225)	(1,714)
Net assets of the Fund available to fund benefits at the period end		**2,702,760**	**2,573,878**

8. THE PENSION FUND ACCOUNTS

8.2 NOTES TO THE FINANCIAL STATEMENTS

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

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

The Purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income; and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

- 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; and
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

Membership to the Cumbria LGPS is open to:

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

8. THE PENSION FUND ACCOUNTS

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

As at 31 March 2020 the total membership of the Fund was 58,396 (2018/19: 57,840) and consisted of 16,989 contributors/actives (2018/19: 16,453), 24,420 deferred members (2018/19: 25,202) and 16,987 pensioners (2018/19: 16,185).

At 31 March 2020 there were 126 (31 March 2019: 127) employer bodies in the Cumbria LGPS (for the full list see **Note 25**). The number of employers reduced by one during the year, this was as a result of one Academy employer joining the Fund and two Academies merging with others already in the Fund.

Basis of Preparation:

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

The Accounts for the Cumbria LGPS summarise the Fund transactions for the financial year 2019/20 and the position at the year-end date, 31 March 2020. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

They do not take account of obligations to pay pensions, lump sums or other benefits which fall due after the financial year end. IAS 26 'Retirement Benefit Plans' requires the actuarial present value of promised retirement benefits to be disclosed and this information can be found in **Note 23** 'Actuarial Position of the Fund'.

The accounts have been prepared on a going concern basis.

NOTE 1 (b): INVESTMENT MARKET ACTIVITY DURING 2019/20

The first nine months of the year-ended 31 March 2020 saw positive returns in most investment markets. In particular, global equity markets ended 2019 with gains and the best calendar year performance in a decade. Ongoing uncertainty posed by Brexit contributed to the volatility in UK financial markets during the first few months of the year. Sterling rallied by the end of 2019 with the revised Withdrawal Agreement and General Election result, although there was a dampening of share price gains of large UK-based companies with significant non-sterling revenues.

The first quarter of 2020 was dominated by the emergence and global spread of the COVID-19 pandemic. Actions taken by governments to contain the spread of the virus

8. THE PENSION FUND ACCOUNTS

impacted upon economic activity and led to significant turbulence in investment markets during March.

This was particularly apparent in listed equities where, despite historic levels of fiscal and monetary policy stimulus (such as governments introducing spending and revenue measures and central banks lowering interest rates), the MSCI AC World Index recorded a negative return of -16.0% for the three months, and the UK FTSE All Share recorded a negative return of -25.1%, its biggest quarterly loss since 1987. Over the twelve months to 31 March 2020 the MSCI AC World Index and UK FTSE All Share recorded negative returns of -6.7% and -18.5% respectively.

The impact of the pandemic on other asset classes was varied. Government bonds benefited as a safe-haven as investors sought out assets perceived to be lower risk with index-linked gilts showing a positive 2.4% return for the year. Credit markets were not immune to the impact, with returns varying significantly depending on the market perception of the likelihood of defaults. In currency, sterling hit multi-decade lows against the dollar as investors sought safety in cash, particularly favouring US dollars.

NOTE 1 (c): FUND PERFORMANCE 2019/20

As at 31 March 2020 the audited value of the Fund's net assets was £2,573.878m (a decrease of £128.882m (4.77%) from £2,702.760m as at 31 March 2019). The Fund's Actuary has estimated that the Cumbria LGPS was approximately 91.1% funded as at 31 March 2020, (based on assumptions per the valuation as at 31 March 2019).

In order to protect Fund solvency and the affordability of employer contribution rates, the Fund seeks to dampen investment risk and deliver stable investment returns over the longer-term by investing in a diverse portfolio of assets. The Fund's long-term approach to investment and its diverse portfolio of investment assets meant that, whilst it was affected by the significant market movements described at 1(b) above, the impact on performance was not as extreme as that experienced in the aforementioned equity markets. Overall, the Fund returned on its investments -3.6% (net of fees) for the year-ended 31 March 2020.

The Fund is primarily focussed on longer-term performance and, whilst the Fund underperformed against its 3 year benchmark (delivering a return of 2.6% p.a. (net of fees) against a benchmark of 3.2%) it outperformed both its 5 and 10 year benchmarks (5 year: 5.6% p.a. (net of fees) against a benchmark of 5.2% and 10 year: 7.7% p.a. against a benchmark of 7.1% (net of fees)).

Performance to 31 March 2020 in relation to the Fund's bespoke benchmark over these timeframes is summarised in the table below.

	Cumbria Performance	Bespoke Benchmark	Variance to Benchmark
1 year performance	-3.6%	-1.2%	-2.4%
5 year performance	5.6%	5.2%	0.4%
10 year performance	7.7%	7.1%	0.6%

8. THE PENSION FUND ACCOUNTS

As shown above, the Fund's return of -2.8% for the year was below the Fund's bespoke index performance benchmark of -1.2% for the same period. The main detractors from performance included the passive currency hedge, the invested alternatives being underweight to the benchmark, the property portfolio, and (during the final quarter) the BCPP global listed equity fund. Above benchmark performance in the year was attributable to the UK equity fund run by Border to Coast Pensions Partnership Ltd (BCPP), the alternatives portfolio, and the global equity portfolios during 2019.

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

The Fund underwent a full review of the Investment Strategy in 2019/20 following the completion of the Triennial Actuarial Valuation of the Fund. The key principles for the revised Investment Strategy agreed by the Pensions Committee in December 2019 were:

- Return generation - at a 98.9% funding level (as at 31 March 2019) the Fund was in a good funding position. However, this funding level represents a snapshot in time i.e. Cumbria LGPS is an open fund which is continuing to accrue liabilities and therefore needs to continue to generate sufficient return to meet those liabilities. As such the revised strategy was designed to continue to deliver a similar expected return as the old strategy.

- Stability for employers - stability of the funding level is also important to help protect Fund employers from sudden and potentially significant fluctuations in contribution levels. In recognition of this the review sought to design a strategy which delivers both a return in line with the funding strategy and reduced volatility to help protect those employers with lower funding levels and are more vulnerable to sudden changes in employer contributions.

- Inflation risk – the Fund's inflation-linked discount rate means that it is largely protected against day to day inflation volatility, however there is a risk that, if inflation was to rise sharply and asset values do not keep pace with any increase, the Fund's strong funding position would potentially weaken and impact employer contributions. In order to mitigate some of this risk, the Strategy increased the percentage of assets held by the Fund that are more closely linked to inflation e.g. long lease property, index-linked gilts and (to an extent) infrastructure equity/debt.

- Volatility risk - equities are expected to produce good returns over the long term and provide a good source of liquidity. As such they play an important role in the Strategy. However, equities are volatile and, at the time of the review, dominated the Fund's risk exposure. In recognition of this the strategy reduced the allocation to public and private equity in favour of assets with a similar expected return but less volatility.

8. THE PENSION FUND ACCOUNTS

- Illiquidity premium – the Fund is long-term and can lock up capital for longer to take advantage of the additional premium this offers. The Strategy seeks to increase the Fund's exposure to less liquid assets in order to benefit from the illiquidity premium, whilst also ensuring that it is able to meet its cashflow requirements.

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

The process of implementing changes in asset allocation to enable the Fund to reach its revised allocation targets commenced immediately following Committee approval in December 2019, with the following changes being made in the period to 31 March 2020:-

- The selection of suitable investments for the alternatives portfolio, including new investment commitments made to BCPP private markets funds launched in the year (Border to Coast Infrastructure 2019, Border to Coast Private Equity 2020 and Border to Coast Infrastructure 2020) and Partners Group Private Market Credit Fund V;

- The continuation of capital drawdowns to previously agreed commitments to infrastructure, private equity and private debt funds;

- The selection of suitable investments to a new 12% allocation to Multi-Asset Credit funds; and

- The reduction of the listed equity allocation and ending of the equity protection product which had been purchased to mitigate, as far as possible the risk of increased employer contributions at the 2019 valuation, that objective having been achieved

    - The decision to reduce the Fund's exposure to public equity and exit the equity protection was agreed as the key priority in the steps to implementing the new Investment Strategy due to the perceived inflated pricing in the global equity markets.
    - Discussions between Officers, Advisors and the Equity protection manager determined that the most effective and efficient method of exiting the Equity Protection product was to coincide this with the sale of £340m of passive UK and overseas equity at the end of February 2020.
    - Members of the Investment Sub Group and Pensions Committee approved this approach and were updated on the progress and outcome of this action at meetings held December 2019 and June 2020.

Ongoing implementation of changes towards the revised Investment Strategy has been incorporated within the Fund's business plan for 2020/21.

8. THE PENSION FUND ACCOUNTS

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

2019/20 Business Plan:

All targets set within the 2019/20 Business Plan have been achieved during the year with key tasks either completed, or ongoing work that is on track for completion and these have been delivered within the approved budget.

In addition to continual improvement activities (such as data quality) and the major annual pieces of work, e.g. preparation of the Annual Report and Accounts, the core additional activities planned and delivered through the 2019/20 Business Plan and new issues arising during the year were:-

- **Continuing the transition of assets from Cumbria LGPS to BCPP.**

  Throughout the year, the Fund has continued to actively engage with the company and Partner Funds on the range and design of sub-funds that BCPP provides. Key developments during the year include:

  - The transition of the 20% of the Fund's portfolio allocated to Global Equity to BCPP; and

  - Commitments totalling £190m into BCPP's Private Equity and Infrastructure Sub Funds.

  These investments, together within investments transferred to BCPP in 2018/19, bring the total invested with, or committed to, BCPP to approximately 1/3 of the value of the Fund.

- **Completion of the 2019 Actuarial Valuation.**

  During 2019/20 the Fund worked with its appointed actuary, Mercer Ltd, to undertake the 2019 valuation. This concluded that Cumbria LGPS had a solvency funding level of 98.9% as at 31 March 2019 compared to 91% at the 2016 valuation. The Fund has set an average period of 12 years to recover this deficit. The valuation also set individual employer contribution rates for the period April 2020 - March 2023 for the future service element of pension contributions.

  In 2019, the Government announced that an age discrimination cost referred to as "the McCloud judgement" would impact on all public sector pension schemes including the LGPS. This is likely to result in increased costs for some employers. Further information is set out in **Note 23**.

- **Ensuring compliance with the Council-wide contract review procedures and performance monitoring at both Committee and Officer level.**

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All contracts were regularly reviewed during the year to ensure that performance was appropriate and in line with expectations.

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

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

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

Officers met at least quarterly with the Deputy Director of Your Pensions Service (YPS), the Fund's pensions' administration provider, to review performance standards.

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

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

  During 2019/20 the Fund responded to the following consultations:
  - Restricting exit payments in the public sector: consultation on implementation of regulations; and
  - Local Government Pension Scheme: Changes to the local valuation cycle and the management of employer risk.

- **Undertaking the election process for membership of the Local Pension Board**

  Throughout 2019/20, the majority of vacant posts to the Local Pension Board were recruited to including the appointment of substitutes.

<u>Looking forwards to 2020/21</u>:

Given the unprecedented measures being taken around the world to manage the trajectory of the COVID-19 pandemic and the uncertainties surrounding the nature of the virus itself, it is not possible to accurately predict the longevity and severity of its impact on the global economy, working practices and society as a whole. As such, the following key deliverables for 2020/21 (grouped under the three main service areas of Administration, Investment Management and Oversight and Governance) as set out below, are focused on the principal activities of the Fund as currently anticipated. As the impact of COVID-19 becomes clearer, the Fund's work plan will be reviewed and amended where appropriate to ensure it addresses any relevant issues arising as a result of the pandemic.

8. THE PENSION FUND ACCOUNTS

Pensions Administration

- Appraising the impact of any revised regulations arising from the resolution to the McCloud age discrimination case and the re-running of the cost cap process and implementing any required changes to the scheme;
- Continuing to improve pension administration arrangements for the benefit of all members and employers of the Fund;
- Continual improvement programme for the quality of data held by the Fund;
- Continuing to monitor and improve employer data submission issues;
- Maintaining effective communication and liaison with Fund employers to meet the data requirements of the Pensions Regulator; and
- Continuing with implementing Guaranteed Minimum Pension (GMP) reconciliations in accordance with HMRC guidelines.

Investment Management

- Investigating suitable investment options to implement the revised Investment Strategy approved by Pensions Committee in December 2019;
- Liaising with Border to Coast Pensions Partnership Ltd (BCPP) to ensure that suitable opportunities are available within the pool for the Fund to transition to its amended investment strategy; and
- Retendering for the Custodian and Performance Monitoring contract.

Oversight & Governance

- Completion of the 2019/20 Cumbria LGPS Annual Accounts and Annual Report incorporating any new regulatory/technical changes;
- Assessing the impact of and respond to consultations that will have an impact on the structure and performance of the Fund. This will specifically include the SAB's review into Good Governance in the LGPS;
- Reviewing governance arrangements in response to financial, regulatory and structural changes;
- Reviewing and updating Fund risks, policies and strategies;
- Reviewing, measuring and delivering training to Members and Officers as outlined in the Training Plan; and
- Retendering for the legal services contract.

8. THE PENSION FUND ACCOUNTS

The Cumbria LGPS Annual Report and Accounts gives further details of the Fund's performance, management structure and investment news. The Annual Report and Accounts 2019/20 will be published on-line when finalised (and at the latest by the statutory deadline of 1 December 2020) on the Cumbria LGPS website under 'Key Cumbria LGPS Documents' where the previous year's report is also available.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies have been reviewed in line with good practice. There have been no significant changes to accounting policies in 2019/20.

Fund account – revenue recognition

2.1. Contribution Income

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

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

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current debtor. Amounts not due until future years are classed as long-term debtors.

Where an employer leaves the scheme, any contribution required or exit credit payable on closure is accrued for in the year of departure. (See **Note 3** for further details).

2.2. Transfers to and from other schemes

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

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

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

8. THE PENSION FUND ACCOUNTS

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

2.3. Investment income (Note 9)

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

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

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

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

e) ***Movements in the net market value of investments***: changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised gains/losses during the year. Realised gains/losses have been classified where a purchase or sale of investments has occurred. Gains/losses on transfers of investments within the portfolio of an individual manager have been classified as unrealised gains/losses (i.e. where no cash transactions have taken place). (See **Note 10(d)**).

<u>Fund account – expense items</u>

2.4. Benefits payable (Note 5)

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

2.5. Taxation

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

8. THE PENSION FUND ACCOUNTS

shown on the Fund Account as ‘Taxes on income’.

2.6. Administrative expenses (Note 7)

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

2.7. Investment management expenses (Note 7)

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

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

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

The majority of the Fund’s investment managers have signed up to the cost transparency code (the voluntary code which covers the provision of transparent and consistent investment cost and fee information between investment managers and Funds). The Fund has reviewed the 2019/20 submissions of cost transparency templates received and, where appropriate, used these to inform the Management Fees disclosed in the Accounts; the remaining cost transparency templates will assessed as they are received and will inform additional disclosures of investment costs in the Fund’s 2019/20 Annual Report (section 4.5.4). It is anticipated that in future years the templates received will provide greater consistency and completeness in reporting by managers; this will enable the Fund to further enhance the reporting of ‘hidden’ investment costs in coming years.

2.8. Oversight and Governance costs (Note 7)

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

The cost of Elected Members expenses (e.g. training travel and allowances) relating to Pension Fund activities and obtaining investment advice from external investment consultants and advisors is included in oversight and governance costs, actuarial fees, legal fees and shareholder voting services.

8. THE PENSION FUND ACCOUNTS

Net assets statement

2.9. Financial Assets

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

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

a) Market-quoted investments: The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

b) Fixed interest securities: Fixed interest securities are recorded at net market value based on their current yields.

c) Unquoted investments: The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs. There were no such investments at 31 March 2020.

- Directly held investments include investment in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools of directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. Assurances are gained from the fact that valuations are audited for each investment manager by their respective auditors and reported to the Fund. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

- In the case of the unquoted equity shares for Cumbria LGPS's ownership of share capital in Border to Coast Pensions Partnership Ltd (BCPP), as no market or comparable market exists, there is no intention for the company to be profit making and as the financial accounts for the Company show the

8. THE PENSION FUND ACCOUNTS

shareholder funds to be equivalent to the regulatory capital invested (at cost), the shares are therefore valued at cost (£833,334).

- Investments in private equity funds and unquoted limited partnerships **(Note 14)** are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

d) Limited partnerships: Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership. The General Partner is responsible for preparing financial statements which give a true and fair view in accordance with International Financial Reporting Standards and applicable laws. Fund officers review the Annual Reports of the partnerships which have been independently audited.

e) Pooled investment vehicles: Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31 March 2020. Unquoted pooled investments are valued with regard to latest dealings and other appropriate financial information as provided by their respective managers. For further information on Pooled investment vehicles see **Note 10(a).**

f) Freehold and leasehold properties: The properties are valued at fair value at 31 March 2020 by an independent valuer, CBRE Ltd, Chartered Surveyors, Henrietta House, Henrietta Place, London W1G 0NB, in accordance with the Royal Institution of Chartered Surveyors' Valuation - Global Standards (incorporating the International Valuation Standards) and the UK national supplement ("the Red Book") current as at the valuation date.

- The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms.

- Each valuation has been prepared on the basis of "Fair Value", which is defined as: "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" in International Financial Reporting Standard (IFRS) 13.

- "Fair Value", for the purpose of financial reporting under International Financial Reporting Standards and UK GAAP (FRS 102), is effectively the same as "Market Value", which is defined as: "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion."

- The valuation represents the figure that would appear in a hypothetical contract of sale at the valuation date.

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i. No allowances have been made for any expenses of realisation or for taxation which might arise in the event of a disposal.

ii. The properties are valued individually and no account has been taken of any discount or premium that may be negotiated in the market if all or part of the portfolio was to be marketed simultaneously, either in "lots" or as a whole.

iii. Acquisition costs have not been included in the valuation.

iv. No account has been taken of any inter-company leases or arrangements, or of any mortgages, debentures or other charges.

v. No account has been taken of the availability or otherwise of capital based Government or European Community grants.

As previously noted, the COVID-19 pandemic had a material impact upon economic activity in March 2020. In recognition of this, CBRE has been directed by the Royal Institution of Chartered Surveyors (the RICS) to include a 'Material Uncertainty' clause in all property valuation reports as at 31 March 2020. Further details of this are set out in **Note 22** to the Accounts (Critical judgements in applying accounting policies and the use of estimates and uncertainties).

In addition to this, further detail on Investment Properties is set out in **Note 10(b).**

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

Long-Term Assets

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

2.10. Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. State Street Bank and Trust value all overseas securities and foreign currency balances outstanding at year end in local currency then convert to sterling using the WM Reuters 4pm exchange rates at 31 March 2020.

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2.11. Derivatives

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

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

Fair value of Exchange Traded Futures contracts is determined based on market quoted prices as at the reporting date. Fair value is the unrealised profit or loss at the market quoted price of the contract.

Derivatives are covered in more detail in **Note 10(c)**.

2.12. Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

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

2.13. Financial liabilities

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

2.14. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund Actuary in accordance with the requirements of IAS 26 and relevant actuarial standards.

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

2.15. Additional voluntary contributions

Cumbria LGPS provides an additional voluntary contributions (AVC) scheme for its members. The Fund currently has three appointed AVC providers: Prudential, Standard Life and Scottish Widows. The previous AVC scheme on offer to employees

8. THE PENSION FUND ACCOUNTS

was operated by Equitable Life Assurance Society but in December 2000 it closed to new business.

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

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see **Note 15).**

2.16. Contingent assets and contingent liabilities

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

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

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

2.17. Stock Lending

Securities on loan at the 31 March are included in the net assets statement to reflect the Fund's continuing economic interest in the securities. The stock lending program is being wound down following the transition of the Fund's active global equity to BCPP and the planned exit from the Fund's corporate bond portfolio.

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

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

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

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Where the basis for measurement of an amount is uncertain, the Fund will use a suitable estimation technique determined by the Director of Finance (S151 Officer). Where a reasonable estimate has been made, but is subsequently identified as being insufficiently accurate, the Director of Finance (S151 Officer) will amend the Accounts accordingly. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change.

Material errors discovered in prior period figures would be corrected retrospectively by amending opening balances and comparative amounts for the prior period. However, no such amendments have been necessary for the opening balance of the 2019/20 accounts.

NOTE 3: CONTRIBUTIONS

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

Contribution rates for 2019/20 are as follows:

- Employees - range from 5.5% to 12.5% of pensionable pay dependent on the full-time salary of the member.

- Employers - range from 11.1% to 29.1% of pensionable pay, plus a lump sum payment for deficit recovery contributions. Individual employer rates are set by the Actuary on a three-yearly cycle, taking into account the employer's own attributes and particular circumstances. This includes the maturity profile of the membership, if the Admission is open or closed to new members, and the maximum deficit recovery period as determined by the Fund Actuary in relation to the employer's covenant and membership profile.

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

8. THE PENSION FUND ACCOUNTS

By Category	2018/19 £'000	2019/20 £'000
Employee contributions to the fund	17,272	18,106
Employer contributions to the fund:		
Normal contributions	43,270	47,002
Deficit recovery contributions	3,560	3,601
Total Employer contributions	46,830	50,603
Total Contributions receivable	**64,102**	**68,709**
By Employer Type	**2018/19 £'000**	**2019/20 £'000**
Administering Authority	36,040	38,941
Other Scheduled bodies	26,317	28,007
Admitted bodies	1,745	1,761
	64,102	**68,709**

As shown in the above table the administering authority contributions (Cumbria County Council) were £38.941m (£36.040m 2018/19).

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

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

Ill-health early retirements: Cumbria County Council also has a voluntary arrangement whereby part of the actuarial strain of ill-health retirements is paid immediately. Details of this are contained in the full Actuarial Valuation Report as at 31 March 2019, and all other Cumbria LGPS employer policies that are relevant to the 2019/20 financial year are available on the Cumbria LGPS website under ‘Key Cumbria LGPS Documents’.

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NOTE 4: TRANSFERS IN FROM OTHER PENSIONS

Transfers in to the Fund have been made by individual members, where they decide to bring pensions benefits accrued from previous employment into their LGPS pension. These are variable year to year depending on choices made by individual members.

	2018/19 £'000	2019/20 £'000
Individual transfers	3,000	6,160
	3,000	**6,160**

NOTE 5: BENEFITS

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

	Service Pre 1 April 2008	Service 1.04.08 to 31.03.14	Service Post 1 April 2014
Basis	Final salary	Final Salary	Career Average Revalued Earnings (CARE)
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year worked accrues 1/49th x pensionable salary.
Lump sum	Each year worked is worth 3/80 x final pensionable salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

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

8. THE PENSION FUND ACCOUNTS

By Category	2018/19 £'000	2019/20 £'000
Net pensions paid	70,525	74,270
Net lump sum on retirement	11,324	14,355
Net lump sum on death	1,355	2,492
	83,204	**91,117**
By Employer Type	**2018/19 £'000**	**2019/20 £'000**
Administering Authority	46,615	51,387
Scheduled bodies	29,499	31,352
Admitted bodies	7,090	8,378
	83,204	**91,117**

As shown in the above table the Administering Authority (Cumbria County Council) benefits paid in 2019/20 were £51.387m (£46.615m 2018/19).

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

Transfers out from the Fund have been made by individual members, where they decide to take pensions benefits accrued from previous employment within the Fund to a pension elsewhere. These are variable year to year depending on choices made by individual members.

	2018/19 £'000	2019/20 £'000
Refund of member contributions	139	236
Individual transfers out to other Schemes	4,750	6,781
Group transfer out to other Schemes	-	-
	4,889	**7,017**

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NOTE 7: MANAGEMENT EXPENSES

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

Further details of management expenses are as follows:

	2018/19 £'000	2019/20 £'000
Administrative costs	1,268	1,306
Investment management costs	18,394	10,661
Oversight and governance costs	719	760
	20,381	**12,727**

The Code of Practice does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency and comparability, the Council opted from 2015/16 to disclose its pension fund management expenses in accordance with best practice outlined in the CIPFA guidance on LGPS management costs (July 2016). To further aid comparison a detailed breakdown for 2019/20 is provided for information in the next note.

Administration costs were £0.038m (3.0%) higher in 2019/20 than the previous year, for further details refer to **Note 8**.

Investment management costs were £7.733m (42.0%) lower in 2019/20 than the previous year, for further details refer to **Note 8**.

Oversight and governance costs were £0.040m (5.6%) higher in 2019/20 than the previous year, for further details refer to **Note 8**.

NOTE 8: MANAGEMENT EXPENSES ADDITIONAL INFORMATION

The Code of Practice does not require any breakdown of pension fund management expenses. However for information only, to further aid comparison using the disclosure

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into the three headings suggested by CIPFA guidance, a detailed breakdown for 2019/20 is provided below.

	2018/19 £'000	2019/20 £'000
Administrative costs:		
Pensions Administration	1,038	1,047
Employee costs	198	257
Legal advice	5	-
Other	27	2
	1,268	1,306
Investment Management costs:		
Fund management fees	4,719	3,925
Custody fees	107	77
Pooled fund costs including entry fees*	13,266	6,541
Transaction costs	302	118
	18,394	10,661
Oversight and governance costs:		
Employee costs	361	318
Pension fund committee	10	22
Pension Board	10	15
Investment consultancy fees	94	130
Performance monitoring service	30	41
Shareholder voting service	17	10
Actuarial fees	72	109
Audit fees	21	32
Legal and tax advice	21	39
Border to Coast Pensions Partnership	77	-
Other (including bank charges)	6	44
	719	760
	20,381	**12,727**

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

Variations on spend between years include:-

- Employee costs – in 2018/19 the Fund reallocated staff from the oversight and governance section to the administration section to allow them to focus on administration aspects of the fund. The overall increase in employee costs across the two aspects of the Pensions team is £0.016m, which relates in part

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to annual uplifts and to additional training costs for members of the team undertaking new roles.

- Fund Management fees – fees are paid based on the size of the Fund's portfolio and its performance, which up until December 2019 had shown growth and increased fees. The move from active segregated portfolios to pooled funds with BCPP has led to a reduction in direct fees. Overall, Fund management fees in 2019/20 have decreased from the fees paid in 2018/19.

- Pooled fund costs and entry fees – key drivers of the decrease in costs between 2018/19 and 2019/20 were:

  - Equity Protection: Between April 2018 and March 2020, the Fund had in place an Equity Protection policy assisting the Fund in mitigating the risk of employer contributions increasing due to a significant downturn in equity markets before the 2019 Fund Valuation was completed. The premium paid for these products (£8.360m in 2018/19) is the primary explanation for the decrease in costs between 2018/19 and 2019/20.

  - Fees on investments in alternatives: The objective of the Fund's strategic investment allocation to alternatives is to select a portfolio of alternative assets which aids cash flow and increases diversification and stability. Returns are indicating positive performances net of fees and this is anticipated to continue in the longer term. The growth in the portfolio together with additional investments into alternative pooled funds has resulted in an increased portfolio size that has led to increased management fees of £4.818m in 2019/20 (£3.493m in 2018/19) and the result of the positive investment returns has required the accrual of performance fees of £1.723m in 2019/20 (£1.396m in 2018/19).

- Transaction costs – these costs occur on trades of shares and bonds and are payable to third party agents as brokerage fees; they are variable depending on investment manager purchases and sales. There were more of these transactions in 2018/19 than 2019/20 hence the reduction in cost from £0.302m to £0.118m.

- Investment consultancy fees – there have been increased costs associated with the Investment Strategy Review completion, review and selection of new products for the multi-asset credit allocation.

- BCPP – there have been no costs this year related solely to the creation of the pooling company. The costs shown in 2018/19 relate to the set up and development of the Fund's LGPS pooling company, up to the point at which the company began to transition investments into the pool; thereafter costs are included in Fund Management fees under the 'Investment Management costs' heading.

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

NOTE 9: NET INVESTMENT INCOME

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £47.417m (2018/19 £52.434m) net of £0.206m (2018/19: £0.233m) irrecoverable tax on dividends, and including stock lending income of £0.012m (2018/19: £0.090m), can be analysed as follows:

	2018/19 £'000	2019/20 £'000
Interest from fixed interest securities (corporate bonds)	7,030	7,045
UK equities dividends	10,570	355
Overseas equities dividends	9,684	7,319
Distributions from pooled investment vehicles	16,675	24,295
Net rental income from investment properties (see note 10b)	7,848	8,043
Interest on cash deposits	627	360
	52,434	**47,417**

In October 2019 the Fund transitioned from Loomis Sayles and Nordea, the Fund's global equity segregated portfolio managers; to the Border to Coast Authorised Contractual Scheme (ACS) pooled Global Equity Alpha fund. The Fund does not receive investment income directly on investments of pooled equity, as the income received by the pooled fund instead increases the value of the unitised holdings, hence the reduction in equity dividends between 2018/19 and 2019/20.

'Distributions from pooled investment vehicles' relates to income earned from the Fund's alternatives portfolio. The £24.295m received in relation to 2019/20 consisted of income from infrastructure funds £15.060m (2018/19 £7.393m), pooled property funds £3.330m (2018/19 £2.651m), private loan and multi-asset credit funds £3.049m (2018/19 £2.442m), private equity £2.723m (2018/19 £4.168m) and other pooled investments £0.133m (2018/19 £0.021m). The increase in amounts received between 2018/19 and 2019/20 is in line with expectations as the Fund is committed to more alternative investment; however timing of income is often dependent on the investment stage of the underlying investments with higher returns later in the investment cycle.

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The Fund invests in these assets with the objective of generating stable and / or inflation protected income streams to support payment of pensions.

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NOTE 10: INVESTMENT ASSETS

		31 March 2019			31 March 2020		
		UK	Overseas	Total	UK	Overseas	Total
	Notes	£'000	£'000	£'000	£'000	£'000	£'000
Investment Assets							
Equities							
Equities - quoted		36,781	574,520	**611,301**	-	-	**-**
Equities - unquoted		833	-	**833**	833	-	**833**
		37,614	574,520	**612,134**	833	-	**833**
Fixed interest securities							
Corporate bonds - quoted		164,494	6,417	**170,911**	166,503	6,860	**173,363**
		164,494	6,417	**170,911**	166,503	6,860	**173,363**
Pooled investment vehicles							
Pooled investments - quoted		-	4,829	**4,829**	-	-	**-**
Pooled investments - unquoted		1,053,858	647,642	**1,701,500**	1,272,223	921,328	**2,193,551**
	10(a)	1,053,858	652,471	**1,706,329**	1,272,223	921,328	**2,193,551**
Investment properties							
Freehold		125,180	-	**125,180**	121,625	-	**121,625**
Long leasehold		36,100	-	**36,100**	34,075	-	**34,075**
	10(b)	161,280	-	**161,280**	155,700	-	**155,700**
Derivative contracts	10(c)	268	-	**268**	452	-	**452**
Cash Deposits		22,798	21,562	**44,360**	20,147	17,579	**37,726**
Amounts receivable for sales *		5,820	-	**5,820**	1,525	-	**1,525**
Investment income accrued *		4,330	-	**4,330**	3,326	-	**3,326**
Property rental debtors *		780	-	**780**	1,927	-	**1,927**
		33,996	21,562	**55,558**	27,377	17,579	**44,956**
Subtotal investment assets		1,451,242	1,254,970	**2,706,212**	1,622,636	945,767	**2,568,403**
Investment liabilities							
Derivative contracts	10(c)	(5,437)	-	**(5,437)**	(2,369)	-	**(2,369)**
Amounts payable for purchases *		(708)	-	**(708)**	(47)	-	**(47)**
Property creditors *		(2,466)	-	**(2,466)**	(2,981)	-	**(2,981)**
Subtotal investment liabilities		(8,611)	-	**(8,611)**	(5,397)	-	**(5,397)**
Total Net Investments		1,442,631	1,254,970	**2,697,601**	1,617,239	945,767	**2,563,006**

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

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

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

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Note 10(c) details the derivative contracts above. These are forward foreign exchange contracts and futures held at 31 March, shown as assets where there is a gain and liabilities where there is a loss on the individual contracts at 31 March 2020.

2019/20 saw the transition of the Loomis Sayles and Nordea Global equity segregated portfolios to transfer into the pooled Border to Coast Authorised Contractual Scheme (ACS) Global Equity Alpha fund, hence the reduction in quoted Global equity, and increase in pooled investment vehicles since 2018/19.

NOTE 10(a): POOLED INVESTMENT VEHICLES

In response to government requirements in relation to the pooling of LGPS assets, Cumbria LGPS along with 11 other partner LGPS funds, set up the Border to Coast Pensions Partnership Ltd (BCPP). The company, formed to enable the pooling of LGPS investment assets by the twelve partner funds, launched its first investment funds in 2018/19. Cumbria LGPS transitioned from its actively managed UK equity into units in the Border to Coast UK Equity Fund in December 2018, followed by its actively managed global equity allocation into units in the Border to Coast Global Equity Alpha Fund in October 2019. As pooled unquoted investments, these are shown in the following table managed by BCPP, totalling £696.327m.

The Fund's largest holding is the unitised insurance policies with Legal and General totalling £744.874m, shown in the following table categorised into the underlying asset types. These unitised, index-tracking funds are used as an efficient low-risk method of investing in the asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as fixed interest gilts and equity.

In April 2018, the Fund entered into a suite of Equity Protection options which were designed to mitigate the risk of increased employer contributions at the 2019 valuation by protecting the value of the Fund's UK, US and European equity portfolios from a significant fall in the value of the equity market indices. These options are derivatives, however, as they were held by Legal and General Investment Management (LGIM) within a bespoke pooled vehicle (with Cumbria LGPS being the sole investor), they are included within unitised insurance policies in the table below. Further information on these options is included in note 10(c). The options were exited in February 2020 in conjunction with a planned reduction of the Fund's listed equity holdings.

The Fund holds a portfolio of alternative investments (infrastructure, private equity, long-lease property, private debt and multi-asset credit funds) which are investment vehicles for collective investment such as limited partnerships and are shown as 'Other Managed funds' in the table below. The Fund is increasing its investment into

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alternatives with the objective of generating diversification and more stable and / or inflation protected income streams. This portfolio totals £752.350m at 31 March 2020.

A global equity manager had chosen to invest in REIT's, shown as pooled property funds in 2018/19 only.

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	2018/19 £'000	2019/20 £'000
Pooled investment vehicles - managed by Border to Coast Pool		
UK equities	268,002	223,894
Global equities	-	472,433
	268,002	**696,327**
Unitised insurance policies - unquoted		
UK equities	28,839	-
Overseas equities	387,003	144,303
UK index-linked securities	494,170	495,549
UK sterling liquidity fund	22,939	105,022
Equity protection derivatives	(14,243)	-
Equity protection cash balance	812	-
Equity protection accruals	(4,294)	-
	915,226	**744,874**
Unit trusts		
UK - quoted	-	-
	-	**-**
Other Managed funds		
Pooled property REIT's - quoted	4,829	-
Pooled property funds - unquoted	78,372	78,928
Other managed funds - unquoted	439,900	673,422
	523,101	**752,350**
Total	**1,706,329**	**2,193,551**

NOTE 10(b): INVESTMENT PROPERTIES

The Fund invests in direct property holdings for rental income and capital growth, and to maximise diversification thereby reducing the risk across the portfolio. At 31 March 2020 the portfolio valued at £155.700m included 24 properties ranging from £0.750m to £17.500m each. These properties cover a mix of sectors such as offices, industrial, high street retail units and retail warehouses, and are also geographically spread across England and Scotland. The intention of this diversification is to mitigate risk by enhancing the diversification within this asset class.

Property holdings do not fall into the definition of a financial instrument, therefore are not covered in **Note 11(a)** 'Valuation of Financial Instruments carried at fair value'. However, they are valued at fair value (as detailed in note 2.9(f)). As these assets are illiquid and prices are not readily quantifiable, they are categorised as level 3 assets in the Fair Value analysis in **Notes 10(g) to (i).** As previously noted, the COVID-19 pandemic had a material impact upon economic activity in March 2020. In recognition of this, CBRE has been directed by the Royal Institution of Chartered Surveyors (the RICS) to include a 'Material Uncertainty' clause in all property valuation reports as at 31 March 2020. Further details of this are set out in **Note 22** to the Accounts (Critical judgements in applying accounting policies and the use of estimates and uncertainties).

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

8. THE PENSION FUND ACCOUNTS

	2018/19 £'000	2019/20 £'000
Rental income from investment property	8,308	8,390
Direct operating expenses arising from investment property	(460)	(347)
	7,848	**8,043**

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

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

	2018/19 £'000	2019/20 £'000
Balance at the start of the year	**165,675**	**161,280**
Additions:		
Purchases	8,089	12,408
Subsequent expenditure	-	-
Disposals	(11,229)	(5,712)
Net gains/(losses) from fair value adjustments	(1,255)	(12,276)
Balance at the end of the year	**161,280**	**155,700**

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

8. THE PENSION FUND ACCOUNTS

	2018/19 £'000	2019/20 £'000
Not later than one year	7,796	7,594
Later than one year and not later than five years	24,500	25,760
Later than five years	17,731	18,018
Total future lease payments due under existing contracts	**50,027**	**51,372**

To satisfy the requirements of IFRS 9 Credit Losses, an individual targeted assessment has been performed to quantify possible credit losses (or bad debt provisions) on rental income, rather than adopting a matrix based collective assessment. Historical loss rates have been assessed to adjust forward looking information. A combination of the assessment of historic rental payment trends for individual occupiers by the managing agents, with the use of a credit check risk score based on company accounts, payment information and up to date news reports, gives an individual assessment of balances. Where a provision is recommended, it is for 100% of the arrear rather than on a probability-adjusted basis. In light of the significant disruption and exceptional circumstances in global markets as a result of COVID-19 (Coronavirus), several payment plans including rent deferments were negotiated with tenants. These were taken into consideration in this targeted assessment.

The full potential rental income receivable for the properties going forward is currently £8.165m per year, and due to the above targeted and prudent approach to the certainty of payment and bad debt provision, the future lease payments are reduced by an allowance for expected credit losses to those shown in the above table, i.e. by £0.571m to £7.594m for the forthcoming year. To provide context to this, it is worth noting that as at 31 March 2020 the Fund held £0.702m of deposits paid by tenants which help to mitigate loss to the Fund should rents not be paid.

As at 31 March 2020, an allowance of £0.023m for expected credit loss on outstanding rent arrears (which totalled £1.249m as at 31 March 2020), is recognised within the 'Property rental creditors' figure of £2.981m at Note 10. This represents approximately 0.29% of the 2019/20 net rental income. Of the £0.023m allowance for expected credit loss, £0.012m related to a current live lease (approximately 0.15% of the annual rental income). The above disclosures have therefore been adjusted accordingly to remove this lease in full. It is considered that the level of provisioning is appropriately prudent in the context of the financial statements.

NOTE 10(c): DERIVATIVES

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

8. THE PENSION FUND ACCOUNTS

One way for pension funds to reduce the volatility from their foreign currency exposures is to convert these exposures back to the domestic currency – this process is known as currency hedging. As open funds with a long term focus it is common for investors in LGPS to hedge 50% of their foreign currency exposure. This mitigates the worst effect that any adverse currency movements would have at the time of the realisation of the investment.

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

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

The derivatives held by Cumbria LGPS (shown in **Note 10**) can be summarised as follows including a prior year comparator:

	31 March 2020		
Reconciliation to Note 10	**Investment Asset / Unrealised Gain £'000**	**Investment Liability / Unrealised Loss £'000**	**Net Market Value £'000**
Total Derivatives			
Forward currency contracts	301	(2,095)	**(1,794)**
Futures	151	(274)	**(123)**
Derivative Contracts Gain/(Loss)	**452**	**(2,369)**	**(1,917)**

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

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

8. THE PENSION FUND ACCOUNTS

Currency Bought		Currency Sold		2019/20	
Currency	Local Value 000's	Currency	Local Value 000's	Unrealised Gain Sterling £'000	Unrealised Loss Sterling £'000
Settlement within one month					
GBP	4,757	USD	6,216	2	(255)
GBP	2,464	EUR	2,893	-	(98)
USD	889	GBP	729	6	(19)
EUR	212	GBP	192	1	(5)
Settlement one to six months					
GBP	196,251	USD	245,819	-	(1,718)
GBP	25,196	JPY	3,359,100	51	-
GBP	40,796	EUR	45,751	241	-
				301	**(2,095)**
Net forward currency contracts at 31 March					**(1,794)**

The open forward foreign exchange contracts as at 31 March 2019 can be summarised as follows:

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

Outstanding exchange traded futures contracts are as follows:

8. THE PENSION FUND ACCOUNTS

Type	Expires	Economic exposure	Market Value at 31 March 2019 £'000	Economic exposure	Market Value at 31 March 2020 £'000
Assets					
UK Fixed Interest	Less than one year	9,832	162	9,261	151
Overseas Fixed Interest	Less than one year	-	-		-
			162		**151**
Liabilities					
Overseas Fixed Interest	Less than one year	(3,548)	(86)	(4,082)	(274)
			(86)		**(274)**
		Net Futures	**76**		**(123)**

Equity Protection Overlay Derivatives

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

From April 2018 to February 2020, the Fund held a suite of Equity Protection options designed to mitigate the risk of increased employer contributions at the 2019 valuation by protecting the value of the Fund's UK, US and European equity portfolios from a significant fall in the value of the equity market indices. These options are derivatives, however, as they were held by Legal and General Investment Management (LGIM) within a bespoke pooled vehicle (with Cumbria LGPS being the sole investor), they are included within unitised insurance policies in note 10(a). They are shown in the 2018/19 table only as they were no longer held as at 31 March 2020 (the options were exited in conjunction with a planned reduction of the Fund's listed equity holdings). The details are therefore disclosed below as a note only.

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

8. THE PENSION FUND ACCOUNTS

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

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

NOTE 10(d): PROFIT AND LOSSES ON DISPOSAL OF INVESTMENTS AND CHANGES IN THE MARKET VALUE OF INVESTMENTS

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

2019/20 has seen both the Nordea and Loomis Sayles global equity segregated portfolios transfer into the pooled Border to Coast Authorised Contractual Scheme (ACS) Global Equity Alpha fund. The Fund has also made strategic moves away from passive equity holdings, funding a higher allocation to defensive assets such as index-linked gilts and multi-asset credit (MAC) funds. Hence the year shows a high volume of sales from UK and Overseas equity, and the corresponding purchase of pooled vehicles.

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

8. THE PENSION FUND ACCOUNTS

2019/20:

Asset Class	Value at 1 April 2019 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Changes in value during the year £'000	Value at 31 March 2020 £'000
Fixed interest securities (Corporate Bonds)	170,911	13,481	(5,400)	(5,629)	173,363
Equities					
UK equities	37,614	3,147	(43,040)	3,112	833
Overseas equities	574,520	62,540	(700,016)	62,956	-
	612,134	65,687	(743,056)	66,068	833
Pooled investment vehicles	1,183,228	1,158,369	(731,960)	(168,436)	1,441,201
Unit Trusts	-	-	-	-	-
Managed funds	523,101	309,640	(80,213)	(178)	752,350
Property (See Note 10b)	161,280	12,408	(5,712)	(12,276)	155,700
Derivatives (forward foreign exchange contracts, futures)	(5,169)	97,960	(73,853)	(20,855)	(1,917)
	2,645,485	**1,657,545**	**(1,640,194)**	**(141,306)**	**2,521,530**
Cash	44,360			999	37,726
Amounts receivable for sales	5,820				1,525
Investment income accrued	4,330				3,326
Property rental debtors	780				1,927
Amounts payable for purchases	(708)				(47)
Property creditors	(2,466)				(2,981)
Total Net Investments	**2,697,601**			(140,307)	**2,563,006**

Analysis of gains/(losses) for the year	**2019/20 £'000**
Realised - Profit and losses on disposal of investments	270,468
Unrealised - Changes in the market value of investments	(410,775)
	(140,307)

8. THE PENSION FUND ACCOUNTS

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

2018/19:

Asset Class	Value at 1 April 2018 £'000	Purchases at Cost and Derivative Payments £'000	Sales Proceeds and Derivative Receipts £'000	Changes in value during the year £'000	Value at 31 March 2019 £'000
Fixed interest securities (Corporate Bonds)	161,111	23,502	(13,359)	(343)	170,911
Equities					
UK equities	311,732	427,040	(687,835)	(13,323)	37,614
Overseas equities	503,151	182,893	(176,603)	65,079	574,520
	814,883	609,933	(864,438)	51,756	612,134
Pooled investment vehicles	913,729	352,028	(162,313)	79,784	1,183,228
Unit Trusts	6,539.00	-	(6,443)	(96)	-
Managed funds	393,715	150,427	(49,588)	28,547	523,101
Property (See Note 10b)	165,675	8,089	(11,229)	(1,255)	161,280
Derivatives (forward foreign exchange contracts, futures)	2,274	47,483	(25,964)	(28,962)	(5,169)
	2,457,926	**1,191,462**	**(1,133,334)**	**129,431**	**2,645,485**
Cash	80,849			(1,190)	44,360
Amounts receivable for sales	2,642				5,820
Investment income accrued	5,409				4,330
Property rental debtors	648				780
Amounts payable for purchases	(1,982)				(708)
Property creditors	(2,507)				(2,466)
Total Net Investments	**2,542,985**			128,241	**2,697,601**

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

8. THE PENSION FUND ACCOUNTS

NOTE 10(e): INVESTMENTS ANALYSED BY EXTERNAL MANAGER

Manager	Asset Class	31 March 2019		31 March 2020	
		£'000	%	£'000	%
Investments Managed by Border to Coast Pensions Partnership Ltd					
Border to Coast UK Equity Fund	Equities	268,002	9.9%	223,894	8.7%
Border to Coast Global Equity Alpha Fund	Equities	-	-	472,433	18.4%
Border to Coast Cumbria LP	Infrastructure Funds	-	-	6,480	0.3%
Border to Coast Cumbria LP	Private Equity Funds	-	-	4,742	0.2%
	Managed by Pool	**268,002**	**9.9%**	**707,549**	**27.6%**
Investments Managed outside Border to Coast Pensions Partnership Ltd					
Legal & General Policy No. 1	Equities, bonds, cash	401,853	15.0%	103,227	4.0%
Legal & General Policy No. 2	Index-linked bonds	388,496	14.4%	497,344	19.4%
Legal & General Policy No. 3	Global equities	124,877	4.6%	144,303	5.6%
Legal & General Passive Currency	Currency overlay	(5,352)	-0.2%	(1,426)	-0.1%
Aberdeen Standard Investments	UK corporate bonds	178,252	6.6%	179,370	7.0%
Aberdeen Standard Investments	Direct property	163,091	6.0%	156,758	6.1%
JP Morgan	Infrastructure	121,907	4.5%	121,897	4.8%
CQS	Multi Asset Credit	-	-	100,000	3.9%
Apollo	Multi Asset Credit	-	-	90,195	3.5%
Partners Group	Private Market Credit	24,298	0.9%	52,133	2.1%
Partners Group	Infrastructure	49,954	1.9%	52,025	2.0%
Barings	Private Loan Fund	42,130	1.5%	45,746	1.8%
M&G	Property Fund	39,867	1.5%	40,022	1.6%
Aviva	Property Fund	37,960	1.4%	38,861	1.5%
Insight Investments	Fixed income/cash	60,029	2.2%	37,690	1.5%
Unigestion	Secondary Funds	31,144	1.2%	37,204	1.5%
Aberdeen SL Capital	Infrastructure	26,538	1.0%	33,398	1.3%
Strategic cash allocation	Cash	28,197	1.0%	29,354	1.1%
Aberdeen SL Capital	Secondary Funds	20,286	0.8%	22,262	0.9%
Pantheon	Private Equity Funds	13,913	0.5%	23,499	0.9%
Healthcare Royalty Partners	Royalties Fund	17,788	0.7%	21,564	0.8%
BlackRock	Alternatives	19,475	0.7%	17,130	0.7%
M&G	Real Estate Debt	12,897	0.5%	9,714	0.4%
Sales outstanding receivable	Infrastructure	2,370	0.1%	1,510	0.1%
Border to Coast Ltd	Share capital	833	0.0%	833	0.0%
Transition residual	Overseas/UK equities	45	0.0%	799	0.0%
Aberdeen Asset Management	Indirect property	546	0.0%	45	0.0%
Schroders Investment Management	UK equities	84	0.0%	-	-
Loomis Sayles	Global equities	333,604	12.4%	-	-
Nordea	Global equities	294,517	10.9%	-	-
	Outside Pool	**2,429,599**	**90.1%**	**1,855,457**	**72.4%**
Total Net Investments		**2,697,601**	**100.0%**	**2,563,006**	**100.0%**

Border to Coast Pensions Partnership Ltd (BCPP), the company created for the pooling of LGPS investment assets by twelve partner funds including Cumbria LGPS, launched its first investment funds in 2018/19. As shown above, the pool manages 27.6% of Cumbria's investments; i.e. the Border to Coast UK Equity Fund and the Border to Coast Global Equity Alpha Fund, and the pool also manages the Border to

8. THE PENSION FUND ACCOUNTS

Coast Cumbria Limited Partnership for alternative investments in infrastructure and private equity.

Cumbria LGPS transitioned from its actively managed global equity portfolios with Nordea and Loomis Sayles to receive units in the BCPP Global Equity Alpha Fund in October 2019.

Since 2012, the Fund has been increasing its investment into infrastructure and other alternatives in its strategic asset allocation. The drivers for this change are intended to reduce risk by improving diversification and to generate more stable and / or inflation protected income streams. Following a full Strategic Investment Review in 2019, the Fund has also introduced investments in multi-asset credit.

NOTE 10(f): INVESTMENTS REPRESENTING MORE THAN 5% OF THE NET ASSETS OF THE FUND

It is a requirement of the Pensions SORP and the CIPFA Code of Practice on Local Authority Accounting to declare if an investment accounts for more than 5% of the Fund. The occurrences of this within the Cumbria Fund are the three unitised insurance policies held with Legal and General, and the Fund’s investments with the BCPP pool.

The Legal and General holdings are unitised, index-tracking funds and are used as an efficient liquid method of investing in the underlying asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity and as such are easily and readily convertible if required.

In October 2019, Cumbria LGPS purchased units in the Border to Coast Global Equity Alpha Fund, a pooled unquoted investment managed internally by the BCPP Pool.

8. THE PENSION FUND ACCOUNTS

Holding	31 March 2019 £'000	% of Total Net Investments	31 March 2020 £'000	% of Total Net Investments
Border to Coast Pension Partnership Ltd - UK Equity	268,002	9.9%	223,894	8.7%
Border to Coast Pension Partnership Ltd - Global Equity Alpha	-	-	472,433	18.4%
Investments managed by Border to Coast	**268,002**	**9.9%**	**696,327**	**27.1%**
Policy 1 Legal and General North America Index	177,996	6.6%	-	-
Policy 1 Legal and General Over 5 Yr Index-Linked Gilts Index	92,636	3.4%	94,860	3.7%
Policy 1 Legal and General UK Equity Index	28,839	1.1%	-	-
Policy 1 Legal and General Europe(Ex UK)Equity Index	39,693	1.5%	-	-
Policy 1 Legal and General Japan Index	24,100	0.9%	-	-
Policy 1 Legal and General Other Pacific Basin Index	20,338	0.8%	-	-
Policy 1 Legal and General Sterling Liquidity Fund	18,251	0.7%	8,367	0.3%
Policy 1 Total	401,853	15.0%	103,227	4.0%
Policy 2 Legal and General Over 5 Yr Index-Linked Gilts Index	155,433	5.8%	150,075	5.9%
Policy 2 Legal and General Bespoke	233,063	8.6%	347,269	13.5%
Policy 2 Total	388,496	14.4%	497,344	19.4%
Policy 3 Legal and General FTSE World Equity Index	124,877	4.6%	144,303	5.6%
Investments managed by Legal and General	**915,226**	**34.0%**	**744,874**	**29.0%**
	1,183,228	**43.9%**	**1,441,201**	**56.1%**

Investments managed by Aberdeen Standard Investments shown in Table 10(e) that exceed 5% and are not shown above, relate to segregated mandates where no one underlying holding (i.e. UK Corporate Bond or individual directly held property) is in excess of 5% of the total net assets of the fund.

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

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

8. THE PENSION FUND ACCOUNTS

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

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

8. THE PENSION FUND ACCOUNTS

Having analysed historical data and current market trends, the Fund has determined that the valuation methods described above for the Level 3 investments are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of Level 3 investments held at 31 March 2020.

Fair Value – Sensitivity of Asset values at Level 3

	Assessed valuation range (+/-)	Value at 31 March 2020 £'000	Value on increase £'000	Value on decrease £'000
Alternatives - Infrastructure	4.0%	213,800	222,352	205,248
Alternatives - Other	12.1%	538,550	603,715	473,385
Freehold and leasehold property	3.6%	155,700	161,305	150,095
Total		**908,050**	**987,372**	**828,728**

As previously stated at Note 2.9 f) in relation to Freehold and Leasehold property the COVID-19 pandemic had a material impact upon economic activity in March 2020. In recognition of this, CBRE has been directed by the Royal Institution of Chartered Surveyors (the RICS) to include a 'Material Uncertainty' clause in all property valuation reports as at 31 March 2020. Further details of this are set out in **Note 22** to the Accounts (Critical judgements in applying accounting policies and the use of estimates and uncertainties).

Potential price changes are determined based on the observed historical volatility of the Fund's own asset class returns. The potential volatilities represent a one standard deviation movement in the change in value of the assets over the latest three years (i.e. 68% of the observed values were within these ranges). The use of actual data, means that the period between January and March 2020 which included a significant portion of the volatility related to COVID-19 has been included in the 3 year period being assessed, to develop the volatility percentages. This volatility can be applied to the investment assets of the Fund at the period end in the above table to show the potential increase and decrease of value.

NOTE 10(h): FAIR VALUE HIERARCHY

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

To show the liquidity of the assets the Fund holds, under IFRS the valuation of investments has been classified into three levels, according to the quality and reliability of information used to determine fair values. The aim being to show how much can be easily liquidated and thereby readily made available as cash if required with level 1 representing the most liquid and level 3 the most illiquid. This illiquidity assessment is

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subjective. As with any assessed additional investment risk investors should expect to be rewarded for illiquidity through higher investment returns.

The actuarial valuation of the Fund projects that liabilities exceed assets (**Note 23**), therefore there is a need to generate excess returns on investments at an acceptable level of risk. To do this the Fund diversifies across asset classes, managers and products, making use of its strong covenant as an open Public Sector Pension Scheme. As such it can take advantage of the potentially higher returns offered for investing in more illiquid asset classes such as private equity and infrastructure. Thus the liquidity or how easily a financial asset can be quantified at a point in time does not automatically equate to the benefit of it to the Fund, merely how readily it can be realised as cash if required.

Level 1: 9% of Total Investments (2018/19: 31%)
Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 are mainly quoted equity shares, quoted fixed interest securities, quoted index linked securities, cash and unit trusts that can be freely traded in active markets.

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

The proportion of assets at level 1 has decreased in 2019/20 following the transition of the Nordea and Loomis global equity segregated portfolios into the Border to Coast Authorised Contractual Scheme (ACS) pooled Global Equity Alpha fund. This transition reduced quoted global equity (level 1), and increased pooled investment vehicles (level 2).

Level 2: 56% of Total Investments (2018/19: 44%)
Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value, the techniques used are based significantly on observable market data.

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

This includes pooled funds where the underlying assets are quoted assets such as equity and fixed interest bonds. Though the funds themselves are not traded on active

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markets, they have pre-set, often weekly trading dates, such that liquidation is relatively easy with a short lead-in time.

Level 3: 35% of Total Investments (2018/19: 25%)
Assets and liabilities at level 3 are those where quoted market prices are not available and at least one input that could have a significant effect on the valuation is not based on observable market data.

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

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

The following tables provide an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable. Those current & long term assets/liabilities detailed in **Note 10** -Investment

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

	31 March 2019				31 March 2020			
	Quoted market price	Using observable inputs	With significant unobservable inputs		Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit and loss								
Equities - quoted	611,301	-	-	611,301	-	-	-	-
Equities - unquoted	-	-	833	833	-	-	833	833
Fixed interest securities-Corporate bonds - quoted	170,911	-	-	170,911	173,363	-	-	173,363
Pooled investments - quoted	4,829	-	-	4,829	-	-	-	-
Pooled investments - unquoted	-	1,183,228	518,272	1,701,500	-	1,441,201	752,350	2,193,551
Derivative contracts	-	268	-	268	-	452	-	452
Cash Deposits	47,124	-	-	47,124	45,372	-	-	45,372
Total Financial assets at fair value through profit and loss	**834,165**	**1,183,496**	**519,105**	**2,536,766**	**218,735**	**1,441,653**	**753,183**	**2,413,571**
Investment properties (Non-financial assets) at fair value through profit and loss	-	-	161,280	161,280	-	-	155,700	155,700
Financial liabilities (Derivative contracts) at fair value through profit and loss	-	(5,437)	-	(5,437)	-	(2,369)	-	(2,369)
Total Investments at Fair Value	**834,165**	**1,178,059**	**680,385**	**2,692,609**	**218,735**	**1,439,284**	**908,883**	**2,566,902**
Percentage of Total Investments	**31%**	**44%**	**25%**	**100%**	**9%**	**56%**	**35%**	**100%**

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

The following table sets out the reasons for movement in the valuations within the Fund's assets categorised at level 3. More information regarding transfers is provided below the table as appropriate. Unrealised and realised gains and losses are recognised in the 'profit and losses on disposal and changes in market value of investments' line of the Fund Account.

Period 2019/20	**Market value 1 April 2019 £'000**	**Transfers into level 3 £'000**	**Transfers out of level 3 £'000**	**Purchases during the year and derivatives payments £'000**	**Sales during the year and derivatives receipts £'000**	**Realised gains/(losses) £'000**	**Unrealised gains/(losses) £'000**	**Market value 31 March 2020 £'000**
Unquoted Equities	**833**	-	-	-	-	-	-	**833**
Private/Unquoted equity (Pooled funds in Alternative Assets)	**518,272**	-	-	308,205	(74,085)	9,926	(9,968)	**752,350**
Investment Properties	**161,280**	-	-	12,408	(5,712)	3,108	(15,384)	**155,700**
	680,385	**-**	**-**	**320,613**	**(79,797)**	**13,034**	**(25,352)**	**908,883**

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NOTE 11: FINANCIAL INSTRUMENTS

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

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

	31 March 2019 £'000	31 March 2020 £'000
Financial Instruments	2,538,341	2,414,568
Statutory debts / liabilities & provisions	3,139	3,610
Investment Property	161,280	155,700
Net Assets of the Fund	**2,702,760**	**2,573,878**

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

The following table analyses the carrying amount of financial instruments by category and net asset statement heading. No financial instruments were reclassified during the accounting period to 31 March 2020.

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	31 March 2019				31 March 2020			
	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Total	Fair Value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
CLASSIFICATION								
Financial Assets								
Investments								
Equities	612,134	-	-	612,134	833	-	-	833
Fixed interest securities (corporate bonds)	170,911	-	-	170,911	173,363	-	-	173,363
Pooled investment vehicles	1,706,329	-	-	1,706,329	2,193,551	-	-	2,193,551
Derivative contracts	268	-	-	268	452	-	-	452
Cash deposits	-	47,124	-	47,124	-	45,372	-	45,372
Investment receivables/debtors	-	10,930	-	10,930	-	6,778	-	6,778
Current & long-term assets	-	691	-	691	-	637	-	637
	2,489,642	**58,745**	**-**	**2,548,387**	**2,368,199**	**52,787**	**-**	**2,420,986**
Financial Liabilities								
Derivative contracts	(5,437)	-	-	(5,437)	(2,369)	-	-	(2,369)
Investment payables/creditors	-	-	(3,174)	(3,174)	-	-	(3,028)	(3,028)
Current/long-term liabilities	-	-	(1,435)	(1,435)	-	-	(1,021)	(1,021)
Total Financial Instruments	**2,484,205**	**58,745**	**(4,609)**	**2,538,341**	**2,365,830**	**52,787**	**(4,049)**	**2,414,568**
ANALYSIS OF NET GAINS AND (LOSSES) FOR YEAR ENDED 31st MARCH								
Financial Assets	134,933	-	-	134,933	(125,662)	-	-	(125,662)
Financial Liabilities	(5,437)	-	-	(5,437)	(2,369)	-	-	(2,369)
Total Net Gains/(Losses)				129,496				(128,031)

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

NOTE 12(a): LONG TERM ASSETS

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

	31 March 2019 £'000	31 March 2020 £'000
Long Term Debtors		
Long term debtors - contributions	-	-
Long term debtors - employer exit	328	-
Total Long Term Assets	**328**	**-**

'Long-term debtors – employer exit' is the debt due from the Ministry of Justice in transferring the Cumbria Magistrates Courts to central government, and as these payments were received in ten annual instalments, the final instalment of £0.328m

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(received in April 2020) is shown within 'Employer exit from the scheme due < 1 year' (see **Note 12(b)**).

NOTE 12(b): CURRENT ASSETS

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

	31 March 2019 £'000	31 March 2020 £'000
Cash balances	**2,764**	7,646
Current Debtors		
Contributions due	2,796	3,649
Employer exit from scheme due < 1 year	328	328
Miscellaneous	1,168	963
Total Current Debtors	**4,292**	**4,940**
Total Current Assets	**7,056**	**12,586**

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

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

NOTE 13(a): LONG TERM LIABILITIES

The Fund had no long term liabilities in 2018/19 or 2019/20.

NOTE 13(b): CURRENT LIABILITIES

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

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	31 March 2019 £'000	31 March 2020 £'000
Current Creditors		
Investment Managers fees	900	376
Tax payable	703	693
Interest provision on long-term debt	87	-
Miscellaneous	535	645
Total Current Liabilities	**2,225**	**1,714**

NOTE 14: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

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Summary of Financial Risks	Credit Risk	Market Risk: Foreign Exchange	Market Risk: Interest rate	Liquidity	Other risks	2018/19 £'000	2019/20 £'000
UK Equities	◍	◍	◍	○	◍	334,455	224,727
Overseas Equities	◍	●	◍	○	◍	966,352	616,736
UK Bonds	◍	◍	●	○	◍	164,494	166,503
Overseas Bonds	◍	●	●	○	◍	6,417	6,860
Index Linked Gilts	○	○	◍	○	◍	494,170	495,549
Property *	◍	○	◍	●	◍	161,280	155,700
Alternative Investments	◍	◍	◍	●	◍	518,272	752,350
Derivatives**	◍	●	○	○	◍	(23,706)	(1,917)
UK Cash	◍	○	◍	○	◍	49,313	132,815
Overseas Cash	◍	●	◍	○	◍	21,562	17,579
Total Investments at Fair Value						**2,692,609**	**2,566,902**

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

○ Minimally ◍ Partially ● Significantly

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

** Derivatives shown above detailed in Note 10c together with associated accruals.

Overall Procedures for Managing Risk

The principal powers under which an LGPS invests are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016[2] and require an Administering Authority to invest any pension scheme money that is not needed immediately to make payments from the Fund. These regulations require the Fund to formulate a policy for the investment of its Fund money. Cumbria LGPS practices are outlined in the Fund Policy Document and can be found on-line on the Cumbria LGPS website under 'Key Cumbria LGPS Documents'.

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

The Fund annually reviews its policy on matters such as the type of investments to be held, balance between types of investments, investment restrictions and the way risk is managed. These are detailed in the Fund's Investment Strategy Statement which was last reviewed in March 2020.

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

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

The Fund keeps its Investment Strategy under continual review. Local Government Pension Schemes have a long term liability profile, and their investment strategy should be undertaken with a view to matching this. Switching asset allocations is expensive, resource intensive and time consuming. While annual review to keep abreast of trends in market conditions and liability profiles (e.g. discounted future pensions payments) is appropriate, a more detailed review, leading to material changes in asset classes should only be undertaken every 3-7 years.

The Fund had an 'equity protection' overlay in place from early April 2018. This was designed to mitigate the risk of increased employer contributions at the 2019 valuation. This objective was achieved and the protection was exited at the end of February 2020 in conjunction with a planned reduction of the Fund's listed equity holdings.

A full Strategic Investment Review was undertaken in 2019/20 following the results of the Triennial Actuarial Valuation of the Fund, which reported a 98.9% funding level (as at 31 March 2019). Undertaking this review ensures the Fund fully considers the risk being taken within the investment portfolio, and therefore challenges its ability to meet the Actuarial objectives of the Fund.

The other key elements considered in the Strategy Review, and in the design of the Fund's strategic asset allocation, were:

- <u>Return generation</u> – the Fund needs to continue to generate sufficient return to meet its liabilities.

- <u>Stability for employers</u> - a strategy needs to deliver both a return in line with the funding strategy and reduced volatility to help protect those employers with lower funding levels and are more vulnerable to sudden changes in employer contributions.

- <u>Inflation risk</u> – the Fund's inflation-linked discount rate means that it is largely protected against day to day inflation volatility, however the Fund requires assets that are linked to inflation e.g. long lease property, index-linked gilts and infrastructure equity/debt, to maintain its strong funding position.

- <u>Volatility risk</u> - equities are expected to produce good returns over the long term and provide a good source of liquidity, but are volatile and so the Fund favours assets with a similar expected return but less volatility.

- <u>Illiquidity premium</u> – the Fund is long-term and can lock up capital for longer to take advantage of the additional premium this offers. The Strategy seeks to increase the Fund's exposure to less liquid assets in order to benefit from the illiquidity premium.

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

The Pensions Committee review the total Fund investment performance against its bespoke total benchmark return. Individual managers' performance is monitored by the Investment Sub Group and reported by exception to the Pensions Committee quarterly, enabling Committee time to focus on more strategic issues such as risk and wider governance. Performance of the external Investment Managers is compared to both benchmark and target returns, and against a wider set of metrics. The Investment Sub Group and associated governance processes have been developed and strengthened over the 7 years it has been in place. The process continues to evolve and allows the Fund to enhance its governance and monitoring while nimbly taking investment decisions facilitating the continued move towards new asset classes.

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

Credit Risk

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

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

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

The Fund's cash and cash-like holdings as at 31 March 2020 were £7.646m (2018/19: £2.764m) within current assets (see **Note 12(b)**), and £37.726m (2018/19: £44.360m) shown as cash within investments (see **Note 10**). In addition to this, in 2019/20 £105.022m (2018/19: £22.939m) of the Fund's holding in unitised insurance policies shown in **Note 10a** under pooled investments. These funds were held in cash awaiting

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drawdowns for new investments. The credit ratings of the accounts and funds were as follows:

Cash and Cash Equivalents	Rating at 31 March 2020	Balances as at 31 March 2019	Balances as at 31 March 2020
Money Market Funds			
SSGA GBP Liquidity Fund	AAA	15,708	14,099
SSGA EUR Liquidity Fund	AAA	15,862	234
SSGA USD Liquidity Fund	AAA	2,409	15,018
Legal & General Sterling Liquidity Fund	AAA	22,939	105,022
Aberdeen Standard Sterling Liquidity Fund	AAA	1,502	3,703
Federated Short Term Prime Fund	AAA	1,003	3,403
Standard Life Euro Liquidity Fund	AAA	111	-
Bank deposit accounts			
National Westminster Bank	A+	259	541
Bank current accounts			
State Street Bank & Trust	AA-	3,475	2,864
Barclays Bank	A+	3,497	2,112
Northern Trust	AA-	812	-
Short Term Deposit			
Cash Collateral Swaps		(110)	600
The Bank of New York Mellon call account	AA	3,408	2,798
Total		**70,875**	**150,394**

Market Risk

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

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

To mitigate against market value risk, the Fund has set restrictions on the type of investment it can hold. These restrictions are subject to investment limits, in accordance with the LGPS (Management and Investment of Funds) Regulations 2016. Details can be found in the Fund's Investment Strategy Statement (ISS). The Fund has adopted a specific benchmark and the weightings of the various asset classes within the benchmark form the basis for asset allocation within the Fund. This allocation is designed to diversify the risk and minimise the impact of poor performance in a particular asset class. It seeks to achieve a spread of investments across both the main

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asset classes (quoted equities, bonds, private equity and property) and geographic / political regions within each asset class.

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

To increase diversification across the Fund and, amongst other things, further reduce the Fund's overall market risk, the Investment Strategy includes alternative asset classes (e.g. infrastructure, real estate debt, private equity secondary funds, royalties, private market loans) which the Fund is now investing in. In addition, to mitigate the risk of increased employer contributions at the 2019 valuation, the Fund implemented an 'equity protection' overlay in April 2018 as a temporary measure. The protection was exited before 31 March 2020 in conjunction with a planned reduction of the Fund's listed equity holdings.

Market Risk – Sensitivity Analysis

The Fund's funding position is sensitive to changes in equities (which affect the net assets available to pay benefits) and the Consumer Price Index (CPI) (which affect the value placed on the Fund's liabilities). The valuation of liabilities is based on a CPI+ model in the 2019 actuarial valuation.

Potential price changes are determined based on the observed historical volatility of the Fund's own asset class returns. Historical evidence suggests that 'riskier' assets such as equities are expected to display greater potential volatility than bonds as an example. The potential volatilities represent a one standard deviation movement in the change in value of the assets over the latest three years (i.e. 68% of the observed values were within these ranges). The use of actual data, means that the period between January and March 2020 which included a significant portion of the volatility related to COVID-19 has been included in the 3 year period being assessed, to develop the volatility percentages. This volatility can be applied to the investment assets of the Fund at the period end in the following table to show the potential increase and decrease of value.

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Market Risk - Sensitivity Analysis	2019/20 £'000	% Change	Value on Increase	Value on Decrease
UK Equities	224,727	14.0%	256,189	193,265
Overseas Equities	616,736	12.9%	696,295	537,177
Fixed interest securities (corporate bonds)	173,363	5.9%	183,591	163,135
Index Linked Gilts	495,549	17.8%	583,757	407,341
Alternatives - Infrastructure	213,800	4.0%	222,352	205,248
Alternatives - Other	538,550	12.1%	603,715	473,385
Property	155,700	3.6%	161,305	150,095
Cash	150,394	0.6%	151,296	149,492
	2,568,819		**2,858,500**	**2,279,138**

Foreign Exchange Risk

The Fund holds a number of financial assets and liabilities in overseas financial markets and is therefore exposed to the risk of loss arising from exchange rate movements of foreign currencies. At 31 March 2020, the Fund had overseas investments (excluding forward foreign exchange contract) of £928.188m and £17.579m cash denominated in currencies other than sterling.

To assess the risk the Fund is exposed to as a result of holding these currencies, taking into account information provided by Pensions & Investment Research Consultants Ltd (PIRC), it is considered that the movements shown below are a reasonable measure to apply to the currencies. The potential volatilities represent a one standard deviation movement in the volatility of currencies over the latest three years (i.e. 68% of the observed values were within these ranges). The use of actual data means that the period between January and March 2020 which included a significant portion of the volatility related to COVID-19 has been included in the 3 year period being assessed to develop the volatility percentages.

The impact of these movements in the value of foreign currencies against sterling would be to increase (or decrease) the fund value by approximately £68.948m, or 2.7% of the Fund's total value.

Foreign Exchange - Sensitivity Analysis	2019/20 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
US Dollar denominated assets	568,040	8.5%	616,324	519,756
European currency denominated assets	210,324	6.3%	223,575	197,074
Other currency denominated assets	100,189	7.4%	107,602	92,775
UK assets within Global equity funds	67,214		67,214	67,214
	945,767		**1,014,715**	**876,819**

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Foreign Exchange – Derivative Contracts

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

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

As at 31 March 2020, the Fund had both open over-the-counter forward foreign exchange contracts, and exchange traded futures contracts. See **Note 10(c)** for an analysis of these contracts.

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rates increased to 0.75% in August 2018, until, March 2020 when it became clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. The real interest rate risk is that rates will rise further, causing the value of bonds and bond funds to fall.

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value. Therefore a 0.50% change in interest rates will increase or reduce the Fund's return by £4.916m (2018/19 £4.416m) on an annualised basis.

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Assets exposed to interest rate risk	31 March 2019 £'000	31 March 2020 £'000
Fixed interest securities (including pooled investments)	665,081	668,912
Cash and cash equivalents	11,341	8,915
Money market funds and pooled cash vehicles	59,534	141,479
	735,956	**819,306**

Liquidity Risk

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

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

As part of both the Triennial Valuation and the investment reviews, Fund membership and projected maturity profiles are reviewed. Currently the Fund is cash positive (i.e. it collects more in annual income from contributions and investment than it requires to fulfil all obligations).

In 2019/20, as in past years, the Fund experienced a contribution cash deficit, i.e. the income received from contributions from members and employers was less than payments paid to members, this is expected in years that are not at the start of the valuation cycle where 'up-front' contributions are often made by some of the larger employers.

On advice from the Fund's Actuary it is projected that the Fund will remain cash positive (including yield from investments) for the medium term. However this will be kept under active review and reassessed in the next Actuarial Valuation.

Note 10(h) explains the Fair Value hierarchy and how the Fund holds a large value of very liquid securities which could be promptly realised if required (levels 1 and 2). As at 31 March 2020 the value of assets which could be converted to cash within three months, without significant loss to the Fund, is £1,658.019m, i.e. 65% of net assets (31 March 2019 £2,012.224m, 75%). The value of the illiquid assets including investment properties was £908.883m which represented 35% of net assets (31st March 2019 £680.385m, 25%).

8. THE PENSION FUND ACCOUNTS

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

A maturity analysis for investment liabilities (all of which are derivatives) is shown in **Note 10(c)**. The current liabilities of the Fund (see **Note 13(b)**) are all due within 12 months from the Net Assets Statement date. The long term liabilities of the Fund (see **Note 13(a)**) consisted of the interest provision on the Ministry of Justice 'long term debtor – employer exit' until it matured in April 2020. The Fund has no long term liabilities over 12 months.

Counterparty Risk

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

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

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

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

Settlement Risk

If the counterparty fails on the settlement date itself, and more specifically if it fails after the Fund has delivered payment but before the counterparty has delivered its payment then there would be a small time-limited risk of payment versus non-payment. This occurs when a party faces possible loss between the time a settlement payment is made and a payment is received on the same business day. This risk is more frequent in exchange of different currencies. The manager applies operational settlement

8. THE PENSION FUND ACCOUNTS

netting, thus allowing clients to reduce their settlement exposures by having smaller amounts due to or from them.

There is no movement of principal capital; the credit exposure to either party is represented by the profit or loss on the positions at that point in time i.e. £1.917m loss on the currency derivatives at 31 March 2020 (see **Note 10c**).

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

Unquoted Investments

The Fund holds significant amounts of unquoted securities, and has increased since the pooling of investment assets in the LGPS and the creation of the BCPP pool to do so. It is also due to the fact that the unitised insurance policy held by the passive manager, Legal and General, is invested in unquoted, unitised, index-tracking funds, used as an efficient liquid method of investing in the asset classes. The underlying assets the index-tracking funds hold on behalf of clients are quoted assets such as bonds and equity.

As indicated in **Note 9** the Fund has been increasing its allocation to unquoted pooled investment vehicles including infrastructure, pooled property funds, private loan funds, opportunistic investments and other pooled investments. These provide an efficient method of accessing exposure to these assets for a fund of Cumbria's size.

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

The unquoted investments held at 31 March 2020 are as follows:

8. THE PENSION FUND ACCOUNTS

Asset Class	2018/19 £'000	2019/20 £'000	Manager	Holding Details
Pooled investment vehicles				
Managed by Pool	268,002	696,327	Border to Coast	UK equity fund.
Unitised insurance policies	915,226	744,874	Legal and General	Index tracking funds.
Other managed funds	121,907	121,897	JP Morgan	Infrastructure fund.
	-	100,000	CQS	Multi Asset Credit
	-	90,195	Apollo	Multi Asset Credit
	24,298	52,025	Partners Grp	Private Market Credit
	49,954	52,133	Partners Grp	Infrastructure fund.
	42,130	45,746	Barings	Global private loan fund.
	39,867	40,022	M&G	Long-lease property fund.
	37,960	38,861	Aviva	Long-lease property fund.
	60,029	37,690	Insight	Fixed Income funds.
	31,144	37,204	Unigestion	Secondary private equity funds
	26,538	33,398	Aberdeen SLC	Infrastructure fund.
	20,286	22,262	SL Capital	Secondary private equity funds
	13,913	23,499	Pantheon	Private Equity funds.
	17,788	21,564	HRP	Healthcare Royalties Partners Fund.
	19,015	14,873	BlackRock	BlackRock in-house funds.
	12,897	9,714	M&G	Real estate debt funds.
	-	6,480	Border to Coast	Infrastructure Funds
	-	4,742	Border to Coast	Private Equity Funds
	546	45	Aberdeen	Overseas property funds (ex-BlackRock).
UK equity unquoted	833	833	Border to Coast	Company share capital.
	1,702,333	**2,194,384**		

NOTE 15: ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Fund operates an additional voluntary contribution scheme. Employees are allowed to pay voluntary contributions to one of three independent AVC scheme providers. To comply with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the transactions are treated separately to the Fund's accounts and therefore do not form part of these accounts.

The three providers offered are Prudential, Standard Life and Scottish Widows. The Fund gives no guarantee of investment performance of the providers and makes no contribution to the employees' funds. The previous scheme on offer to employees was the Equitable Life Assurance Society but in December 2000 it stopped accepting new business. From January 2020, the Equitable Life AVC closed with investments transferring to Utmost Life.

The values of the three active schemes for Cumbria LGPS, along with the value of Equitable Life and Utmost Life, are shown below:

8. THE PENSION FUND ACCOUNTS

	2018/19 £'000	2019/20 £'000
Standard Life	1,003	895
Scottish Widows	1,128	919
Equitable Life	671	-
Utmost Life	-	577
Prudential	1,235	1,386
Total AVCs	**4,037**	**3,777**

AVC contributions of £0.528m were paid directly from employees pay to the providers during the year (2018/19: £0.685m).

Members have the option of contributing to the various Schemes offered by their chosen provider. The purpose of contributions paid by a member is the securing of a pension at retirement, usually by taking a lump sum payment, buying an annuity or transferring the investment into the main Scheme. The investment could be realisable earlier in the event of a member's death before retirement.

NOTE 16: RELATED PARTY TRANSACTIONS

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

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

Border to Coast Pension Partnership Ltd (BCPP)

As detailed in section 1(d) of the accounts, in 2017/18 the Fund became a partner in BCPP as its chosen route to pool investment assets across the LGPS. BCPP is the

8. THE PENSION FUND ACCOUNTS

organisation set up to run pooled LGPS investments for the Fund and 11 other Pension Funds. The company is a private limited company limited by shares and its company number is 10795539. BCPP was incorporated in May 2017 and issued 12 £1 A Ordinary shares. The shares have full voting rights, dividend and capital distribution rights. Cumbria County Council as Administering Authority for the Cumbria Local Government Pension Scheme holds £1 of A Ordinary share capital. For accounting purposes this holding is included and reported within the Cumbria LGPS Annual Report and Accounts.

There are no material transactions in respect of related parties requiring separate reporting for 2019/20.

Senior employees of the main Employer organisations within the Cumbria Local Government Pension Scheme (LGPS), Members of the Cumbria Pensions Committee and Cumbria Local Pension Board, and senior officers with significant influence on the Fund were asked to complete a declaration on related parties. An examination of the returns for 2019/20 reveals that there were no material transactions between the members/officers and their families affecting involvement with the Fund. Each member of the Pension Committee formally considers conflicts of interest at each meeting and the outcome is declared in the public minutes. Any transactions as have been identified are either non-material or are associated with the normal activities of the individuals in question.

Related parties returns are sent to the main employer organisations, and the aim is for receipt of returns to cover 85% of the active membership. This target has been achieved in 2019/20.

Key Management Personnel

Paragraph 3.9.4.4 of the Code exempts local authorities from the key management personnel requirements of IAS 24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in Section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit (England) Regulations 2015) satisfy the key management personnel disclosure requirements of paragraph 17 of IAS 24. This applies equally to the accounts of Cumbria Local Government Pension Scheme.

The Fund does not employ any staff directly. Cumbria County Council employs the staff involved in providing the duties of the Administering Authority (excluding the pensions administration service which is provided by 'YPS') for the Fund. Disclosures of the remuneration awarded to key management personnel is therefore included in the officers' remuneration disclosure in the notes to the Cumbria County Council Annual Financial Report 2019/20 (see Note 13 to those statements).

In the interests of transparency the Fund has incorporated disclosure of the remuneration of Senior Officers employed by Cumbria County Council and elected Members who have responsibility of the management of the Fund to the extent that

8. THE PENSION FUND ACCOUNTS

they have power to direct or control the major activities of the Fund (in particular activities involving the expenditure of money) whether solely or collectively with other persons.

Notes on below table:

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

- Benefits in Kind – includes expense allowances liable for taxation including for example, travel and mileage expenses. For 2019/20 the Council's mileage rate was at or below the HMRC rate so there is deemed to be no benefit received. There were no benefits in kind in 2019/20

- Cumbria County Council's Employer's Future Service Rate – LGPS 14.9% (current service cost).

- Time spent on LGPS – as noted above no officers are employed by Cumbria LGPS. The Fund is therefore charged by Cumbria County Council for the time spent by officers undertaking Scheme work. These percentages are the time spent by Senior Officers during 2019/20 on Cumbria LGPS specific work.

- During 2019/20, in addition to the Remuneration of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS, one officer (1FTE) (2018/19:1FTE) received remuneration in the £55,000 - £59,999 range however the remuneration of this Officer in respect of work undertaken on behalf of the Fund was less than £50,000 during the year.

- From May 2017, the Chair of the Cumbria Pensions Committee has been entitled to a special responsibility allowance. In 2019/20 this allowance was £7,158. This cost is charged to Cumbria LGPS.

- Other Members of the Pensions Committee and Local Pension Board are not remunerated for their attendance.

8. THE PENSION FUND ACCOUNTS

2019/20 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:

Post Title	**Salary recharged to Cumbria LGPS**	**Total Remuneration excluding pension contributions recharged to Cumbria LGPS**	**Employer's Pension contributions recharged to Cumbria LGPS**	**Total Remuneration including pension contributions recharged to Cumbria LGPS**
	£	**£**	**£**	**£**
Director of Finance (S151 Officer)	12,855	12,855	1,915	14,770
Senior Manager – Pensions & Financial Services (Deputy S151 Officer - LGPS)	49,853	49,853	7,428	57,281
	62,708	**62,708**	**9,343**	**72,051**

2018/19 Remuneration as charged to Cumbria LGPS of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS:

Post Title	**Salary recharged to Cumbria LGPS**	**Total Remuneration excluding pension contributions recharged to Cumbria LGPS**	**Employer's Pension contributions recharged to Cumbria LGPS**	**Total Remuneration including pension contributions recharged to Cumbria LGPS**
	£	**£**	**£**	**£**
Director of Finance (S151 Officer)	12,469	12,469	1,858	14,327
Senior Manager – Pensions & Financial Services (Deputy S151 Officer - LGPS)	48,135	48,135	7,172	55,307
	60,604	**60,604**	**9,030**	**69,634**

8. THE PENSION FUND ACCOUNTS

NOTE 17: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

The Fund has given termination notice to end the Investment Management Agreement with Aberdeen Standard Investments for the Fund's corporate bonds portfolio. The exit from the portfolio will be underway following the year-end. There are no contingent liabilities or other outstanding contractual commitments at 31 March 2020.

NOTE 18: CONTINGENT ASSETS

Tax Reclaims

Cumbria Pension Fund has potential claims against HM Revenue and Customs and some European countries for tax withheld on foreign income dividends. A leading professional services firm, acting on behalf of the Cumbria Fund, has continued to pursue these claims during 2019/20. The estimated value of claims still outstanding is £4.029m (value in GBP at 31 March 2020, including MOD claim of £0.914m as mentioned below).

These claims are made on the basis that within the European Union all member states should enjoy the same status. In respect of tax, resident investors should not be treated differently from non-residents. There have been some notable court cases such as Manninen and Fokus, *EU Commission v Germany, Santander, and EU Commission v Portugal* that have added to the strength of the argument. There were no repayments during 2019/20 and progress has slowed for Fokus Bank (withholding tax) claims in France, Germany and Italy and for Foreign Income (FID) and Tax Credit (Manninen) Group Litigation whilst the application of and appeal against time limit decisions are debated. Following a recommendation from the professional services firm acting on our behalf, the Cumbria Fund took action to refresh the Italian claims to avoid the claim lapsing on a technicality after ten years with no response from the Italian Tax authorities, the refresh was successfully completed in February 2020. Whilst it is prudent for the Cumbria Fund not to make any assumptions, settlements previously received from other European countries lend some optimism as to the success of recovering additional income for the Fund in the future.

Claims have also been registered in the High Court for potential tax recovery from HMRC in respect of manufactured overseas dividends (MOD's) on equity stock lent out through the stock lending programme. The total claim value is in excess of £0.914m, although no accrual has been put in the accounts as the outcome is uncertain. Work was undertaken during 2019/20 to protect the Fund's MOD claims from being invalidated in the event of a "no deal" Brexit. The claim value is now protected should the UK fail to negotiate a deal with the European Union before 31 December 2020.

The fees incurred to date for all the above tax claims regardless of the outcome total £0.500m, and have been charged as expenditure to the fund account in the appropriate accounting period.

8. THE PENSION FUND ACCOUNTS

Class Actions

Where shareholder value has been eroded by wrongful action by company directors, sometimes it is possible for monies to be recovered via the courts by a shareholder class action against the company or its directors. The Fund uses Institutional Protection Services Ltd to monitor these class actions. The Fund will seek to recover any significant monies due where professional advice has been received detailing that the probability of success is believed to outweigh the additional cost of doing so.

NOTE 19: IMPAIRMENT LOSSES

All outstanding debts for non-recovery of pension overpayments and all other debts raised during 2019/20 are considered to be recoverable with no further impairment beyond the existing provision for credit losses or bad and doubtful debts.

There were no impairments of investments during 2019/20.

Financial Assets That Are Past Due As At 31 March But Not Impaired:

The Fund generally allows a payment period of 30 days. Included within the £4.940m (£4.292m at 31 March 2019) of current debtors (see **Note 12(b)**) is £0.016m of debtors aged between two and six months (£0.034m at 31 March 2019) and £0.075m of debtors aged greater than six months (£0.040m 31 March 2019).

NOTE 20: STOCK LENDING

Stock lending is the loan of specific securities from one investor to another that entitles the lender to continue receiving income generated by the stock plus an additional payment by the borrower. Exposure to risk is reduced by the borrower providing high quality collateral (cash, securities or gilts). The stock lending program is being wound down following the transition of the Fund's active global equity to BCPP and the planned sale of the Fund's corporate bond portfolio.

The value of securities on loan as at 31 March 2020 has reduced in comparison to prior years primarily following the transition of assets away from segregated mandates with Loomis Sayles and Nordea (where the Fund is the asset owner and can therefore stock lend) to a unitised holding of Global Equity with BCPP (where the Investment Manager is the asset owner). Within the BCPP UK and Global equity sub-funds that the Fund has subscribed to, BCPP do actively participate in stock lending and the income from this forms part of the return on that holding.

Securities on loan at the 31 March 2020 of £0.773m (2018/19: £9.232m) are included in the net assets statement to reflect the Fund's continuing economic interest in the securities, and consist of £0.043m UK corporate bonds and £0.730m overseas corporate bonds (2018/19: £0.150m UK equities, £9.082m overseas equities). The related collateral totalled £0.812m (2018/19: £9.483m), consisting £0.745m overseas corporate bonds and £0.067m UK corporate bonds (2018/19: £9.326m overseas bonds, £0.157m UK equities).

8. THE PENSION FUND ACCOUNTS

For the year to 31 March 2020, the Fund earned income of £0.012m (2018/19 £0.090m) through stock lending of the various assets (as detailed in **Note 9**).

NOTE 21: EVENTS AFTER THE REPORTING DATE

The valuation of assets held within the Fund continued to be volatile after the end of the 2019/20 financial year as global markets responded to the on-going COVID-19 pandemic. This remains an ongoing issue and the impact on the Fund will continue to be assessed up until the publication of the audited accounts.

In May 2020, the merger of Northumberland Pension Fund and Tyne and Wear Pension Fund, two of the twelve partners in BCPP, was approved by Government (following a consultation issued by the Ministry of Housing, Communities & Local Government (MHCLG)). The statutory instrument to implement the changes was laid before Parliament on 14 May 2020 and came into force on 3 June 2020. The merger has required a number of actions by partner funds and by BCPP, including the repayment of share capital to Northumberland and the request for the remaining eleven shareholders (including Cumbria) to provide additional regulated capital. Work to complete this is currently underway. Pensions Committee were last updated on the progress of the merger in March 2020 and future significant updates will continue to be reported to Members.

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

The Fund's Investment Strategy is positioned to absorb downside risk as well as being targeted at achieving long-term stability and asset growth. This is achieved by diversification across the portfolio (e.g. between asset classes, sectors, risk appetite and geographic regions).

NOTE 22: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND THE USE OF ESTIMATES AND UNCERTAINTIES

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

- the wider Local Government Pensions Scheme and specifically the Cumbria Fund will continue in operational existence for the foreseeable future as a going concern;
- No investments are impaired (further detail on the investment strategy and approach to managing risk in **Note 14**); and
- The impact of the COVID-19 pandemic on the valuation of the Fund's 'level 3' assets (as defined in **Note 10(h)**).

Any judgements made in relation to specific assets and liabilities, in addition to information stated in the relevant notes, can also be found in **Note 2**: Summary of Significant Accounting Policies, and Fair Value narrative in **Notes 10(g) and 10 (h)**.

8. THE PENSION FUND ACCOUNTS

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

Item	Uncertainties	Effect if actual differs from assumptions
Market Value of Investments	Investments at Level 1 & 2 - Valuations depend on market forces impacting the current price of stocks, shares and other investment instruments. Investments have been valued at the IFRS accepted method of 'Fair Value' since 2008/09, this being the 'bid price' where possible and therefore there is not expected to be any material uncertainty of the valuation of these assets. Investments Level 3 – the hardest to value holdings often do not depend on market forces, but are subject to uncertainties unique to each holding. Valuations are mostly based on future cash flow so will depend on the expectations of the specific income streams and inflation linkage. Property – Fair Value (IFRS 13) valuations use the expected cashflow streams from current leases with reference also to the value of the property on the open market.	For every 1% increase in market value of all assets, the value of the Fund will increase by approx. £25.630m, with a decrease having the opposite effect. For further information on the Sensitivity of Asset values at Level 3 including property, refer to Note 10(g). Level 3 investments including property – often income will be inflation linked e.g. RPI uplifts, based on throughput e.g. power production or infrastructure usage, or underlying company performance in the case of private equity. If actual outcomes for these variables differ greatly from expectations, valuations can be lower than expected and also higher too. Manager skill and experience is essential in predicting the variables, planning and controlling the outcomes. Property – when properties are marketed for sale, the bids received from interested buyers can be above or below valuation due to market reasons. For each case the underlying factors would be considered before acceptance or otherwise of the sale.
Pensions Liability	Assumptions such as mortality expectations, future inflation, returns on investments, and rate of pay increases. For further information on the assumptions contained in the Actuarial valuation, and how sensitive the funding position is to changes in those assumptions, please refer to the published Actuarial Valuation report which is available on the Fund's website.	The effects on the funding level of changes in the individual assumptions can be measured, but interact in complex ways. For instance: • a 1 year increase in life expectancy would result in a £75m increase in deficit shortfall; • a 0.25% reduction in the real investment return achieved would result in a £124m increase in the deficit shortfall, or; • a 25% reduction in Asset values would result in a £676m increase in the deficit shortfall; as determined at the 2019 valuation.

8. THE PENSION FUND ACCOUNTS

Item	Uncertainties	Effect if actual differs from assumptions

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

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

This investment has been valued at cost on the basis that fair value as at 31 March 2020 cannot be reliably estimated. Management have made this judgement because:

- Border to Coast Pensions Partnership Ltd (BCPP) became licensed to trade in May 2018;
- The first year of financial accounts for the Company show the shareholder funds to be equivalent to the regulatory capital invested (at cost);
- There is no intention for the company to be profit making and therefore no dividend to shareholders has been declared and there is no expectation of a future dividend being projected.

Directly held property

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

Impact of COVID-19 on the valuation of 'level 3' assets

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11 March 2020, has impacted global financial markets. Market activity is being impacted in many sectors, including property.

In response to this, the Fund's property valuer (CBRE Ltd) has been directed by the Royal Institution of Chartered Surveyors (the RICS) to include a 'Material Uncertainty' clause in all property valuation reports. This is the approach that is being directed nationally by the professional body responsible for promoting and enforcing the standards for property valuations for 2019/20; and this material uncertainty clause is

8. THE PENSION FUND ACCOUNTS

applicable to the Fund's direct and indirect property (including pooled property funds) holdings.

The following explanatory narrative has been summarised from the CBRE Cumbria LGPS Valuation Report 31 March 2020:

> *As at the valuation date, we [CBRE] consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.*
>
> *Our valuations are therefore reported on the basis of 'material valuation uncertainty' … Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. …*
>
> *The RICS have directed that the above 'Material Uncertainty' clause be included with all property valuation reports. These are only adopted when market circumstances at the date of the valuation have changed from the period when the comparable transactions on which the valuation is based were concluded. At present we have a situation where some transactions, agreed earlier in the month, are continuing, suggesting that the evidence they offer remains valid. Conversely, there are many transactions that have been either suspended, delayed or abandoned. There is very little indication of any new property being offered for sale in the latter part of March from which the market reaction and pricing can be gauged, hence the adoption of the 'Clause'.*
>
> *The downward trajectory of the stock market, the closure of most retail outlets and the general effect on the economy are leading some commentators to predict a global recession. Short term effect or a deeper malaise is unknown. What we can say however, is that with investors increasingly cautious, property cannot remain unaffected. Although there is no evidence of a fall in values there is sufficient circumstantial evidence for us to consider that the yield, and perhaps rental levels reached earlier [in March 2020] will not be replicated for some time. After consulting widely amongst our clients and competitors, a consensus view was reached that property valuations will need adjusting compared to the evidence as it stood earlier in the month. In the individual valuations … we have deducted one quarter's rent in respect of all retail and leisure properties, extended current and future void periods and adjusted most equivalent or initial yields.*

Valuations for Private Equity investments are usually received a quarter in arrears, but in recognition of the potential significance of market impact from the global pandemic, the Fund has taken steps to ensure these investment are valued at an estimate to the fair value at 31 March, as best as is available at the time of preparation. In light of the impact on economic activity of the lockdown position in many countries, the private equity funds have, where possible, sourced indicative estimates from the underlying fund managers, to produce a provisional March 2020 valuation for investors. Some underlying investments are by the nature of their revenues more resilient than others, e.g. healthcare versus consumer spending. Where estimates have not been available for underlying investments, the relevant managers (Aberdeen Standard and Pantheon)

8. THE PENSION FUND ACCOUNTS

have provided investors with an estimated decrease in valuation due to COVID-19 reflecting an impact similar to that in the public market sector indices. All such estimated decreases are subject to a degree of uncertainty; it is a highly fluid situation and, whilst May saw a recovery of much of the decline in the public markets, returns are still volatile and the economic outlook remains uncertain.

Infrastructure investments have been impacted overall to a lesser degree by the global pandemic, as these include operational assets in renewable and contracted energy, power distribution and utilities. The largest private market investment held by the Fund, £121.897m in JPM Infrastructure Fund, has confirmed its valuation for March 2020 including audited valuations for each underlying portfolio company.

NOTE 23: ACTUARIAL POSITION OF THE FUND

The Fund Actuary assesses the valuation of the Cumbria Local Government Pension Scheme as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023.

The full Actuarial Valuation Report as at 31 March 2019 is available on the Cumbria LGPS website under ‘Key Cumbria LGPS Documents’.

The Scheme Actuary is also required by the Local Government Pension Scheme (Administration) Regulations 2013 (as amended) to present a statement detailing both the actuarial valuation result and the actuarial value of the Fund’s past service liabilities calculated in a manner consistent with International Accounting Standard 19 (IAS 19). The statement also complies with the requirements of IAS 26.

The calculation of the liabilities in compliance with IAS 19 uses different assumptions than those used for the valuation basis. For example;

- The IAS 19 valuation calculates growth on the basis of bond yields at balance sheet date. The actuarial valuation, whilst also based on bond yields at balance sheet date, will generally look to dampen the effect of any perceived short term market volatility on yields (i.e. it takes a ‘smoothing’ approach).
- The IAS 19 valuation calculation requires that all entities assume their pension Fund grows at a standard rate, whereas the actuarial valuation considers the expected investment return of the assets actually held by the Fund, (e.g. IAS 19 requires that all funds use a generic discount rate whereas the discount rate used by the Fund in the actuarial valuation basis reflects the expected investment return based on the unique combination of assets it holds).

The table below details the valuation of the assets and liabilities of the Fund using both the valuation basis and the IAS 19 methodology.

8. THE PENSION FUND ACCOUNTS

	31 March 2019 £'m	31 March 2020 £'m
Valuation Basis		
Present value of past service liabilities	(2,745)	(2,827)
Net assets of the Fund	2,703	2,574
Net liability (Valuation Basis)	**(42)**	**(253)**
IAS 19 Basis		
Present value of past service liabilities	(3,553)	(3,478)
Net assets of the Fund	2,703	2,574
Net liability (IAS 19 Basis)	**(850)**	**(904)**

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

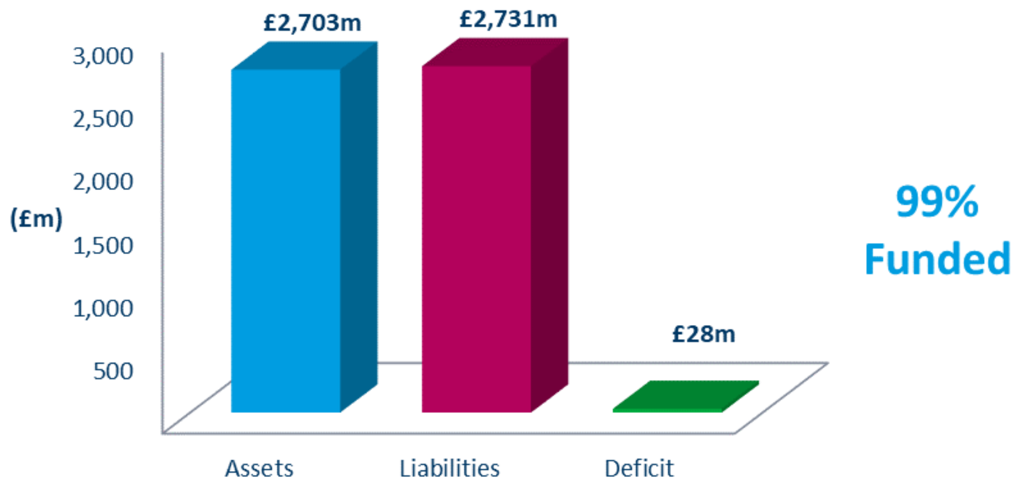
CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020 - STATEMENT BY THE CONSULTING ACTUARY

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

An actuarial valuation of the Cumbria Local Government Pension Fund was carried out as at 31 March 2019 to determine the contribution rates with effect from 1 April 2020 to 31 March 2023. On the basis of the assumptions adopted, the Fund's assets of £2,703 million represented 99% of the Fund's past service liabilities of £2,731 million (the "Solvency Funding Target") at the valuation date. The deficit at the valuation was therefore £28 million.

8. THE PENSION FUND ACCOUNTS



The valuation also showed that a Primary contribution rate of 18.6% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

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

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average recovery period adopted is 12 years, and the total initial recovery payment (the "Secondary rate" for 2020/21) is an addition of approximately £6m per annum in £ terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), although this varies year on year.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2020.

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

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

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

8. THE PENSION FUND ACCOUNTS

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	3.65% per annum	4.40% per annum
Rate of pay increases (long term)	3.9% per annum	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.4% per annum	2.4% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2022. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2023.

The McCloud Judgment

The "McCloud judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all public sector schemes including the LGPS. Once the final remedy is known, the position and any potential impact will be reviewed by the Fund in light of the current funding strategy (which includes an implicit allowance for the estimated costs).

In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate do not include a specific allowance for the estimated cost of the McCloud judgment (although there is a margin within the assumptions that may be used to absorb costs arising). However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £23 million and an increase in the Primary Contribution rate of 1.0% of Pensionable Pay per annum.

Impact of COVID 19

The valuation results and employer contributions above were assessed as at 31 March 2019. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to make immediate decisions in what is an unprecedented set of events. Our view is that employer contributions should not be revisited but the position should be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2020 (the 31 March 2019 assumptions are included for comparison):

8. THE PENSION FUND ACCOUNTS

	31 March 2019	31 March 2020
Rate of return on investments (discount rate)	2.4% per annum	2.4% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.2% per annum	2.1% per annum
Rate of pay increases	3.7% per annum*	3.6% per annum
Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation	2.3% per annum	2.2% per annum

* This was the long-term assumption. An allowance corresponding to that made at the 2016 actuarial valuation for short-term public sector pay restraint was also included.

The demographic assumptions are the same as those used for funding purposes, with the 31 March 2020 assumptions being updated to reflect the assumptions adopted for the 2019 actuarial valuation. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2020.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £3,553 million including the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£86 million, and allowing for net benefits accrued/paid over the period increased the liabilities by c£35 million (this includes any increase in liabilities arising as a result of early retirements and GMP indexation – see comments elsewhere in this statement). There was also a decrease in liabilities of £196 million due to "actuarial gains" (i.e. the effects of the changes in the actuarial assumptions used, referred to above, and the incorporation of the 31 March 2019 actuarial valuation results into the IAS26 figures).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £3,478 million.

GMP Indexation

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £9 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

8. THE PENSION FUND ACCOUNTS

John Livesey

Fellow of the Institute and

Faculty of Actuaries

Mark Wilson

Fellow of the Institute and

Faculty of Actuaries

Mercer Limited

June 2020

NOTE 24: ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The Fund is required to disclose information relating to the impact of Accounting Standards that have been issued but have not yet been adopted.

Amendments to IAS 19 (Employee Benefits) related to Plan Amendment, Curtailment or Settlement were issued by the International Accounting Standards Board (IASB) in February 2018 but are not effective within the LGPS until 2020/21 and so are not incorporated into the 2019/20 accounts. The impact any changes may have in future cannot be assessed, as this would depend on the size of the relevant events (e.g. outsourcing, academy conversion) affected by the accounting standard amendments.

There have been no accounting standards issued that would materially impact on the 2019/20 financial statements.

NOTE 25: PARTICIPATING EMPLOYERS OF THE FUND

As at 31st March 2020 the scheduled and admitted bodies within the Cumbria Local Government Pension Scheme were:

8. THE PENSION FUND ACCOUNTS

Employers of the Fund as at 31 March 2020 (total 126)

Scheduled Scheme Employers (13)	**Scheduled Bodies - Academies (cont)**	**Admitted Bodies Transferee (18)**
Cumbria County Council	Northside Academy	Bulloughs - Solway
Allerdale Borough Council	Penny Bridge Academy	Carlisle Leisure Ltd
Barrow Borough Council	Queen Elizabeth Grammar Academy	Carlisle Leisure Allerdale
Carlisle City Council	Richard Rose Academies	Carlisle Mencap - Huntley Ave
Copeland Borough Council	Seaton Academy	Carlisle Mencap - Hart St
Eden District Council	Settlebeck High Academy	Caterlink - W/Lakes
South Lakeland District Council	Stanwix School Academy	Caterlink - WHT
Cumbria Chief Constable	Stramongate Academy	FCC Environment
Cumbria Police & Crime Commissioner	The Queen Katherine School Academy	Greenwich Leisure (Copeland)
Furness College	Trinity Academy	Greenwich Leisure (South Lakes)
Kendal College	Walney Academy	Life Leisure
Lake District National Park Authority	Cumbria Education Trust (one employer)	Mellors Catering - Appleby
Lakes College (West Cumbria)	Caldew Lea Academy (New)	Mellors Catering - Kirkby Stephen
Scheduled Resolution Bodies (15)	Hensingham Primary (New)	Mellors Catering Services - Rockcliffe
Aspatria Town Council	Longtown Academy	People First
Cleator Moor Town Council	Tebay Academy	SLS (Cumbria) Ltd - QK
Cockermouth Town Council	The Workington Academy	SLS (Cumbria) Ltd - StH
Cumbria Waste Management	Whitehaven Academy	Tullie House Trust
Egremont Town Council	William Howard Academy	**Admitted Bodies Community (16)**
Grange Town Council	Yanwath Academy	Commission for Social Care Inspection
Kendal Town Council	Yewdale Academy	Cumbria Cerebral Palsy
Keswick Town Council	Furness Education Trust (one employer)	Cumbria Deaf Vision
Maryport Town Council	Furness Academy	Eden Housing Association
Orian Solutions	Parkside GGI Academy	Glenmore Trust
Penrith Town Council	Victoria Primary Academy	Harraby Community Centre
Ulverston Town Council	Yarlside Primary Academy	Higham Hall
Whitehaven Town Council	Lunesdale MAT (one employer)	Home Group (Copeland)
Wigton Town Council	Queen Elizabeth Academy	Kendal Brewery Arts Centre Trust Ltd
Workington Town Council	Queen Elizabeth Studio School	Lakeland Arts Trust
Scheduled Bodies - Academy employers (42)	The Good Shepherd MAT (one employer):	Longtown Memorial Hall Community Centre
(number of academies 63)	Ambleside Primary Academy	Morton Community Centre
Appleby Grammar Academy	Braithwaite Primary Academy	Oaklea Trust
Arnside National CofE Academy	Dean Academy	Soundwave
Bassenthwaite Academy	Gilsland Academy	South Lakes Housing
Broughton Primary Academy	Lazonby Academy	West House
Burton Morewood Primary Academy	Lorton Academy	**Admitted Bodies No Actives (10)**
Caldew Academy	Whitfield Academy	Cumbria Training Partnership
Cartmel Priory Academy	Wreay School Academy (New)	Direct Training Services
Castle Carrock Academy	West Lakes Academy (one employer)	Egremont & District Pool Trust
Chetwynd School Academy	Arlecdon Primary Academy (New)	Henry Lonsdale Trust
Cockermouth Academy	Thornhill Primary Academy (New)	Kendal Citizens Advice
Crosby on Eden Academy	West Lakes Academy	Lake District Cheshire Homes
Cumbria Academy for Autism (New)		NRCS Ltd (Neighbourhood Revitalisation)
Dallam Academy	**Scheduled Bodies No Actives (12)**	Project Homeless
Dearham Primary Academy	Brampton Parish Council	Troutbeck Bridge Swimming Pool
Eaglesfield Paddle Academy	Charlotte Mason College	Wigton Joint Burial Committee
Energy Coast UTC	Cumbria Institute of the Arts	
Fairfield Primary Academy	Cumbria Primary Teacher Training	
Flimby Academy	Cumbria Sea Fisheries	
George Hastwell School Academy	Dept Constit Affairs (Cumbria Magistrates)	
Ghyllside Academy	Health Authority	
Great Corby Academy	Millom Town Council	
James Rennie Academy	Port of Workington	
Kendal MAT - Castle Park Academy	Practical Alternatives to Custody (Ltd)	
Keswick Academy	Seaton Parish Council	
Kirkbie Kendal Academy	Water Authority	
Kirkby Stephen Academy		

9 OTHER STATEMENTS AND INFORMATION

9.1 INFORMATION FOR SCHEME ADVISORY BOARD

To assist with the production of the Scheme Annual Report (compiled by the LGPS Scheme Advisory Board) individual Funds within the LGPS are required to provide the following information:

9.1.1 Fund assets as at the reporting date:

31 March 2020	UK £m	Non-UK £m	Global** £m	Total £m
Equities	224.7	-	616.6	**841.3**
Bonds	662.1	6.9	-	**669.0**
Property (direct holdings)	155.7	-	-	**155.7**
Alternatives*	449.6	304.6	-	**754.2**
Cash and cash equivalents	125.2	17.6	-	**142.8**
Other ***	-	-	-	-
Total	**1,617.3**	**329.1**	**616.6**	**2,563.0**

Comparatives:

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

9. OTHER STATEMENTS AND INFORMATION

9.1.2 Investment income accrued during the reporting date:

31 March 2020	UK £m	Non-UK £m	Global** £m	Total £m
Equities	0.4	7.3	-	**7.7**
Bonds	6.8	0.2	-	**7.0**
Property (direct holdings)	8.0	-	-	**8.0**
Alternatives*	4.1	1.9	18.3	**24.3**
Cash	0.1	0.3	-	**0.4**
Other***				**-**
Total	**19.4**	**9.7**	**18.3**	**47.4**

Comparatives:

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

Notes on above tables:
* “Alternatives” are taken to mean holdings in private equity, hedge funds, pooled property funds, infrastructure funds, royalty funds and derivatives.
** “Global” holdings are those that include an element of both overseas and UK listed assets.
*** “Other” denotes assets not falling into any other category, such as investments in vehicles where the underlying investments may comprise of assets of more than one type.
Investments in pooled funds are allocated to categories based on the nature and the domicile of the underlying assets.

9. OTHER STATEMENTS AND INFORMATION

9.2 AUDITOR'S OPINION

GrantThornton

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

Opinion

The pension scheme financial statements of Cumbria Local Government Scheme (the 'pension scheme') administered by Cumbria County Council (the "Authority") for the year ended 31 March 2020 which comprise the Pension Fund Account for the year ended 31st March 2020, the Net Assets Statement as at 31 March 2020 and notes to the financial statements, including a summary of significant accounting policies are derived from the audited pension scheme financial statements for the year ended 31 March 2020 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension scheme financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 and applicable law.

Pension Scheme Annual Report - Pension scheme financial statements

The Pension Scheme Annual Report and the pension scheme financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension scheme financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension scheme financial statements in the Statement of Accounts in our report dated 30 November 2020.

That report also includes an Emphasis of Matter - effects of Covid-19 on the valuation of property investments section that draws attention to Note 22 in the audited pension scheme financial statements, which is replicated in Note 22 of the pension scheme financial statements. Note 22 describes the effects of the Covid-19 pandemic on the valuation of the pension scheme's property investments as at 31 March 2020. As disclosed in Note 22 to the financial statements, the outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Market activity is being impacted in many sectors, including property. In response to this, the Fund's property valuer (CBRE Ltd) has been directed by the Royal Institution of Chartered Surveyors

9. OTHER STATEMENTS AND INFORMATION

(the RICS) to include a ‘Material Uncertainty’ clause in all property valuation reports. This material uncertainty clause is applicable to the Fund’s direct and indirect property holdings. As stated in our report dated 30 November 2020, our opinion is not modified in respect of this matter.

Director of Finance’s (s151 Officer) responsibilities for the pension scheme financial statements in the Pension Scheme Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Director of Finance (s151 Officer) of the Authority is responsible for the preparation of the pension scheme financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension scheme financial statements in both the Statement of Accounts and the Pension Scheme Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

Auditor's responsibility

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

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority’s members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Gareth Kelly

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

Glasgow

30th November 2020

APPENDIX A: FUND POLICY DOCUMENT

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

FUND POLICY DOCUMENT

Amended June 2020

APPENDIX A - 1. INTRODUCTION

1 INTRODUCTION

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

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

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

Governance

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

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

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

The purpose of each is summarised as follows:

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

APPENDIX A - 1. INTRODUCTION

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

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

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

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

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

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

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

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

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

Cumbria Pensions Committee

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

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

Advice is given by Cumbria County Council's Director of Finance (S151 Officer), the Council's 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

APPENDIX A - 1. INTRODUCTION

investment skills with actuarial knowledge of the liability profile of the Fund. 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 knowledge as soon as is practicable; during which time the Fund could seek alternative professional advice when and if required.

Services are also provided by the scheme actuary Mercers, and by other consultants and lawyers for investment management services.

Cumbria Pensions Investment Sub Group

The dedicated Investment Sub Group advises the Director of Finance (S151 Officer) in the exercise of their delegated powers to appoint / terminate investment managers with holdings of less than 5% of the Fund, thus speeding up decision making. This enables limited Committee agenda time to be focussed on the issues that add most value to the Fund. The Investment Sub Group consider, and continually review the investment management structure for the Pension Fund and are responsible for advising the Director of Finance (S151 Officer) on the appointment and termination of investment managers (under 5%) and the establishment and review of performance benchmarks and targets for investment. The Group also considers the detail of any regulatory changes to investment limits or national policy changes that are made in this area, reporting to the Pensions Committee on their findings and recommendations.

Cumbria 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 1 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 Pension Fund. The Board has no remit as a decision making body.

Cumbria Pensions Forum

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

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

2 GOVERNANCE POLICY STATEMENT

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

This current version of the Governance Policy Statement was presented to and approved by the Pensions Committee held on 13 March 2020.

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

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

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

2.1 Terms of Reference of the Pensions Committee

Functions

To carry out the Council's functions as the delegated decision making body of the Administering Authority for the management of the Cumbria Local Government Pension Scheme ("the Pension Fund") which includes its involvement in the Border to Coast Pensions Partnership Ltd (BCPP) as the Council's approved Pension Pool.

These responsibilities will include, but not be limited to:

- To submit the Pension Fund Accounts to the Council in line with current financial standing orders.
- To submit reports to the Council (as a minimum three times a year) updating it on the governance, risk monitoring and performance of the Fund following meetings of the Committee.
- To receive and where necessary instruct corrective action, in response to both internal and external auditor reports.
- To approve the formal Triennial Actuarial Valuation of the Fund, with due consideration being given to the desirability of maintaining as nearly constant a common contribution rate as possible and the requirement to secure the solvency of the Pension Fund.
- To approve the investment or disinvestment in any assets of the portfolio where the assets meet the criteria set out in the Fund's asset allocation strategy.
- To (as a minimum) annually review and approve any amendments to the statutory policy statements as required by LGPS Regulations (currently the

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

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

- To annually review the Investment Strategy Statement and oversee the performance of all investment managers in the delivery of the Investment Strategy.
- To oversee compliance by the Council in its capacity as shareholder of BCPP and to determine the Council's position as shareholder on decisions of the company that are reserved to the shareholders.
- To produce and maintain an Administration and Communications Policy for the Pension Fund for the admission of employing bodies as contributors to the Fund; that fulfils all communication and consultation requirements with employers of the Fund.
- Prior to the commencement of the financial year to approve an Annual Business Plan and associated Budget for that year to cover all matters of expenditure to be charged to the Fund. To review performance against this throughout the year.
- To approve and annually review the Fund's Training Policy to ensure those charged with the management of the Fund (Members and Officers) are appropriately experienced and qualified.
- To receive minutes and consider recommendations from and ensure the effective performance of the Pension Forum, BCPP Joint Committee, Investment Sub Group and the Cumbria Local Pension Board.
- To formulate and review tolerance ranges to delegate to the Investment Sub Group to allow them to implement tactical changes to the Investment Strategy or Asset Allocation. Maintain and review an appropriate management and governance structure of the Investment Sub Group to achieve the effective delivery of the Pension Fund objectives.
- To contribute nationally to the development of policy and regulation in regards to the Local Government Pension Scheme and wider Public Sector Pensions policy.

Committee Membership

Eight county councillors, plus one co-opted district councillor, representing the six district councils in Cumbria and two non-voting employee representatives. Equal weight will be given to each Members vote with the Chair having the casting vote should the need arise.

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

Committee Operating Structure

The Pension Committee is a committee constituted under section 101 of the Local Government Act 1972 therefore key functions and terms of the

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

Committee, including the following, are as detailed elsewhere in the Constitution:

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

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

Knowledge and Understanding

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

Creation of Working Parties / Sub Groups

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

Role of Advisors

- The Committee is required to ensure all Members have access to appropriate professional advice and representation prior to making any decisions concerning the general management of the Fund.
- To assist in the above the Committee will be required to appoint industry specific advisors to enable it to fulfil its obligations e.g. Fund Actuary; tax specialists; investment consultants etc. These contracts are to be awarded through the Council's normal procurement process and once appointed will be managed on behalf of the Committee by Director of Finance (S151 Officer).
- The Committee may also appoint Independent Advisors, their role being to assist and support Members in their understanding and challenge of either service providers or Officers.
- Independent Advisors will be appointed by the Members, and thereafter report directly to the Chair of the Committee.
- All Members of the Committee have the right to access the support of Independent Advisors appointed to the Fund, however due regard has to be taken of securing value for money and as such whether in the first instance Officers could provide the assistance required.

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

2.2 Terms of reference of the Investment Sub Group

The Constitution of the Investment Sub Group is:

Functions

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

These responsibilities are:

- To provide an update report to Pensions Committee outlining activity in the preceding period, any decisions made by the Director of Finance (S151 Officer) and the proposed work schedule for the next period.

- To carry out monitoring at an individual manager level of the performance of the Fund's investment managers (including assets held by BCPP) and to escalate any matters of concern to the Pension Committee.

- To consider, and continually review an investment management structure for the Pension Fund and to be responsible for assisting the Director of Finance (S151 Officer) in:

    - the investment or disinvestment in any assets with a value of less than 5% of the portfolio where the assets meet the criteria set out in the Fund's asset allocation strategy;
    - the appointment and termination of investment managers with holdings of less than 5% of the portfolio; and
    - the establishment and review of performance benchmarks and targets for investment.

Membership

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

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Independent Advisors to the Fund (or Investment Consultants at the invitation of the Investment Sub Group if the independent advisors are unable to attend).

Two senior Officers of the Council with responsibilities for the management of the Fund including the Director of Finance (S151 Officer) and the Senior Manager with the responsibility for the Pension Fund.

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

- at least two of the three elected members
- at least one of either the Director of Finance (S151 Officer) or the Senior Manager with the responsibility for the Pensions Fund.
- at least one external advisor
- attendance by electronic media, provided that the prior approval of the Chair has been secured.

Group Operating Structure

- The Group will meet as a minimum four times a year. Meetings will be held during normal working hours and will predominantly be held within County boundaries.
- To help fulfil a function of this group, which is to assist the Director of Finance (S151 Officer) to enact investment decisions more nimbly, additional meetings can be convened by any two members of the group with five working days' notice.
- Creation of Working Parties / Sub Groups – as a non-decision-making body the Group have no authority to establish Working Parties / Sub Groups.

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

2.3 Terms of Reference of the Pension Board

Functions

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

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

And to

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

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

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

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

Board Membership

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

Appointment of Board members - To ensure an open and transparent selection process and to ensure the 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 Director of Finance (S151 Officer), Monitoring Officer and Portfolio Holder for Finance.

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

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

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

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

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

Relevant knowledge capacity – the administering authority must ensure that each person appointed to the Board has the relevant knowledge and the capacity to represent the employers or members (as appropriate) of the Fund. Initially this will be done through selection by the 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.

Board Operating Structure and Codes of Conduct

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

Commissioning of Service providers and Advisors

- All Board members have the right to access the support of the experienced Local Government Pension Scheme Independent Advisors, however due regard has to be taken of securing value for money and as such whether in the first instance Officers could provide the assistance required.
- Items of expenditure by the Board must have prior approval from the Director of Finance (S151 Officer).

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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.
- The County 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 County Council are directly applicable to the Board.

Substitution

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

2.4 <u>Terms of Reference of the Pensions Forum</u>

The Constitution of the Cumbria Pensions Forum is:

Employers:

(a) County Council: Nine Members

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(b) District Councils: One member nominated by each Council (including member of the Pensions Committee)

(c) Statutory Bodies: One member nominated by each employer

(d) Admitted Bodies: One member nominated by each employer

Employees:

(a) County Council Eight employee representatives appointed by UNISON, of whom two shall be current pensioners

(b) District Councils: One employee representative for each District appointed by UNISON, together with one current pensioner

(c) Statutory Bodies: Eight employee representatives appointed by UNISON, together with one current pensioner

(d) Admitted Bodies: Three employee representatives appointed by UNISON

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

The terms of reference of the Cumbria Pensions Forum are:

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

(a) administration of pensions and information to employees and pensioners in Cumbria;

(b) discretionary benefits under the Scheme;

(c) the state of the Fund (the Annual Report and Accounts shall be submitted to the Forum);

(d) investment policy;

(e) developments in public sector pension matters and to make appropriate recommendations to the County Council;

(f) the Chairman of the Pension Forum shall be a Member of the County Council;

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(g) the Forum shall meet at least once per year;

(h) a special meeting of the Forum may be called by the Chairman, and he/she shall call a meeting within 21 days if requested in writing by three District Councils or by five employer bodies;

(i) the Forum members will have access to public Pension Committee papers, and are invited to comment where appropriate.

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

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

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

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

2.5 Delegations to the Director of Finance (S151 Officer)

The Director of Finance is the County Council's Chief Financial Officer under section 151 of the Local Government Act 1972 (Section 151 Officer) and is the Officer responsible for the proper administration of the Council's financial affairs. The Constitution 'Part 3 – Delegation to Officers' refers.

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

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

- Pay pensions, gratuities, grants etc. to members, other beneficiaries and creditors of the Pension Fund, in accordance with the Superannuation and Pensions Acts and Regulations and agreed policy of the Council thereunder.

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- In consultation with Members of the Investment Sub-Group (if any) of the Pensions Committee:
  - Appoint or terminate the contracts of investment managers with holdings of less than 5% of the portfolio of the Cumbria Local Government Pensions Fund;
  - Approve the investment or disinvestment in any assets with a value of less than 5% of the portfolio, where the assets meet the criteria set out in the Fund's asset allocation strategy;
  - Establish and review performance benchmarks and targets for investment.
- Subject to the above, to commence the procurement and award of contracts incidental to the discharge by the Pensions Committee of functions on behalf of the Local Government Pensions Scheme, including decisions relating to the management, modification, variation and termination of such contracts. **NB** Decisions taken in accordance with this paragraph are incidental to the non-executive functions of the Pensions Committee and are not Key Decisions of the Council.

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

2.6 Knowledge and Skills

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

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

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

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

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

This organisation has delegated the responsibility for the implementation of the CIPFA Code of Practice to the Director of Finance (S151 Officer), who will act in accordance with the organisation's policy statement, and where he/she is a

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CIPFA member, with CIPFA Standards of Professional Practice (where relevant).

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

2.8 Governance Compliance Statement

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

Principle	**Compliance**	
Principle A – Structure	**Not Compliant**	**Fully Compliant**
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.		✓
b) That representatives of participating LGPS employers, admitted bodies and Fund members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.		✓
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.		✓
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.		✓
Principle B: Representation	**Not Compliant**	**Fully Compliant**
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- 1. employing authorities (including non-Fund employers, e.g. admitted bodies);		✓

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2. Fund members (including deferred and pensioner Fund members), 3. independent professional observers, and 4. expert advisors (on an ad-hoc basis). b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.		✓
Principle C : Selection and role of lay members	**Not Compliant**	**Fully Compliant**
a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda		✓ ✓
Principle D : Voting	**Not Compliant**	**Fully Compliant**
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.		✓
Principle E: Training facility time expenses	**Not Compliant**	**Fully Compliant**
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. c) That the administering authority considers the adoption of annual training plans for the committee		✓ ✓ ✓

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members and maintains a log of all such training undertaken.		
Principle F : Meeting frequency forum	**Not Compliant**	**Fully Compliant**
a) That an administering authority's main committee or committees meet at least quarterly. b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.		✓ ✓ ✓
Principle G : Access	**Not Compliant**	**Fully Compliant**
a) That, subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.		✓
Principle H : Scope	**Not Compliant**	**Fully Compliant**
a) That administering authorities have taken steps to bring wider fund issues within the scope of their governance arrangements.		✓
Principle I : Publicity	**Not Compliant**	**Fully Compliant**
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the Fund is governed, can express an interest in wanting to be part of those arrangements.		✓

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

3 ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY

Part A: Background, Purpose and Review

1. Background

a. As stated in the Governance Policy Statement, it is the responsibility of the Cumbria Pensions Committee to exercise the Council's responsibility as 'Administering Authority' for the management of Cumbria Local Government Pension Scheme (Cumbria LGPS).

b. The Council delegates its functions in respect of the Scheme to its Pension Fund Committee and discharges specific elements of the administration functions of the Scheme to:
   i. The Director of Finance (S151 Officer); and
   ii. Lancashire County Council (LCC) who provide this service through Local Pensions Partnership under the operating name of Your Pension Service (YPS).

c. The Administration Strategy (Parts B & C) is set out so as to illustrate the Fund's core responsibilities and whom they sit with.

d. The Communication Policy (Part D) is the overarching policy for the Cumbria Pension Fund.

2. Purpose

a. **Administration Strategy**: Regulation 59 of the Local Government Pension Scheme Regulations 2013 (the 2013 regulations) allows for the administering authority to prepare and publish, following consultation with Fund Employers, a 'Pension Administration Strategy' to facilitate best practices and efficient customer service in respect of the following:-

- Procedures for liaison and communication with Fund employers;
- The establishment of performance levels which the administering authority and fund employers are expected to achieve;
- Procedures to ensure compliance with statutory requirements in connection with the administration of the LGPS;
- Procedures for improving the methods of passing information between the administering authority and fund employers;
- The circumstances when the administering authority may consider recovering additional costs that have been incurred due to the unsatisfactory performance of a Fund employer; and
- Any other matters that the administering authority consider suitable for inclusion in the 'Pension Administration Strategy.'

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

b. **Communications Policy**: Regulation 61 of the 2013 regulations states that an administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with:

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

- In particular the statement must set out its policy on—
- the provision of information and publicity about the Scheme to members, representatives of members and Fund employers;
- the format, frequency and method of distributing such information or publicity; and
- the promotion of the Scheme to prospective members and their employers.

3. Compliance & review

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

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

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

1. Liaison and Communication

1.1. The Fund has staff dedicated to the provision of Pensions Administration within the core Pensions Team. Additionally, staff at Your Pension Service (YPS) provide Administration services for the Fund. YPS will act as primary contact for employers in respect of all areas of pension administration. The team are responsible for core aspects of communication and employer liaison.

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

Activity	Main contact
1.2. Ensure that Employer Forums and Conferences are held on a regular basis and actively seek to promote the LGPS via attendance at the following events, in conjunction with the employer: • Pre-retirement courses • New starters induction courses • Annual pension surgeries	YPS & core team
1.3. Provide a Helpdesk and email facility for enquiries for both members and employers.	YPS
1.4. Develop and actively promote the use of electronic/online facilities for data sharing and communication purposes between employers, Fund members and the Service.	YPS
1.5. Develop and actively promote the use of member and employer online self-service systems and provide day to day access and query support.	YPS
1.6. Provide Scheme information, including: • New starter information and documentation; • Scheme guides and fact sheets for both members and employers; • Annual newsletters; and • Employer bulletins (as and when appropriate).	YPS
1.7. Provide employer training (as appropriate), for example: • Pension basics and general employer administration functions; • Changes to the regulations; • New technological developments; and • Navigation of systems.	YPS & core team

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

Activity		Main contact
1.8.	Carry out annual employer visits for employers with more than 100 members.	YPS
1.9.	At the request of Fund employers provide appropriate attendance at seminars (e.g. pre-retirement or induction courses),	YPS
1.10.	In conjunction with the pensions' team at Cumbria, arrange and facilitate one-off 'Road Shows' where there are material and/or extensive regulatory changes in respect of the Scheme.	YPS & core team
1.11.	Publish, on the Cumbria County Council website, (www.cumbria.gov.uk/Finance): o the Fund's Annual Report and Accounts; and o the Fund's triennial valuation report; and o the Fund's Policies, including the Funding Strategy Statement and Investment Strategy Statement.	Core team
1.12.	Undertake appropriate consultation with Fund members and employers as required.	Core team

2. **Administration of the LGPS and Compliance**

Activity		Main contact
2.1.	Maintain and update members' records regarding additional contributions.	YPS
2.2.	Calculate service credits, additional pensions or maximum cash on retirement where appropriate based on fund values received from the Additional Voluntary Contribution (AVC) providers.	YPS
2.3.	Maintain and keep up to date additional contracts for members' contributions and provide information to employers on request on members' contributions regarding breaks in service / maternity/paternity/adoption and leave of absence.	YPS
2.4.	Ensure that appropriate policies and procedures are in place and all relevant parties aware of their responsibilities in relation to reporting / recording legal breaches.	Core team
2.5.	Account to Her Majesty's Revenue and Customs in respect of income tax on pensions, refunds of AVCs and commutation of pensions where appropriate.	YPS
2.6.	Provide information as required to Core team in relation to	YPS

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

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

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

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

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

3. Performance

3.1. In accordance with good practice and as recommended by the Pensions Regulator[3] the Fund has a suite of performance targets to ensure it is delivering an efficient, effective and customer-focussed service. These targets will be kept under continual review to ensure that they are appropriate and reflect current circumstances and regulatory requirements.

3.2. The minimum performance targets set are shown below. Performance against these targets is reported to the Pension Fund Committee. The Annual Administration Report is reported to the Pension Fund Committee in June each year and is available in the Pension Committee minutes on the Council's website[4] and key statistics are included in the Cumbria LGPS Annual Report.

3.3. Performance Targets

Performance Standard	Minimum Target
Estimate benefits within 10 working days	95%
Payment of retirement benefits within 10 working days	95%
Payment of death benefits within 10 working days	95%
Implement change in pensioner circumstance by payment due date	95%
Respond to general correspondence within 10 working days of receipt	95%
Action transfers out within 15 working days	95%
Action transfers in within 15 working days	95%
Pay Refunds within 10 working days	95%
Provide leaver statement within 15 days	95%
Amend personal records within 10 working days	95%

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

[4] http://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=150

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

Part C: Employer Undertakings

1. Liaison and Communication

1.1. The employer shall nominate a person / persons who will act as the primary contact(s) for general administration, HR & payroll, financial and regulatory/discretionary issues with Your Pension Service (YPS) or the core team.

1.2. The employer will facilitate an annual visit by YPS with the appropriate primary contact.

1.3. The employer shall nominate an authorised signatory/signatories in respect of all documents and instructions received by YPS or the core team.

1.4. The employer shall endeavour to ensure representation at Employer Forums and Practitioner Conferences as specified in Section 1.1.

1.5. The employer shall undertake to ensure that all personnel dealing with the Local Government Pension Scheme as part of their day to day role undergo appropriate training.

1.6. Where an employer contracts a third party HR or payroll provider the employer must authorise YPS or the core team if they wish YPS or the core team to deal directly with the payroll provider in matters of pensions administration or finance. However, this in no way enables an employer to delegate responsibility for the performance of any required actions (either regulatory responsibilities or requirements set by the Fund administering authority).

2. Performance Levels

2.1. Performance achieved by the Employer in relation to the following will be monitored by YPS and the core pensions team (as appropriate):

- Payment of contributions collected, completion and submission of remittance advice to the core team;
- Submission of annual returns as required to the core team;
- Submission of YPS LGPS 2014 Payroll Data Collection File every pay period; and
- Notification of leavers.

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

3. Administration of the LGPS and Compliance

3.1. Contributions

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

3.1.1. The employer will ensure that both employee and employer contributions are deducted at the correct rate (plus any additional contributions as YPS may request the employer to collect). The employer must record the scheme section (50/50 or Main) in accordance with any election made by the scheme member, and deduct contributions as appropriate. The employer must maintain a policy to review employee tiered contribution rates, and notify YPS of any changes (see 3.5.3).

3.1.2. All contributions, but not Prudential, Standard Life, Scottish Widows or Utmost Life AVC's, must be paid to the Cumbria Pension Fund on a monthly basis and in any case before the 19th of the month following that in which they were deducted. Non-compliance may result in a financial penalty against the employer, and may result in a breach report to the Pensions Regulator.

3.1.3. A remittance advice must be completed and returned to the Core team by 19th of the calendar month following the month in which the contributions were deducted.

3.1.4. The employer will ensure that employee's Utmost Life, Scottish Widows, Standard Live and Prudential AVC's are paid direct to the provider as soon as possible after deduction but in any case before the 19th of the month following that in which they were deducted as stated above.

3.2. **Pension Strain** - Each month YPS will arrange for the core team to issue an invoice to the employer reflecting the cost of any non-ill health early retirements processed in the previous quarter. The employer must pay the amount within one month of the date of the invoice.

3.3. **Rechargeable Pensions** - Where amounts of discretionary pension are paid by YPS on the employer's behalf, the quarterly amounts will be recharged to the employer and payment must be made within 30 days of invoice date.

This also applies in respect of other rechargeable pension e.g. where the employer has liability to pay for pre 1.4.1974 pensions increase payments and other unfunded pensions.

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

3.5. **Processing**

3.5.1. Data Collection file - Employers must submit the YPS LGPS2014 Payroll Data Collection file promptly at the end of every pay period. Data on this file must reconcile to contributions paid over each month, and must contain accurate figures of pensionable pay, including assumed pensionable pay where

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

appropriate, for YPS to post to individual member records. Files should be at the latest submitted by 10th of the month following pay period end.

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

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

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

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

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

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

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

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

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

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

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

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

- Strike

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

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

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

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

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

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

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

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

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

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

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

The employer will set up a new employment record with a new pay reference number to enable separate reporting of pension cumulative and membership from the retired post.

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

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

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

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

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

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

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

4. Online Communication and Information Sharing

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

4.2. **Self-service** - YPS undertakes to develop member and employer self-service system functionality to improve customer service and provide instant access to

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

pension information. The employer will commit to the use of the self-service system and commit to promote member self service to their active members.

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

4.4. **Access -** The Employing Authority can authorise that specified employees are granted access to all active fund member records for that employer using Altair Employer Services. The employer must be satisfied that the individuals that are authorised have received appropriate information security training, and that system access is used for pension administration purposes only. The employer must observe its obligations under the General Data Protection Regulations from May 2018 implemented under the Data Protection Act 2018 arising in connection with use of the account and must not do anything which might imply a breach by Your Pension Service of such Act. The employer shall comply with obligations equivalent to those imposed on a data controller by the seventh principle of the Data Protection Act.

5. Circumstances for recovery of Additional Costs

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

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

5.3. **New Employers –** In addition to any actuarial or legal fees payable by new employers and admission bodies the Authority will charge a flat rate administration charge of £250 towards the costs involved. This also includes newly converted academies joining Multi Academy Trusts (MAT) or those leaving MATs and entering into alternative arrangements.

6. Other Matters

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.

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

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

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

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

Part D: COMMUNICATION POLICY

1. Cumbria Pension Fund recognises the government's objective to help people save for their retirement and will aim to: -
    - Actively encourage the provision of good pension information in plain English and the promotion of pensions in the workplace.
    - Increase transparency and build trust, confidence and engagement in pension saving as the norm.

2. To achieve its aim the Administering Authority will undertake to: -
    - Provide clear, accurate and timely communication about the Local Government Pension Scheme to all stakeholders.*
    - Actively promote the Scheme to prospective members and their employers.
    - Take a multimedia approach in recognition that different styles and methods of communication suit different stakeholders
    - Use and encourage the use of electronic/online communication and information sharing.
    - Support Fund employers, providing publicity and information toolkits, to enable employers to fulfil their responsibility to communicate and share information with members in relation to the Scheme.
    - Treat information security with the upmost importance.

3. **Communication Programme**

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

Information	Stakeholder*	Format	Frequency	Method of distribution
Actuarial Valuation	All Stakeholders	Formal report	Triennial	Website & Forum
Fund Policy & Statements	All Stakeholders	Website	As amended	Website
Annual Benefit Statements	Members	Online self-service** paper	Annual	Online/email alert/mail
Customer Satisfaction Survey	All Stakeholders	Website	Ongoing	Click Question
Member Guides	Members	Website	On or before employment On request	Via employer HR/payroll departments

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Information	Stakeholder*	Format	Frequency	Method of distribution
				Email / internet / mail
Employer Updates	Employer	Website, online	As required	Email, website
Pensioner payslips/P60's	Member	Online self-service, paper	Annually	Online / email / mail
Employer Guide	Employer	Website	As amended	Online / email
Employer training	Employer	Presentation / Webcast	In line with agreement / on request	Face to face / website
Factsheets	All members	Website / paper	As required / on request	Website / email
Individual member information	All Stakeholders	Self- service / paper	As required	Website / email
Employer information pack	Employers	Website / paper	On admission	Website / email
Newsletters	Members	Website / email / paper	Annual	Website / email
Scheme change & legislative change	All Stakeholders	Presentation / webcast / website	As required / on request	Face to face / website
Fund report & accounts	All Stakeholders	Website**	Annually	Website
Performance standards	All Stakeholders	Website	As amended	Website
Query* **	All Stakeholders	Telephone / email / online / letter	Mon – Fri	Telephone / email / online / letter

*Stakeholders are defined as members, representatives of members, prospective members and employers (members are defined as active, deferred or pensioner members).
** unless otherwise requested.
*** Investment Decision queries – will be responded to in line with the Fund's stated positions as detailed in the Investment Strategy Statement (ISS) (in particular sections 4.7 Responsible Investing, Stewardship and Corporate Governance and Annex A Investment Beliefs). Such queries will be responded

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

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]

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

4 INVESTMENT STRATEGY STATEMENT

4.1 Introduction

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

The 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) a revised strategy, including a new target asset allocation, was approved by the Pension Committee on 13th December 2019. The Investment Strategy Statement was updated to reflect the changes to strategy, for consideration and approval by Pension Committee on 13 March 2020.

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

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

The Authority will invest in accordance with its investment strategy, any Fund money that is not needed immediately to make payments from the Fund. Any deviations from the agreed strategy will be reported to the Pension Committee, the Pension Board and the Director of Finance (S151 Officer) so that appropriate corrective actions can be undertaken.

The ISS covers the following:

- Background (4.2)
- 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, 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)

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

- Statement of Compliance with the UK Stewardship Code 2012 (Annex B).

4.2 Background

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

4.2.1 Cumbria Pensions Investment Sub Group (ISG)

The Investment Sub Group; the responsibilities of the ISG include assisting the Director of Finance (S151 Officer) in undertaking tactical asset allocation decisions within the agreed asset strategy, in this way it directly supports the wider remit of the full Committee. Operating protocols between the two groups will include procedures on how detailed monitoring will be undertaken and reporting structures between the two groups.

The ISG will consider, and continually review the investment management structure for the Pension Fund and is responsible for assisting the Director of Finance (S151 Officer) in:

(i) The investment or disinvestment in any assets with a value of less than 5% of the portfolio where the assets meet the criteria set out in the Fund's asset allocation strategy.

(ii) The appointment and termination of investment managers with holdings of less than 5% of the portfolio; and

(iii) The establishment and review of performance benchmarks and targets for investment.

The Group will also consider the detail of any regulatory changes to investment limits or national policy changes that are made in this area, reporting to the Pensions Committee on its findings and recommendations.

4.2.2 The investment objectives of the Fund

- The long-term objective is for the Fund to achieve and maintain a funding level of 100% over a maximum fund recovery period of thirteen years (with an average recovery period of 12 years) from April 2020. 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.

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

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

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

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

4.3.1 Strategy Review

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

4.3.2 The Strategic Benchmark

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

4.4 Types of investments and limits

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

In addition to considering the benefits of individual products and asset classes for introduction into the strategy, consideration will be given to how the inclusion affects the overall risk/return characteristics of the total portfolio. Before any investment decisions are made by either the Investment Sub Group or the Pension Committee, full professional advice will be sought. If there are any instances where advice received is not to be acted upon, full reporting to both the Committee and the 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) a revised strategy, including a new target asset allocation, was approved by the Pension Committee on 13 December 2019. The target asset allocation ranges (from March 2020) are shown below.

Asset/Investment	Targeted Strategic Asset Allocation %	Advisory Range	Limit (maximum %)
Public Equity	28%	23 – 38%	50%
Private Equity	7%	4 – 10%	17%
Infrastructure equity	9%	6 – 12%	19%
Commercial property	9%	6 – 12%	19%
Residential property	2%	0 – 4%	10%
Multi Asset Credit*	5%	3 – 13%	15%
Corporate debt	5%	3 – 7%	15%
Infrastructure debt	10%	0 – 12%	20%
Real estate debt	5%	0 – 7%	10%
Government IL Bonds	18%	15 – 25%	30%
Strategic Cash	2%	2 – 10%	20%
	100%		

* also known as 'Diversified Credit'.

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

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

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

4.5 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.

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 and which is reviewed at every Pension 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 Finance (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

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

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;
- Setting manager performance targets to avoid undue exposure to risk; and
- The potential use of equity protection to mitigate the risk of significant equity market falls.

- **Changing demographics**: The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits. The key 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 passive currency overlay program hedges 50% of the investments denominated in overseas currencies into sterling to reduce the Fund's exposure to the fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets;

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- **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

In order to satisfy the requirements of the "Local Government Pension Scheme: Investment Reform and Guidance" issued by the Department for Communities and Local Government ("DCLG" – now the Ministry of Housing, Communities and Local Government or "MHCLG") in November 2015, Cumbria County Council has elected to become a shareholder in Border to Coast Pensions Partnership Ltd (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
- Northumberland Pension Fund*
- South Yorkshire Pension Fund
- South Yorkshire Passenger Transport Pension Fund
- Surrey Pension Fund
- Teesside Pension Fund
- Tyne and Wear Pension Fund*
- Warwickshire Pension Fund

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

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4.6.2 The Fund's approach to pooling

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

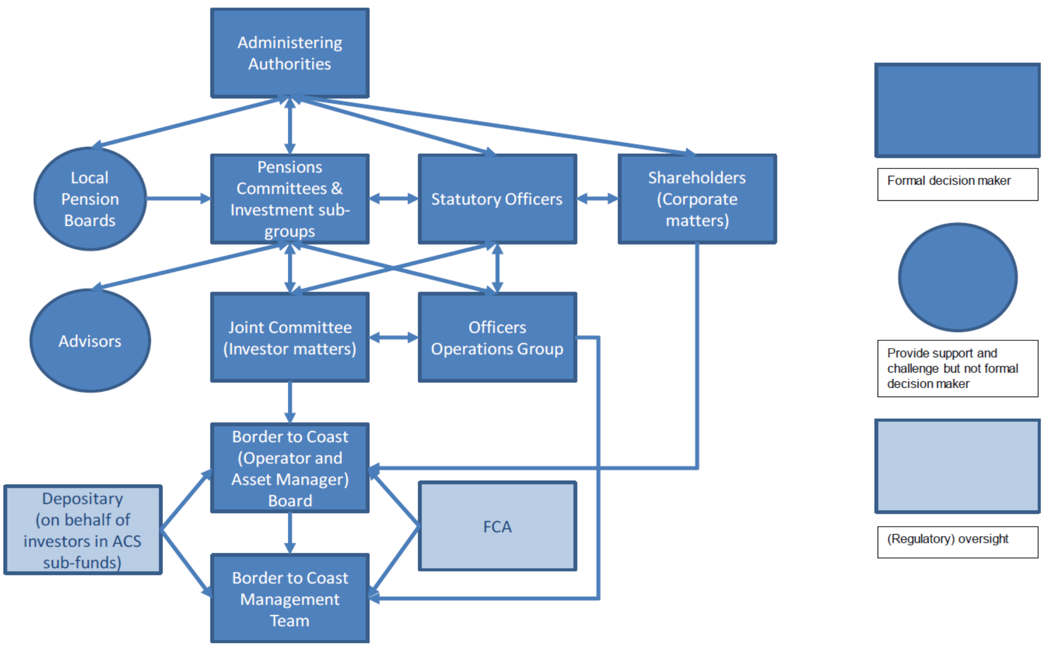
- One fund one vote, regardless of size, all Funds will be treated equally;
- Equitable sharing of costs (where possible);
- Funds retaining governance role and ownership of asset allocation;
- Providing internal management capability; and
- Generating improved net of fees risk-adjusted performance.

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.

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:



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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/2019/03/Border-to-Coast-Governance-Charter-v1.0-13-3-19.pdf

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

- That there is financial benefit to the Fund in investing in the solution offered by the Pool.

At the time of writing investments (representing approximately 33% of the Fund in total) have been made in BCPP's UK Equity, Global equity, Private Equity and Infrastructure funds. In addition to this consideration is also being given to investing in the Multi Asset Credit and Private Credit 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 by BCPP funds 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.

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 if continues to demonstrate value for money. This position was reviewed as part of the 2019 investment strategy review.

4.7 Policy on Responsible Investing, Stewardship and Corporate Governance

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

The overriding objective of the Fund is to 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 into investment decisions, can help to improve the long term value for investors.

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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 ethical 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.

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

Cumbria is a member of the Local Authority Pensions Fund Forum (LAPFF), a collaborative shareholder engagement group which brings together 80 local authority pension funds from across the UK with combined assets of approximately £250 billion, in addition majority of LGPS Pools have joined the forum. LAPFF seeks to protect the investments of its members by promoting the highest standards of corporate governance and corporate social responsibility (i.e. responsible action by the companies in which its members invest) on environmental, social and governance (ESG) issues.

The Fund's commitment to responsible investment, corporate governance and stewardship is communicated by its compliance with the Financial Reporting Council's (FRC) UK Stewardship code (2012). A statement of compliance is included as Annex B to this policy and this has been accepted as Tier 1 for Asset Owners by the FRC and is published online. The Fund is in the process of reviewing its compliance with the requirements of the new UK Stewardship Code (2020) with a view to becoming a signatory of the new Code.

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BCPP (the pooling company jointly owned by the Fund and 11 Partner Funds which manages all of the Fund's actively managed listed equities) is also fully compliant with the FRC's Stewardship Code 2012: https://www.bordertocoast.org.uk/app/uploads/2019/03/UK-Stewardship-Code-Compliance-Statement.pdf. 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 is should not create material changes to any Fund's policy as the Funds are likeminded and the policy was created with reference to the 12 existing policies. The annual review of the 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/?dlm_download_category=download-responsible-investment-policy

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 company jointly owned by the Fund and 11 other Partner Funds). Details

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of the BCPP Corporate Governance and Voting Guidelines can be found at:
https://www.bordertocoast.org.uk/app/uploads/2019/02/Corporate-Governance-Voting-Guidelines-1.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 ethical policies and practices of the companies in which the pooled funds invest. The Members are satisfied that the Fund Managers Corporate Governance policy reflects the key principles Responsible Investment, and ESG issues. Details of Legal and General Investment Management's approach to Corporate Governance and responsible investment can be found at:
https://www.lgim.com/uk/en/capabilities/corporate-governance/

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. Both 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.

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4.9 Compliance of Cumbria Fund with the Updated Myners Principles

Principle 1 : Effective Decision Making	Not Compliant	Fully Compliant
Administering authorities should ensure that • 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.		✓

The Fund has a clear scheme of delegation and arrangements for provision of management and advice. Investment decision-making is undertaken either by the Pension Committee or delegated to the Director of Finance (S151 Officer) in consultation with the Investment Sub Group, governance oversight of these processes is provided by the Local Pension Board.

The Members of the Pension Committee perform duties similar to private trustees and are elected councillors of the County Council and District Councils. The Members' Allowance Scheme operates for the remuneration of the Pension Committee. Two independent Investment Advisors normally attend Pension Committee meetings.

The dedicated Investment Sub Group allows delegation of some investment manager monitoring and appointments, thus speeding up decision making. This releases limited Committee agenda time and allows Members to focus on the issues that add most value to the Fund. The Investment Sub Group also considers the detail of any regulatory changes to investment limits or national policy changes that are made in this area, reporting to the Pensions Committee on their findings and recommendations. The Group comprises three Members of the Pensions Committee (including the Chair of the Committee), Senior Officers of the Council with responsibilities for the management of the Fund including the Director of Finance (S151 Officer) and the Senior Manager with the responsibility for the Pensions Fund, Independent Advisors, and Investment Consultants to the Fund at the invitation of the Sub Group.

The smaller, dedicated nature of the Investment Sub Group not only enables more nimble decision making but also means that the members of the group can receive more intensive training in the relevant areas.

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

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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 Pension Committee Chair and Members can contact officers and independent advisors on an ad hoc basis as and when required.

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

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:

- the Committee collectively has the required knowledge and skills to make appropriate decisions and offer challenge;
- members of the Board individually 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
• An overall investment objective(s) should be set out for the Fund that takes account of the Fund's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and fund employers, and these should be clearly communicated to advisors and investment managers.		✓

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.

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.
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.

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All fund managers have clear written mandates, governed by the Fund's strategic objectives and Pension Investment Regulations, and are reviewed regularly by officers and the Pension Committee.		
Principle 3 : Risk and Liabilities	**Not Compliant**	**Fully Compliant**
• In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. • These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.		✓ ✓
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 December 2019. The Actuarial Valuation considers longevity risk and the affordability of contribution rates for the County Council, District Councils and other employers of the Fund, taking a prudent longer-term view of funding the liabilities. 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**
• 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.		✓ ✓
To ensure independence and oversight the Fund uses an external performance measurement service. Investment performance is reported to the Pension Committee each quarter, and as a minimum there is an Annual Performance Review with the Fund's external performance monitoring service provider.		

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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.

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 3% of the total Fund investments including future commitments i.e. £84m at December 2019) formally at least annually and report their findings from these meetings to the ISG.

The Investment Sub Group is responsible for continual review of the investment management structure for the Pension Fund and for overseeing the appointment and termination of investment managers (holding up to 5% of the portfolio).

The ISG is responsible for the establishment and review of performance benchmarks and targets for investment. The ISG receives a quarterly report covering every manager, which sets out performance results and a broad range of metrics. Should there be any items of concern, the ISG escalates such matters to the full Committee.

The Pension 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.

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

Principle 5 : Responsible Ownership	**Not Compliant**	**Fully Compliant**
Administering authorities should: • adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.		✓
• include a statement of their policy on responsible ownership in the Investment Strategy Statement; and		✓
• report periodically to Fund members on the discharge of such responsibilities.		✓

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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 Pension Committee.

The Fund completed a statement of compliance with the Financial Reporting Council's (FRC) previous Stewardship Code (2012) which was assessed as compliant as a Tier 1 Asset Owner, this statement is published online as Annex B to this Policy. The Fund is in the process of reviewing its compliance with the requirements of the new UK Stewardship Code (2020) with a view to becoming a signatory of the new Code.

BCPP (the pooling company jointly owned by the Fund and 11 Partner Funds which manages all of the Fund's actively managed listed equities) is fully compliant with the FRC's Stewardship Code 2012: https://www.bordertocoast.org.uk/app/uploads/2019/03/UK-Stewardship-Code-Compliance-Statement.pdf

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**
Administering authorities should • 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.		✓

The Investment Strategy Statement (ISS) includes:

- 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.

The ISS (previously the Statement of Investment Principles) will be included in the Fund's Annual Report; these are publicly available on the County Council's website.

Investment performance is included in the Annual Report.

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The Cumbria LGPS Pension Board is given full access to all Pension Committee papers, and are provided with briefing sessions and training presentations appropriate to their ongoing business. In additional they are also offered the opportunity to join all training sessions provided for the Full Committee.

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 Pension Committee papers.

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

The Cumbria LGPS Pension Board Minutes and Agenda are available on the County Council 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 on-line, 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 be included in the Annual Report and published on the County Council website.

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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
- Be committed to "One Fund" by treating all employers and members of the fund equitably

INVESTMENT BELIEFS

1. **Our investment strategy should be determined by reference to the Fund's assets, liabilities and our risk tolerances**
   - Our long term primary goal is to generate returns required to fund our members' current and future pensions.

2. **Asset allocation has the greatest impact on the overall risk and return of the Fund**
   - Diversification of investments reduces the volatility of asset returns and limits non market specific risk.
   - Investment managers should be responsible for stock selection.
   - Over the long term equities are expected to deliver a higher return than bonds.

3. **It is important to take a long term perspective when considering the investment strategy, but recognise the implications of shorter term market volatility**
   - The greatest risk to the fund is not short term market volatility but the permanent loss of value.
   - Benchmarks should be used to measure performance, and not drive or dictate behaviour.
   - Volatility represents an opportunity to the long term investor in that it allows the investor to purchase assets at a price below their long term value.
   - By the same token volatility allows profits to be taken and unexpected gains realised.

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- 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, Pension Committee and Pension Board members should have the appropriate knowledge and skills to understand the investments and risks undertaken within the Fund.
- The team supporting the Pension Fund needs to be appropriately resourced, including having access to external advice, to ensure successful management of the Fund.
- Good returns, net of fees and costs, come from well-resourced and well governed Funds.

5. All investments have a degree of financial risk but we should only accept financial risk where we have a strong belief that we will be rewarded for it.

- Active management can deliver superior risk adjusted returns over time on a net of fees basis in certain markets.
- Passive management provides the most cost effective means of gaining exposure where it is believed that active management is not expected to add value.
- Costs matter and need to be managed and controlled 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. We should continually consider all risks in our investment process by investing responsibly, including environmental, social and corporate governance factors.

- ESG factors, such as climate change, can have a material impact on the value of financial assets in the long term. Being a responsible

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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.

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ANNEX B – STATEMENT OF COMPLIANCE WITH THE UK STEWARDSHIP CODE (2012)

Cumbria Local Government Pension Scheme - Statement of Compliance with the UK Stewardship Code (2012).

Cumbria Local Government Pension Scheme (Cumbria LGPS) is fully committed to responsible investment (RI) to incorporate environmental, social and governance (ESG) factors into investment decisions to improve the long term value for shareholders. Cumbria LGPS are cognisant of the increasing body of evidence suggesting that well governed companies are likely to deliver stronger long term investment performance. Cumbria LGPS also believe that asset owners, either directly (where resources allow) or through their external managers and membership of collaborative shareholder engagement groups (such as LAPFF), can influence the Board/Directors of companies to enhance the management and financial performance of those companies.

As global investors Cumbria LGPS expect the principles of good stewardship to apply globally, whilst recognising the need for local market considerations in its application. Reflecting on this we have summarised our compliance with the UK Stewardship Code (2012) and principles relating to good stewardship below.

Cumbria LGPS has a diversified portfolio using a number of active investment managers together with passive and other pooled funds. All investment managers are required to adhere to the Stewardship Code, (or equivalent code in their regional jurisdiction).

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

Cumbria LGPS takes its responsibilities as a shareholder seriously and seeks to adhere to the Principles of the Stewardship Code. It views stewardship as part of the responsibilities of share ownership and therefore, an integral part of the investment strategy.

The Fund aims to promote high standards of governance through being an engaged and active asset owner. We seek to ensure that there is effective engagement with companies to improve their long term investment performance and hold management to account for their decisions. The Fund considers the informed use of votes, while not being a legal duty, is a responsibility of the owners of companies and as such is an implied fiduciary duty of the Pensions Fund Committee and investment managers to whom they delegate this function.

In practice Cumbria LGPS applies the Code in a number of ways:

- Responsibility for the exercise of voting rights is currently delegated to the investment managers. Investment managers are expected to

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approach the subject of voting with the same care and attention as other matters which influence investment decisions. The investment managers may liaise with the Fund where appropriate and any issues or queries can be raised by the Fund as part of the quarterly reporting process or more frequently where necessary. Cumbria LGPS have the opportunity to override votes if considered appropriate.

- Where Cumbria LGPS has elected to invest in passive pooled indexed funds (UK and overseas) and cannot therefore directly influence the underlying companies in which the pooled funds invest; the Funds passive manager is a Tier 1 signatory to the UK Stewardship Code (2012) and is active in it engagement with the companies in which it invests. Reports on voting and engagement activity are reviewed by the Fund as part of the quarterly review process and are available at **www.lgim.com/cgupdate.** We also consider our membership of the Local Authority Pension Fund Forum (LAPFF); a collaborative shareholder engagement group for Local Authority Pension Funds which seeks to promote the highest standards of corporate governance and corporate social responsibility; allows the Fund to indirectly influence these companies.

- Where Cumbria LGPS has elected to invest in active pooled funds (e.g. with BCPP) and cannot therefore directly influence the underlying companies in which the pooled funds invest; the Funds active pooled manager is a Tier 1 signatory to the UK Stewardship Code (2012) and is active in its engagement with the companies in which it invests. Reports on voting and engagement activity are reviewed by the Fund as part of the quarterly review process and are available at **www.bordertocoast.org.uk/sustainability.** The Fund’s active pooled manager is also a member of the Local Authority Pension Fund Forum (LAPFF); a collaborative shareholder engagement group for Local Authority Pension Funds which seeks to promote the highest standards of corporate governance and corporate social responsibility; this together with the Fund’s own membership of LAPFF allows the manager and the Fund to indirectly influence these companies.

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

The Fund reports quarterly to the Pensions Committee on the engagement work undertaken by investment managers and LAPFF, and these reports are available on the Council’s website. In addition, a representative of the Fund regularly attends the LAPFF meetings and also attends the LAPFF Annual Conference to ensure the Fund has a full understanding and to facilitate input into the work programme of LAPFF.

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

Cumbria LGPS expects the asset managers it employs to have effective policies addressing potential conflicts of interest, and that these are all publicly available on their respective websites. These are discussed prior to the appointment of a manager, and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, the Pensions Committee and the Local Pension Board (LPB) review the Pension Fund Code of Conduct and Conflicts of Interest Policy annually and all Members, officers and independent advisors are required to adhere to this policy. The Fund policy document can be found on the shared Cumbria LGPS website at **http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp**. In addition, Committee and Board Members are required to make declarations of interest prior to meetings which are documented in the minutes of each meeting and available on the Council's website at www.cumbria.gov.uk.

Cumbria County Council, the Administering Authority of Cumbria LGPS requires all Members of the Pension Committee, Local Pension Board and officers to declare any pecuniary or other registerable interests. Details of the declared interests of Council Members are maintained and monitored on a Register of Interests. These are published on the Council’s website under each Member’s name and updated on a regular basis.

Principle 3 - Institutional investors should monitor their investee companies.

Cumbria LGPS considers that as investors we own a portion of the companies we invest in. With our voting policies and working through our investment managers and LAPFF we can use our rights as owners to encourage companies to act more responsibly and improve their practices. All our managers are required to consider how environmental, social and governance factors might impact companies sustainability, and therefore their long term share performance.

Day-to-day responsibility for interactions with our externally managed equity holdings is delegated to our appointed asset managers, and the Fund expects them to monitor their investee companies and engage where necessary. Managers are asked to include information on stewardship and engagement activity in their quarterly reports to Cumbria LGPS, so that activity and impact can be monitored. The Fund has regular meetings with its investment managers where their stewardship activities are on the agenda. This assists the Fund in understanding the impact and effectiveness of any such activities undertaken and ensures that they are aligned with the engagement work done by LAPFF.

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

Reports on the Fund's voting and engagement activity through its investments managers and LAPFF are received by the Pensions Committee on a quarterly basis, these reports are available on the Council's website.

In addition, the Fund receives an 'Bulletins' from LAPFF, highlighting corporate governance issues of concern at investee companies, and these are used to monitor and report on voting activity to the Pensions Committee; and liaise with managers to promote consistency of voting where appropriate

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

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities.

As highlighted above, Cumbria LGPS delegates its responsibility for day-to-day interaction with companies to the Fund's Investment Managers and LAPFF, including the escalation of engagement when necessary.

Where special situations arise which are not covered by the Fund's corporate governance strategy or where the policy is unclear, these organisations will consult with the Senior Manager Pensions and Financial Services.

Although willing to act alone, as the Fund typically holds a very small percentage of equity in individual companies, there are strong reasons to collaborate with other asset owners in order to present a stronger case. The Fund utilises its membership of the LAPFF, which co-ordinates collaborative engagement with companies, regulators and policymakers to protect and enhance shareholder value, in order to maximise its influence.

If deemed appropriate, the Fund will participate in shareholder litigation through its contracts with Institutional Protection Services (IPS) and US law firm Labaton Sucharow.

Any such actions and subsequent outcomes are reported to the Pensions Committee on a quarterly basis in order to monitor activity and assess effectiveness.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.

Cumbria LGPS considers collaborative engagement is a key part of a responsible investment strategy and the Fund seeks to work collectively with other institutional shareholders in order to maximise the influence it can have on individual companies.

The Fund seeks to achieve this through membership of the LAPFF, which engages with companies over environmental, social, and governance issues

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

on behalf of its members; and also its relationship with the investment managers.

The LAPFF agree planned work programmes each year which are discussed and approved at LAPFF meetings which a representative of the Cumbria LGPS fund regularly attends. Feedback is provided to the Pensions Committee on a quarterly basis.

The contact for any potential collective action with the Fund is the Pension Fund Senior Manager, Pensions & Financial Services (Deputy S151 Officer – LGPS), who is contactable by emailing: **pensions@cumbria.gov.uk**

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.

Cumbria LGPS views its voting rights as a valuable instrument to:

- protect shareholder rights;
- minimise risk to companies from corporate governance failure;
- enhance long term value; and
- encourage corporate social responsibility.

As such, the Fund seeks to exercise all voting rights attached to its investments.

Whilst it is the Fund's intention to follow the principles of UK corporate governance best practice, the Fund will interpret the application of these principles according to its own views of best practice. There are also other issues outside of these principles on which the Fund will take a view.

The external investment managers are responsible for exercising voting rights in relation to the Global active portfolio on investments that are managed by them on behalf of the Fund and voting activity of the managers is made available to Members of the Pensions Committee on a quarterly basis. They will vote in accordance with their own "Investment and Corporate Governance" policy which is available on their websites. The investment managers will liaise with the Fund where appropriate.

Reports summarising the Fund's voting activity are presented to the Pensions Committee on a quarterly basis, the proxy voting reports of the Fund's investment managers are available on each manager's website. The Fund also publishes a summary of voting activity in its Annual Report and Accounts.

The Fund engages in stock lending via the Pool and they may seek to recall stock on loan prior to a shareholder vote if the issue upon which the vote rests is contentious enough to warrant it and it is deemed to be cost effective, suitable and practical.

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.

Cumbria LGPS reports quarterly to the Pensions Committee on stewardship activity through a specific section on the voting undertaken each quarter, in the Fund Quarterly Monitoring report, the proxy voting reports of the Fund's investment managers are available on each manager's website. The report also includes details of engagement activity undertaken through the Local Authority Pension Fund Forum. On an annual basis the Fund includes a section on Stewardship Responsibilities in its Annual Report and Accounts, detailing voting activity and highlighting the key engagements over the year through its membership of LAPFF. These are available on the Council's website, Cumbria LGPS section at **http://www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp**.

Data to produce these reports is taken from a number of sources including quarterly reports from:

- LAPFF
- Investment managers

Members are kept informed of any current news items relevant to the holdings of Cumbria LGPS, where those topics are in the public arena and would be of interest to LGPS stakeholders.

Approved 13 March 2020 by the Pensions Committee

APPENDIX A - 5. CASH INVESTMENT POLICY

5 CASH INVESTMENT POLICY

5.1 Introduction & Regulations

The Cash Investment Policy for Cumbria Local Government Pension Scheme was first approved by the Cumbria Pensions Committee in 2010, with the latest revisions approved on 13 March 2020. The Policy has been constructed and will be maintained by the Administering Authority with regard to the applicable regulations and guidance.

5.2 Management of Pension Fund Cash

The Administering Authority will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and accordingly will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with the Administering Authority will comply with the requirements of the Regulations (SI 2016 No 946).

5.3 Cash Investment Priorities

The Cumbria Pension Fund's cash investment priorities are: -

a) the security of capital,
b) the availability of cash to meet payroll, investment commitments, and other payments, and
c) the liquidity of its investments.

The Investment Strategy Statement sets the **maximum** level i.e. percentage of the Fund's total allocation that can be held in cash and/or cash-like investments (current maximum 20%). Where strategic cash is included in the Fund's benchmark as an asset (currently 2–10%), the Administering Authority will use investment managers' pooled funds where it is most efficient to do so. The Administering Authority should aim to keep the working cash balance held (for day to day cash requirements) to a minimum, recognising that cash must be available when required to fund commitments to certain of the Fund's investments, such as infrastructure and 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.

APPENDIX A - 5. CASH INVESTMENT POLICY

5.4 Investment and Counterparty Choice

The Cumbria LGPS will seek advice on its Investment Policy from the officers and advisors of Cumbria County Council. Investment instruments identified for pension cash must be allowable within the Council's own Investment Strategy from the 'Specified Investment' category. Counterparty choice for pension cash will be restricted to those with creditworthiness satisfying the Council's own Treasury Management criteria.

All credit ratings will be monitored through the Council's use of the Treasury 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 2019 2.5% was £70 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 Finance (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 Finance (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 Pension Committee as appropriate;

APPENDIX A - 5. CASH INVESTMENT POLICY

- 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.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

6 FUNDING STRATEGY STATEMENT (FSS)

6.1 Introduction

The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations”) and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Cumbria Local Government Pension Scheme (the “Fund”), the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Fund published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the “primary” and “secondary” rate of the employer’s contribution).

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

PRIMARY RATE
The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

The Primary rate for the whole Fund is the weighted average (by payroll) of the individual employers' Primary rates.

SECONDARY RATE
The "Secondary rate" is an adjustment to the Primary rate to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

Secondary rates for the whole Fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole Fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

6.2 Purpose of the FSS in policy terms

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

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.
The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible. This is the context of the Fund's aim to

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

maintain as stable a rate of overall employer contributions (i.e. both primary and secondary employer contributions) as is possible whilst securing the solvency of the Fund and its long term cost efficiency.

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.

The **Administering Authority** should:

- operate the pension fund

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

- 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
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

- 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% 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.

APPENDIX A - 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 Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

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

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Fund Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2020 at the latest.

As part of each valuation, separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2019 actuarial valuation:

- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). These principles have resulted in an average recovery period of 12 years being adopted across all Fund employers.

- Individual employer contributions will be expressed and certified as two separate elements:
    - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

- the **Secondary rate**: a schedule of lump sum monetary amounts over 2020/23 in respect of an employer's surplus or deficit

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2023 based on the results of the 2022 actuarial valuation.

- Where increases (or decreases) in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2020/21 may be implemented in steps, over a maximum period of 3 years.

- 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 Finance (S151 Officer) and notified to the Committee. The employer will also be notified.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Employers are required to meet all costs of early retirement strain by:

- immediate capital payments into the Fund, or
- with the agreement of the Administering Authority, by making provision for them at the time of the actuarial valuation and including the costs within its funding plan.

6.6 Link to investment policy set out in the Investment Strategy Statement (ISS)

The results of the 2016 valuation show the liabilities to be 90.7% covered by the current assets with the funding deficit of 9.3% being covered by future deficit

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

contributions. The results of the 2019 valuation will be presented to Pensions Committee when available.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

"Minimum Risk" portfolio versus a "Diverse" portfolio including growth assets:

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. It is, however, possible to construct a portfolio based on a "minimum risk" investment position designed to deliver real returns in line with or just above CPI inflation.

Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possibly swaps. However, due to supply/demand distortions in the bond markets, it would not be appropriate to make any allowance in the valuation process for such a portfolio in respect of growth assets out-performance or any adjustment to market implied inflation assumption.

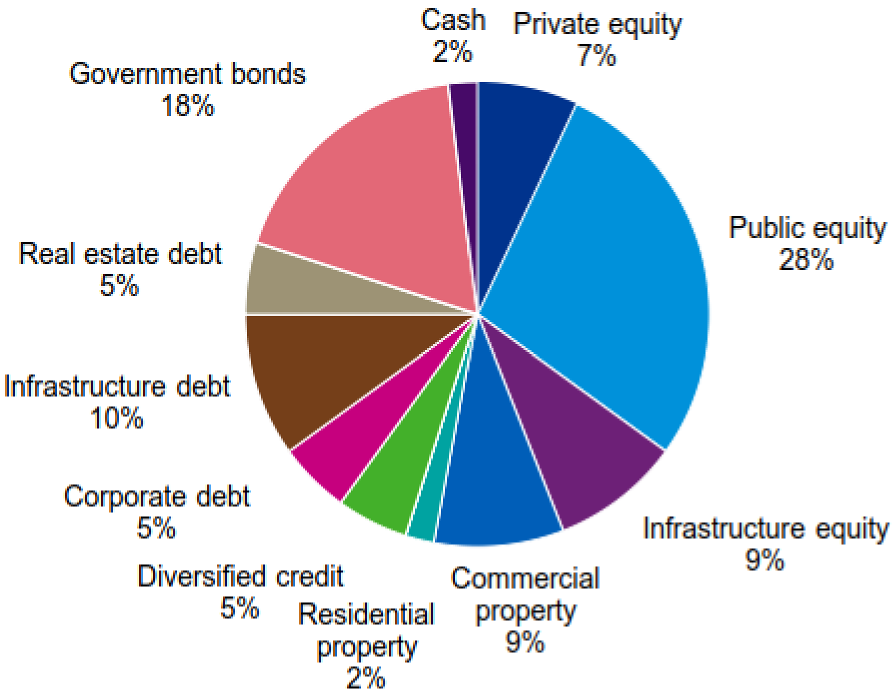
This would result in real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a much lower funding level, which in turn would have caused a significant increase in employer contribution rates payable for the period 2020/23.

Taking a "minimum risk" approach to portfolio construction is considered more appropriate for "closed" funds (i.e. where a fund is no longer accepting new members and therefore has a limited investment horizon). The Cumbria Fund is an "open" fund and therefore, has a longer investment horizon (i.e. it is able to invest over a longer timeframe). As such the Fund has an investment strategy based on a diverse portfolio including growth assets as well as more "defensive" assets such as index-linked gilts.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and thus reduce ~~the~~ 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.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

The long-term investment strategy (as approved by Pensions Committee in December 2019) 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 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 between successive valuations could diverge significantly from that assumed in the long term.

FINANCIAL

The financial risks are as follows:

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows:

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cash flows and shortening of liability durations
- The level of take-up of the 50:50 option at a higher level than built into the actuarial assumptions.

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, employing bodies should be doing everything in their power to minimise the number of ill-health retirements. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cash flow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

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.

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.

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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 3.65% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund’s overall risk metrics.

Where warranted by an employer’s circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market’s expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund’s accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for long term real salary increases (salary increases in excess of price inflation) will be

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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).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy
The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the Fund. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI projections with a long-term improvement trend of 1.75% per annum.

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

Commutation
It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics
Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses
Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.5% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

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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) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the FSR should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real discount rate of 2.0% per annum above the long term average assumption for consumer price inflation of 2.4% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

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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 2019 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.4% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	3.65% p.a.
CPI price inflation	2.4% p.a.
Long Term Salary increases	3.9% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.4% p.a.
CPI price inflation	2.4% p.a.
Long Term Salary increases	3.9% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

	Base Table (M / F)	Improvements	Adjustment (M / F)
Current pensioners:			
Normal health	S3PMA / S3PFA_M	CMI_2018 [1.75%]	99% / 88%
Ill-health	S3IA	CMI_2018 [1.75%]	118% / 127%
Dependants	S3PMA / S3DFA	CMI_2018 [1.75%]	135% / 90%
Future dependants	S3PMA / S3DFA	CMI_2018 [1.75%]	129% / 105%
Current active / deferred:			

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	Base Table (M / F)	Improvements	Adjustment (M / F)
Active normal health	S3PMA / S3PFA_M	CMI_2018 [1.75%]	105% / 90%
Active ill-health	S3IA	CMI_2018 [1.75%]	121% / 139%
Deferred	S3PMA / S3PFA_M	CMI_2018 [1.75%]	127% / 105%
Future dependants	S3PMA / S3DFA	CMI_2018 [1.75%]	134% / 113%

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

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APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

The Recovery Period for each employer is set by the Fund, in consultation with the Fund Actuary. The Fund will consider any representations received from the employer and any guarantor, with a view to balancing the various funding requirements against the risks arising from the financial strength of the employer and the nature of its participation in the Fund. Whilst willing to consider representations, the Fund retains its discretion in setting the recovery periods for employers.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Following the 2016 the Fund's average deficit recovery period was 15 years, with a maximum recovery period of 16 years at an individual employer level and a target date for full funding of 2032. In line with good practice the Fund is seeking to maintain its target date of 2032 for full funding (i.e. by reducing its average deficit recovery period by a further 3 years at the 2019 valuation to an average deficit recovery period of 12 years at an overall Fund level).

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of the recovery periods is summarised in the table below:

Category	Target Average Deficit Recovery Period	Derivation
Scheme Employers	12 years	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure overall contributions do not reduce versus those expected from the existing funding plan.
Open Admitted Bodies	The lesser of 12 years or the remaining contract period	Determined by reducing the period from the preceding

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		valuation by at least 3 years and to ensure overall contributions do not reduce versus those expected from the existing funding plan.
Closed Employers	The lesser of 12 years, the remaining contract period, or the future working lifetime of the membership	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure overall contributions do not reduce versus those expected from the existing funding plan.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund

The Fund acknowledges that maintaining the date at which it would expect to be fully funded may materially impact certain employers. In recognition of this the Fund may, in exceptional circumstances, agree to employers extending their specific recovery period by up to 3 years with no employer being permitted to extend the deficit recovery period beyond 2036. This introduces an element of risk to both the Fund and the employer as, by extending the period over which its deficit is recovered, an employer may end up in a worse position at the next valuation than if it had sought to restore full funding more quickly. This would be contrary to the objective of setting employer contributions so as to secure the solvency and long-term cost efficiency of the Scheme.

As such the Fund, in determining deficit recovery periods at an individual employer level, will consider the risks arising from the financial strength ("covenant") of the employer and the nature of its participation in the Fund. Factors that will influence this decision may include (but are not limited to):

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in

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managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidence- based affordable level of contributions for the organisation for the three years 2020/2023. Any application of this option is at the ultimate discretion of the Director of Finance (S151 Officer) in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

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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.

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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

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

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APPENDIX D - GLOSSARY

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the Administering Authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies: a specific type of employer under the Local Government Pension Scheme (the "LGPS") who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Covenant: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

CPI: acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

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Deficit: the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and 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

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government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Liabilities: the actuarially calculated present value of all benefit entitlements i.e. Fund cash flows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

Maturity: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members: the individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk Basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

Orphan liabilities: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions: when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

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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.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Primary rate: the contribution rate required to meet the cost of future accrual of benefits, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

Profile: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Real Return or Real Discount Rate: a rate of return or discount rate net of (CPI) inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

Scheduled bodies: types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Scheme Employers: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

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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.

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.

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

7 CUMBRIA LOCAL GOVERNMENT PENSION SCHEME ("Scheme")

7.1 ADMISSION & TERMINATION POLICY

This document details the Scheme's policy on:

- Admissions into the Fund;
- The methodology for assessment of a termination payment on the cessation of a Participating Employer's participation in the Fund; and
- Considerations for current employers'.

The Admissions and Termination Policy was approved by the Cumbria Pensions Committee held on 11 June 2019 and 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 Cumbria County Council (**"Cumbria"**), then this shall mean Cumbria in carrying out its function as the Administering Authority of the Scheme.

Where this document refers to a Participating Employer, it shall mean a Fund Employer under either Part 1 or Part 2 of Schedule 2 of the Local Government Pension Scheme Regulations 2013 (**"Regulations"**), or an Admission Body (formerly defined as a transferee admission body or a community admission body) under Part 3 of Schedule 2 of the Regulations.

A – ADMISSIONS POLICY

7.2 BACKGROUND

7.2.1 Admission Bodies

Admission Bodies are a specific type of Participating Employer under the Regulations that govern the Scheme. They do not automatically qualify for admission and must instead satisfy certain criteria as set out in the Regulations. They also need a written Admission Agreement to be admitted and participate in the Scheme.

Cumbria may enter into an Admission Agreement with any Admission Body that satisfies the criteria under the Regulations. An Admission Agreement will enable all (or any specified class) of the Admission Body's employees to be members of the Fund and participate in the Scheme.

Any application for Admission Body status must be submitted to Cumbria in good time to enable actuarial information to be obtained and the legalities associated with admission to be dealt with. Applications should preferably be submitted at least six months before the proposed transfer or admission date.

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There are two broad types of Admission Body – those providing a commercial service to a Fund Employer (formerly transferee admission bodies) and those providing other services with sufficient links to a Fund Employer (formerly community admission bodies).

7.2.2 Fund Employers

Fund Employers can be divided into two types under the Regulations:

(a) those employers listed in Part 1 of Schedule 2 of the Regulations; and
(b) those employers listed in Part 2 of Schedule 2 of the Regulations.

Fund Employers listed under Part 1 of Schedule 2 of the Regulations include (but are not limited to)

- county councils;
- district councils;
- London borough councils;
- a fire and rescue authority within the meaning of the Fire and Rescue Services Act 2004;
- a police and Crime Commissioner;
- a Chief Constable within the meaning of Section 2 of the Police Reform and Social responsibility Act 2011;
- the Environment Agency;
- a National Park Authority established under Part 3 of the Environment Act 1995;
- a proprietor of an academy within the meaning of section 579 (general interpretation) of the Education Act 1996 who has entered into academy arrangements within the meaning of section 1 (academy arrangements) of the Academies Act 2010;
- a further education corporation, a sixth form college corporation or higher education corporation within the meaning of section 90 of the Further and Higher Education Act 1992;
- a body set up by a local housing authority as a housing management company to exercise management functions of the authority under an agreement approved by the appropriate Minister under section 27 of the Housing Act 1985.

Employees of the above Fund employers will automatically be admitted into the Scheme, provided that they are not prevented from eligibility by virtue of Regulation 4.

Fund employers listed under Part 2 of Schedule 2 of the Regulations include (but are not limited to):

- a passenger transport executive;

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- 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 automatically be deemed to act as guarantor); and
   - (iv) for non-commercial agreements (i.e. former community admission bodies) the body exists as a result of being specifically set up by a local authority(s).

(b) applications will not be approved if:
   - (i) the application falls into the "Admission Body" category; and
   - (ii) the body has one or more of the following disqualifying criteria attached to it:
     - ➢ the body does not meet the conditions of participation detailed at the appendix; or
     - ➢ the provisions in respect of risk assessments as set out later in this document have not been complied with; or
     - ➢ the transferring Fund Employer is a Participating Employer within another LGPS Fund; or
     - ➢ the body does not have a guarantee/indemnity from another Fund Employer.
   - (iii) for non-commercial agreements (i.e. former community admission bodies) there is a known limited lifespan or fixed contract term of admission to the Fund.

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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, Cumbria reserves the right to approve or reject any application, should it deem this appropriate in the particular circumstances, provided such a decision is in accordance with the Regulations.

7.3.2 Risk Assessments

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

Where the level of risk is, in the opinion of Cumbria, such as to require it, then Cumbria will require the Admission Body to enter into an indemnity or bond. In certain circumstances Cumbria may determine that the level of risk is such that it is not desirable for the Admission Body to enter into an indemnity or bond, and instead a guarantee would be acceptable (where one does not already exist). In these circumstances, the Admission Body must secure a guarantee which is acceptable to Cumbria from either:

(a) a person who funds the Admission Body in whole or part;
(b) a person who owns or controls the exercise of the functions of the Admission Body; or
(c) the Secretary of State in the case of an Admission Body which is established under any enactment providing that enactment enables the Secretary of State to make financial provision for that Admission Body.

The factors Cumbria may use to establish whether a guarantee would be an acceptable alternative are:

(a) the likelihood of premature termination occurring in respect of that Admission Body;
(b) the accountability of any Fund employer in respect of that Admission Body;
(c) whether if premature termination did occur the liabilities of the Admission Body would be assumed by other participating employers in the Fund, or would be contained by other employers in that Admission Body's group;
(d) any assessment commissioned by the Admission Body on which Cumbria can rely to determine whether the guarantor is suitable; and
(e) advice from its solicitors as to whether the wording of the guarantee is acceptable.

In determining the acceptability as to the level of risk, Cumbria will be mindful of its core principle which is that each Admission Body is accountable for its

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own costs on premature termination and any costs associated with that should not become the liability of third party bodies who participate in the Fund.

7.3.3 Decisions Regarding Admissions

Decisions regarding Admission Bodies will be delegated to the Director of Finance (S151 Officer).

7.4 Fund Employers

The principle that Cumbria undertakes is that of responsibility by each employer under the Fund for the liabilities of its employees or former employees who have liabilities under the Fund.

In this regard, Cumbria may:

- make an initial assessment of the financial standing of the new Fund employer, to determine its ability to support the funding requirements under the Fund;
- taking into account any such assessment, Cumbria may seek any one or more of the following terms of agreement with the new Fund, including:
    - a guarantee/indemnity from another Fund employer;
    - agreement that another Fund employer will assume the orphan liabilities relating to the new Fund employer;
    - either in whole or in part;
    - further information on the employees transferring to them, financial standing/plans and relationship with previous Fund employer;
    - a revised rates and adjustment certificate for the new Fund employer to take into account the financial risk of failure.

There should be flexibility to consider all relevant circumstances, but Cumbria's objective is to seek appropriate funding from all Fund employers, so that on exit all orphaned liabilities will be funded or subsumed by another Fund employer.

B – TERMINATION POLICY

7.5 BACKGROUND

When an Admission Agreement comes to its end (including where the participating employer ceases to have any active members), or is prematurely terminated for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

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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.

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 (if so determined).
- Any deficit will be recovered from the bond and/or the outgoing Participating Employer;

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

(b) Admission Bodies with a Fund guarantor

Where an Admission Body has a guarantee/indemnity from another Fund Employer 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:

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- 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 IDRP process should be used. The Pensions Ombudsman has jurisdiction to hear complaints if the IDRP 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.

Once agreed, any exit credits will be paid within six months of the exit date, or such longer 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

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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 corporate bond 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 strategy (notionally) backed by corporate bonds provides some protection against this;
- Providing fair value to the outgoing Admission Body and preventing Admission Bodies being trapped in the Scheme by an unaffordable deficit.

The standard policy will be applied unless either:

- the Admission Body has a guarantor within the Fund, or a successor body exists to take over the Admission Body's liabilities (including those of former employees). In this case the valuation funding basis (as defined in 7.5.1 (e) below) will be used;
- The Fund's view is that the risks to the Fund associated with the termination of a particular Admission Body are such that a more prudent

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basis should be used to protect the remaining Participating Employers. In this case more prudent assumptions, based on a least risk funding basis (as defined in 7.5.1 (e) below), will be used.

(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 2019) 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 2019 assumptions	Valuation funding	Corporate Bond	Least Risk
Discount rate	3.65% p.a.	2.4% p.a.	1.5% p.a.
CPI price inflation	2.4% p.a.	2.4% p.a.	2.4% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.	2.4% p.a.	2.4% p.a.

All demographic assumptions will be the same as those adopted for the most recent actuarial valuation (the Fund will decide at what point any post-valuation changes to the demographic assumptions take effect), except for the corporate bond and least risk basis in relation to the life expectancy assumption. Given these financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption. Currently, the assumed rate of long-term longevity improvement will be 2% p.a. rather than the 1.75% p.a. used for funding purposes, but this may be reviewed as necessary based on actuarial advice.

(g) Benefit changes

Periodically changes are made to the Scheme benefits due to changes in Government policy, legislation or legal challenges. In some circumstances these may affect members accrued benefits, which will in turn affect liabilities and so termination positions. The Fund's policy is:

- where such changes are confirmed then they are allowed for as part of the termination assessment in line with the regulations;
- where such changes are proposed but not yet confirmed, the Fund will:
    - take a view as to the likelihood that the changes will be implemented;
    - where the Fund expects the changes to be implemented, include an allowance in the termination position for the estimated impact

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

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 form 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) Fund discretion

Notwithstanding the above, where it is deemed to be appropriate the Director of Finance (S151 Officer) may use their discretion to:

- alter the basis and approach to the termination assessment;
- allow the deficit to be paid by instalments;
- allow the guarantor, successor body or the Fund as a whole to subsume the funding deficit or surplus on closure, in place of a termination payment being required of the/to the Admission Body itself.

7.6.2 Fund Employers

For Fund employers the general overall policy is that the principles and procedures outlined above should apply, whilst recognising that there may be specific circumstances which dictate that more flexibility may be needed in some cases.

As has been mentioned, the principle that Cumbria wishes to pursue is that of responsibility by each employer under the Fund for the liabilities of its employees or former employees who have liabilities under the Fund.

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

Cumbria recognises that on admission a guarantee and/or indemnity may not have been provided and therefore different approaches will be needed depending on this issue.

Where contractual comfort has been obtained on entry into the Fund, Cumbria can adopt a more relaxed approach in that:

- if a previous Fund employer has agreed to subsume any orphan liabilities in relation to the outgoing Fund employer, arrangements can

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be agreed in relation to the rates and adjustment certificate applicable to the Fund employer and/or any deficit on termination; or

- if a previous Fund employer has agreed to pay any deficit payment on exit, 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, Cumbria will be required to:

- monitor carefully the financial standing of the Fund employer and seek where considered necessary an alteration to the rates and adjustment certificate to take this assessment into account; and
- seek recovery of any deficit calculated on exit from the Fund, and if unsuccessful apply pressure to former Fund employers.

APPENDIX A - 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 Cumbria for credit to the Scheme such contributions and payments as are due under the Regulations in respect of those employees who are eligible to participate in the Scheme.

1.2. The Admission Body shall pay to Cumbria for credit to the Scheme the employee and employer pension contributions on a monthly basis in arrears. The payment must be paid to Cumbria within 19 calendar days of the end of each month in which the pension contributions have been deducted.

1.3. The employer contribution rate required to be paid by the Admission Body will be assessed by an actuary appointed by Cumbria.

1.4. The Admission Body shall pay to Cumbria for credit to the Scheme any additional or revised contributions due as result of additional membership or pension being awarded or as a result of outstanding liabilities due should the admission agreement terminate. Payment will be due within 30 calendar days of receipt of a written request from Cumbria.

1.5. Any employees' Additional Voluntary Contributions ("**AVC's**") or Shared Cost Additional Voluntary Contributions ("**SCAVC's**") are to be paid direct to such AVC body and/or AVC insurance company selected by Cumbria. Contributions shall be paid within 19 calendar days of the end of each month in which the contributions have been deducted.

1.6. Where the Admission Body certifies that:

1.6.1. an eligible employee is retiring by reason of redundancy or in the interests of efficiency; or

1.6.2. an eligible employee is voluntarily retiring with the Admission Body's consent before age 60; or

1.6.3. the deferred benefit of an eligible employee is brought into payment with the Admission Body's consent either (i) on or after age 55 and before age 60 where they were a member of the LGPS on or before 31st March 2008; or (ii) on or after age 55 and before age 65 where they became a member on or after 1st April 2008; and immediate

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

benefits are payable under the Regulations the Admission Body shall pay to Cumbria for credit to the Scheme the sum notified to them in writing by Cumbria as representing the actuarial strain on the Scheme resulting from the immediate payment of benefits. Such sum to be paid within 30 calendar days of receipt of the written notification.

1.7. The Admission Body shall indemnify Cumbria against any financial penalty and associated costs and expenses incurred by Cumbria or by the Scheme arising from any failure by the Admission Body to comply with the terms of the Admission Agreement entered into by it, the Regulations or any overriding legislation. Such payment is to be paid within 30 calendar days of receipt of a written request from Cumbria.

1.8. If any sum payable under this Agreement or the Regulations by the Admission Body to Cumbria or to the Scheme has not been paid (in whole or in part) within the payment period specified (or otherwise in accordance with the Regulations) Cumbria may require the Admission Body to pay interest calculated in accordance with Regulations on the amount remaining unpaid.

2. ADMISSION BODY’S UNDERTAKINGS

2.1. The Admission Body undertakes:

2.1.1. to provide or procure to be provided such information as is reasonably required by Cumbria relating to the Admission Body's participation in the Fund including (but not limited to) details of the pay and final pay of each eligible employee;

2.1.2. to comply with the reasonable requests of Cumbria to enable it to comply with the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (as amended);

2.1.3. to adopt the practices and procedures relating to the operation of the Fund as set out in the Regulations and in any employer’s guide published by Cumbria and provided by Cumbria to the Admission Body;

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

2.1.5. to notify Cumbria of each occasion on which it exercises a discretion under the Regulations and the manner in which it exercises that discretion;

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

2.1.6. to notify promptly Cumbria in writing of any material change in the terms and conditions of employment of any of the eligible employees which affects entitlement to benefits under the LGPS and of any termination of employment;

2.1.7. to immediately notify Cumbria and the Fund employer in writing of any matter which may affect or is likely to affect its participation in the LGPS and of any actual or proposed change in its status which may give rise to a termination of the admission agreement or in the case of a transferee admission body which may give rise to a termination of the Contract between the Admission Body and the Fund employer including but not limited to take-over, reconstruction, amalgamation, liquidation, receivership or a change in the nature of its business or constitution;

2.1.8. 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 Cumbria and the Fund employer's office a copy of the Admission Agreement.

3. ACTUARIAL VALUATIONS

3.1. Cumbria may periodically and shall at least on a triennial basis obtain from an actuary a certificate specifying in the case of the Admission Body the percentage or amount by which in the actuary's opinion the employer’s contribution rate should be increased or reduced. This is with a view to ensuring that as far as is reasonably possible the value of assets of the Fund in respect of current and former eligible employees is neither materially more nor materially less than the anticipated liabilities of the Fund.

3.2. Upon termination of this Agreement Cumbria must obtain:

3.2.1. an actuarial valuation of the liabilities of the Fund in respect of current and former Eligible Employees as at the date of termination; and

3.2.2. a revision of any rates and adjustments certificate within the meaning of the Regulations showing the revised contributions due from the Admission Body.

3.3. The costs of obtaining the actuarial valuation and certificates (or revisions to them) as required by Cumbria in respect of current and former eligible employees (other than the triennial valuation) shall be paid by the Admission Body within 30 calendar days of receipt of written notification of such costs from Cumbria.

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

4. RISK ASSESSMENT

4.1. The Admission Body shall carry out to the satisfaction of Cumbria, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of services or assets by reason of insolvency, winding up or liquidation of the Admission Body.

4.2. Where the level of risk identified by the assessment is such as to require it, the Admission Body shall enter into an indemnity or bond in an approved form.

4.3. Where it is not desirable for the Admission Body to enter into an indemnity or bond, the Admission Agreement shall provide that the Admission Body secures a guarantee in a form satisfactory to Cumbria from:

4.3.1. a person who funds the Admission Body in whole or part;

4.3.2. a person who owns or controls the exercise of the functions of the Admission Body; and

4.3.3. the Secretary of State in the case of an Admission Body which is established under any enactment, and whether that enactment enables the Secretary of State to make financial provision for that Admission Body.

5. TERMINATION

5.1 The Agreement shall terminate at the end of the notice period upon Cumbria or the Admission Body giving a minimum of three calendar months' notice in writing to terminate this Agreement to the other party or parties to this Agreement.

5.2 The Agreement shall terminate automatically on the earlier of:

5.2.1 the date of the expiry or earlier termination of the Contract (if the admission is of a fixed term); or

5.2.2 the date the Admission Body ceases to be an Admission Body for the purposes of the Regulations; or

5.3 The Agreement may be terminated by Cumbria by notice in writing to the Admission Body taking immediate effect in the event of:

5.3.1 the insolvency winding up or liquidation of the Admission Body;

5.3.2 any breach by the Admission Body of any of its obligations under this Agreement provided that Cumbria shall if the breach is capable of remedy first afford to the Admission Body the opportunity of

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remedying that breach within such reasonable period as Cumbria may specify;

5.3.3 the failure by the Admission Body to pay any sums due to Cumbria or to the Fund within the periods specified in this Agreement or in the Regulations or in any other case within 30 calendar days of receipt of a written notice from Cumbria requiring the Admission Body to do so; or

5.3.4 the failure by the Admission Body to renew or adjust the level of any bond/indemnity which is required to be in place.

APPENDIX A - 8. DISCRETIONS POLICY

8 DISCRETIONS POLICY

Cumbria County Council as administering authority of Cumbria Local Government Pension Scheme has the power to make certain discretions to assist in the management of the Fund. These will be applied across the whole Cumbria Fund for all employers and members. Additionally, the administering authority is required to exercise certain discretions relating to former employees of defunct employers which are contained within this policy.

The Discretions Policy was reviewed by the Cumbria Pensions Committee on 11 September 2018. This review included ensuring the policy was in accordance with the latest Local Government Pension Committee (LGPC) guidance issued July 2018.

8.1 Administering Authority Discretions for use in the Cumbria Local Government Pension Scheme

Discretions from 1 April 2014 in relation to post 31 March 2014 active members (excluding councillor members) and post 31 March 2014 leavers (excluding councillor members), being discretions under:

- the Local Government Pension Scheme Regulations 2013 [prefix R]
- the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [prefix TP]
- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
Whether to issue actuarial guidance to administering authorities	**R**2(3)	Exercised by the Secretary of State
Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or Care Quality Commission	**R**4(2)(b)	Depending on circumstances, and only in accordance with the published Fund Admissions Policy

APPENDIX A - 8. DISCRETIONS POLICY

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to agree to an admission agreement with a body applying to be an admission body	**R**3(1(a), **R**5(5) &**R**Sch 2, Part 3, para 1	Depending on circumstances, and only in accordance with the published Fund Admissions Policy
Whether to agree that an admission agreement may take effect on a date before the date on which it is executed	**R**sch2, Part 3, para 14	To adopt this discretion where there have been delays in finalising an admission agreement
Whether to approve / withdraw approval of an admission body providing a public service in the UK and the conditions for such approval / withdrawal	**R**Sch 2, Part 3, paras 1(e) and 2	Exercised by the Secretary of State
Whether to terminate an admission agreement in the event of • insolvency, winding up or liquidation of the body • breach by that body of its obligations under the admission agreement • failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so	**R**Sch 2, Part 3, para 9(d)	Yes as stated in termination policy. However in exceptional circumstances this may be varied**.**
Define what is meant by "employed in connection with"	**R**Sch 2, Part 3, para 12(a)	After taking guidance from the transferor employer, and in accordance with the Fund Admission Policy
Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small	**R**16(1)	To turn down request where the monthly payment is below £20, or in the absence of a satisfactory medical report

APPENDIX A - 8. DISCRETIONS POLICY

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
and could be paid as a single payment)		
Whether to require a satisfactory medical before agreeing to an application to pay an APC / SCAPC and whether to turn down an application to pay an APC/SCAPC if not satisfied that the member is in reasonably good health	**R**16(10)	Application from an employee wishing to spread the cost will only be accepted if accompanied by a medical report provided by a registered medical practitioner stating that the employee is in reasonably good health. The employee must meet the cost of obtaining such a report.
Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member	**R**17(12)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Pension account may be kept in such form as is considered appropriate	**R**22(3)(c)	To maintain pension accounts in accordance with the approved administration policy
Where there are multiple ongoing employments, in the absence of an election from the member within 12 months of ceasing a concurrent employment, decide to which record the benefits from the ceased concurrent employment should be aggregated.	**TP**10(9)	In the absence of an election from the member the Administering Authority will make the final decision
Whether to waive, in whole or in part, actuarial reduction on	**R**30(8)*	Not to waive actuarial reductions on flexible retirement

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Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
benefits paid on flexible retirement		
Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age other than on the grounds of flexible retirement (where the member only has post 31 March 2014 membership)	**R**30(8)*	Not to waive actuarial reductions on benefits drawn voluntarily
Whether to require any strain on Fund costs to be paid "up front" by employing authority following payment of benefits under **R**30(6) (flexible retirement), **R**30(7) (redundancy / business efficiency), or the waiver (in whole or in part) under **R**30(8) of any actuarial reduction that would otherwise have been applied to benefits which a member voluntarily draws before normal pension age or to benefits drawn on flexible retirement	**R**68(2)	The strain on Fund costs to be paid up front following redundancy, flexible retirement, or waiver of any actuarial reduction on flexible retirement unless the Fund Actuary advises otherwise.
Whether to "switch on" the 85year rule for a member voluntarily drawing benefits on or after age 55 and before age 60 (other than on the grounds of flexible retirement).	**TP**Sch 2, para 1(2)*	Not to waive actuarial reductions or "switch on" the 85year rule on benefits drawn voluntarily
Whether to waive any actuarial reduction for a member voluntarily drawing benefits before normal pension age other than on the grounds of flexible retirement (where the member has both pre and post 1 April 2014 membership): a) on compassionate grounds (pre 1 April 2014 membership) and in whole or in part on any	**TP3(1), TP**Sch 2, para 2(1) **B**30(5), **B**30A(5)	Not to waive actuarial reductions on any grounds (including compassionate grounds) to all members

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Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
grounds (post 31 March 2014 membership) if the member was not in the Scheme before 1 October 2006, b) on compassionate grounds (pre 1 April 2014 membership) and in whole or in part on any grounds (post 31 March 2014 membership) if the member was in the Scheme before 1 October 2006 will not be 60 by 31 March 2016 and will not attain 60 between 1 April 2016 and 31 March 2020 inclusive, c) on compassionate grounds (pre 1 April 2016 membership) and in whole or in part on any grounds (post 31 March 2016 membership) if the member was in the Scheme before 1 October 2006 and will be 60 by 31 March 2016, d) on compassionate grounds (pre 1 April 2020 membership) and in whole or in part on any grounds (post March 2020 membership) if the member was in the Scheme before 1 October 2006, will not be 60 by 31 March 2016 and will attain 60 between 1 April 2016 and 31 March 2020 inclusive.		
Whether to require any strain on Fund costs to be paid “up front” by employing authority if the employing authority “switches on” the 85 year rule for a member voluntarily retiring (other than flexible retirement) prior to age 60 or waives an actuarial reductions on compassionate grounds under TPSch2, para 2(1)	**TP**Sch 2, para 2(3)	The strain on Fund costs to be paid up front following waiver of any actuarial reductions exercised by the employer, unless the Fund Actuary advises otherwise.

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Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
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	**R**32(7)	Not to extend the time limit unless there are exceptional circumstances
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).	**R**34(1)(a)	Do this at the members request
Decide whether to trivially commute a lump sum death benefit under section 168 of the Finance Act 2004	**R**34(1)(b)	Do this at the beneficiaries request
Decide whether to pay a commutation payment under regulations 6 (payment after relevant accretion), 11 (de minimis rule for pension schemes) or 12 (payments by larger pension schemes) of the Registered Pension Schemes (Authorised Payments) Regulations 2009 (excludes survivor pensions and includes pension credit members where the effective date of the Pension Sharing Order is after 31 March 2014 and the debited member had some post 31 March 2014 membership)	**R**34(1)(c)	To commute payment where requested by the member and in accordance with the guidance of the Government Actuary.
Approve medical advisors used by employers (for ill health benefits)	**R**36(3)	Delegated to Employer
Whether to use a certificate produced by an IRMP under the 2008 Scheme for the purposes of making an ill	**TP**12(6)	To adopt this discretion

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Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
health determination under the 2014 Scheme.		
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.	**R**38(3)	To take the advice of the Fund IRMP, before any decision is made.
Decide whether a suspended ill health tier 3 member is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health	**R**38(6)	To take the advice of the Fund IRMP, before any decision is made
Decide to whom death grant is paid	**TP**17(5) to (8) & **R**40(2), **R**43(2) & **R**46(2)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	**R**49(1)(c)	Always pay the highest benefit to a member of the fund

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Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to set up a separate admission agreement fund	**R**54(1)	Not to set up a separate admission agreement fund
Determine assets to be transferred from main fund to admission agreement fund	**R**54(4)(b)	Not applicable
Governance policy must state whether the administering authority delegates their function or part of their function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the admin authority and, if they do so delegate, state: • the frequency of any committee or sub-committee meetings • the terms, structure and operational procedures appertaining to the delegation • whether representatives of employing authorities or members are included and, if so, whether they have voting rights The policy must also state: • the extent to which a delegation, or the absence of a delegation, complies with Secretary of State guidance and, to the extent it does not so comply, state the reasons	**R**55*	A Governance Policy Statement was prepared and approved by the Pensions Committee held on 13th March 2020

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Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
for not complying, and • the terms, structure and operational procedures appertaining to the Local Pensions Board		
Decide on Funding Strategy for inclusion in Funding Strategy Statement	**R**58*	This was approved by the Pensions Committee at the meeting held on the 8 December 2016
Whether to have a written pensions administration strategy and, if so, the matters it should include	**R**59(1) & (2)	An administration strategy has been set out in the Scheme policy document
Communication policy must set out the policy on provision of information and publicity to, and communicating with, members, representatives of members, prospective members and Fund employers; the format, frequency and method of communications; and the promotion of the Scheme to prospective members and their employers.	**R**61*	A communications policy has been set out in the Scheme policy document
Whether to extend valuation report and certificate deadline	**R**62(2)	Exercised by the Secretary of State
Whether to extend the period beyond 3 months from the date an Employer ceases to be a Scheme Employer, by which to pay an exit credit.	**R**64(2A)	To extend the period with agreement of the exiting Employer
Whether to suspend (by way of issuing a suspension notice), 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	**R**64(4)	To consider applications for a suspension notice on a case by case basis. Decision to issue a suspension notice to be granted by the Director of Finance (S151 Officer).

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Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
the specified period of suspension.		
Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Fund employer will become an exiting employer	**R**64(4)	Only do this if advised to do so by the fund actuary
Decide frequency of payments to be made over to Fund by employers and whether to make an admin charge.	**R**69(1)	The due date for employer contributions is the 19th of the month following the month to which they relate. Where invoices are issued for any payments the due date is one month from date of invoice. Administration charges are covered by the employer contribution rates.
Decide form and frequency of information to accompany payments to the Fund	**R**69(4)	Detailed remittance advice required for all payments to the Fund. Payments relating to contributions must provide pensionable pay, employer contributions, employee contributions and any additional contributions.
Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance	**R**70 &**TP**22(2)	Issue such a notice when an employers level of performance gives rise to additional costs
Whether to charge interest on payments by employers which are overdue	**R**71(1)	The interest charge will be calculated in accordance with statutory requirements i.e. Base rate plus 1 %
Whether to extend six month period to lodge a stage one IDRP appeal	**R**74(4)	On the discretion of the Adjudicator investigating a stage one IDRP
Decide procedure to be followed by adjudicator when exercising stage one IDRP functions and decide the	**R**74(6)	Procedure laid down

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<u>**Discretion**</u>	<u>**Regulation**</u>	<u>**Discretion made by Cumbria County Council as Administering Authority**</u>
manner in which those functions are to be exercised		
Decide procedure to be followed by admin authority when exercising its stage two IDRP functions and decide the manner in which those functions are to be exercised	**R**76(4)	Procedure laid down
Whether administering authority should appeal against employer decision (or lack of a decision)	**R**79(2)	Will decide this depending on the particular circumstances
Whether to extend six month period for administering authority to lodge an appeal against an employer decision	**R**79(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable admin. authority to discharge its functions	**R**80(1)(b) & **TP**22(1)	Employers to supply information in accordance with the approved administration policy
Whether to pay the whole or part of the amount that is due to the personal representatives (including anything due to the deceased member at the date of death) to: • the personal representatives, or • anyone appearing to be beneficially entitled to the estate Without need for grant of probate/letters of administration where payment is less than amount specified in s6 of the Administration of Estates (Small Payments) Act 1965.	**R**82(2)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pension Committee
Whether, where a person is incapable of managing their affairs, to pay the whole or part of that person's pension	**R**83	In the case of an adult incapable of managing their affairs the Fund would normally require power of attorney, but where this is not provided each

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Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
benefits to another person for their benefit.		case will be individually determined. In cases relating to children incapable of managing their affairs the Fund would ordinarily pay child pension benefits into a child's own bank account or to a joint account with the nominees being the child and another appointed person. Where payment is proposed to be made solely to another person for the benefit of that child, then each case will be individually determined. In both situations described determinations will be made by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Whether to issue a forfeiture certificate	**R**91(1)	Exercised by the Secretary of State
Agree to bulk transfer payment	**R**98(1)(b)	On the advice of the Fund actuary
Agree to set aside of bulk transfer assets / cash and acquisition of rights in new scheme	**R**98(4)(a)	Fund actuary / new scheme actuary
Determine amount of, and adjustments to, bulk transfer payment	**R**99(1) & (2)	On the advice of the Fund actuary
Determine who should bear bulk transfer actuarial costs (where more than one employing authority is involved in the transfer)	**R**99(5)	On the advice of the Fund actuary
Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS	**R**100(6)	Not to extend the normal time limit unless there are exceptional circumstances
Allow transfer of pension rights into the Fund	**R**100(7)	Allow following advice from the Fund actuary

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Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
Agree bulk inter fund adjustment terms (where 10 or more members affected by a single event)	**R**103(3)	As determined by the Actuaries for both Funds
Where member to whom **B**10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member	**TP**3(6), **TP**4(6)(c), **TP**8(4), **TP**10(2)(a), **TP**17(2)(b) & **B**10(2)	Always pay the highest benefit to a member of the Fund
Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1 April 2008)	**TP**3(6), **TP**4(6)(c), **TP**8(4), **TP**10(2)(a), **TP**17(2)(b) & **T**Sch 1 & **L**23(9)	Always pay the highest benefit to or on behalf of a member of the Fund
Decide to treat a child (who has not reached the age of 23) as being in continuous education or vocational training despite a break	**R**Sch 1 & **TP**17(9)	Adopt this discretion
Decide evidence required to determine financial dependence of cohabiting partner on fund member or financial interdependence of cohabiting partner and fund member	**R**Sch 1 & **TP**17(9)(b)	Require evidence of co-habitation and financial interdependence in accordance with the criteria set
Decide appropriate Fund if employer applies to be moved to a different Fund	**R**Sch 3, Part 2, para 3	Exercised by the Secretary of State
Decide policy on abatement of pre 1 April 2014 element of pensions in payment following re-employment	**TP**3(13) & **A**70(1)* & **A**71(4)(c)	Not to abate pension on re-employment
Extend time period for capitalisation of added years contract	**TP**15(1)(c) & **T**Sch1 & **L**83(5)	Not to extend time period

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Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
Decide whether to delegate any administering authority functions under the Regulations.	**R**105(2)	Details are contained within the Administration Strategy set out in the Scheme policy document
Decide whether to establish a joint local pensions board (if approval has been granted by the Secretary of State).	**R**106(3)	This would be considered by the Pensions Committee and Local Pension Board
Decide procedures applicable to the local pension board.	**R**106(6)	Procedures set out in the terms of reference of the Local Pension Board
Decide appointment procedures , terms of appointment and membership of the local pension board	**R**107(1)	Procedures set out in the terms of reference of the Local Pension Board

* These are matters about which the regulations require there must be a written policy.

Discretions in relation to scheme members (excluding councillor members) who ceased active membership on or after 1 April 2008 and before 1 April 2014, being discretions under:

- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [prefix TP]
- the Local Government Pension Scheme Regulations 2013 [prefix R]
- the Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]

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Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
Extend time period for capitalisation of added years contract where the member leaves their employment by reason of redundancy.	**T**Sch1 & **L**83(5)	Not to extend time period
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	**A**45(3)	To adopt this
Whether to pay the whole or part of the amount that is due to the personnel representatives (including anything due to the deceased member at the date of death) to: • personal representatives, or • anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less than amount specified in s6 of the Administration of Estates (Small Payments) Act 1965	**A**52(2)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Approve medical advisors used by employers (for early payment, on grounds of ill health, of a deferred benefit or a suspended Tier 3 ill health pension)	**A**56(2)	Delegated to employer
Whether to extend six month period to lodge a stage one IDRP appeal	**TP**23 & **R**74(4)	On the discretion of the adjudicator investigating the stage one IDRP
Decide procedure to be followed by adjudicator when exercising stage one	**TP**23 & **R**74(6)	Procedure laid down in the employers IDRP guide

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Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
IDRP functions and decide the manner in which those functions are to be exercised.		
Decide procedure to be followed by admin authority when exercising its stage two IDRP functions and decide the manner in which those functions are to be exercised	**TP**23 & **R**76(4)	Procedure laid down in the employers IDRP guide
Whether administering authority should appeal against employer decision (or lack of a decision)	**TP**23 & **R**76(4)	Will decide this depending on the particular circumstances
Whether to extend six month period for administering authority to lodge an appeal against an employer decision	**TP**23 & **R**79(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable administering authority to discharge its functions	**TP**23, **TP**22(1) & **R**80(1)(b)	Information to be supplied in accordance with the approved administration strategy set out in the Scheme policy document
Decide policy on abatement of pensions following re-employment	**TP**3(13) & **A**70(1)* & **A**71(4)(c)	Not to abate pensions following re-employment
Whether to issue a forfeiture certificate	**A**72(1)	Exercised by the Secretary of State
Where member to whom **B**10 applies (use of average of 3 years pay within the period of 13 years ending with the last day of active membership for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member	**B**10(2)	Always pay the highest benefit to a member of the fund

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Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to pay the whole or part of a child's pension to another person for the benefit of that child	**B**27(5)	The Fund would ordinarily pay child pension benefits into a child's own bank account or to a joint account with the nominees being the child and another appointed person. Where payment is proposed to be made solely to another person for the benefit of that child, then each case will be individually determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	**A**52A	Would normally require power of attorney, but where not available each case will be individually determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Whether to waive, on compassionate grounds, the actuarial reduction applied to deferred benefits paid early under **B**30	**B**30(5)*	Not to waive actuarial reduction on compassionate grounds
Whether to grant an application for early payment of a suspended tier 3 ill health pension on or after age 55 and before age 60	**B**30A(3)*	To take the advice of the Fund IRMP, before any decision is made
Whether to waive, on compassionate grounds, the actuarial reduction	**B**30A(5)	Not to waive actuarial reduction on compassionate grounds

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Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
applied to benefits paid early under **B**30A		
Whether to require any strain on Fund costs to be paid "up front" by employing authority if the employing authority "switches on" the 85 year rule for a member voluntarily retiring prior to age 60, or waives an actuarial reduction on compassionate grounds under **TP**Sch2, para 2(1)	**TP**Sch 2, para 2(3)	The strain on Fund costs to be paid up front following waiver of any actuarial reduction on voluntary retirement or on compassionate grounds unless the Fund Actuary advises otherwise.
Decide whether deferred beneficiary meets permanent ill health and reduced likelihood of gainful employment criteria	**B**31(4)	To take the advice of the Fund IRMP, before any decision is made
Decide whether a suspended ill health tier 3 member is permanently incapable of undertaking any gainful employment	**B**31(7)	To take the advice of the Fund IRMP, before any decision is made
Decide to whom death grant is paid	**B**23(2) & **B**32(2) & **B**35(2) & **T**Sch1 & **L**155(4)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500, determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice

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Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
		Chair of the Pensions Committee
Decide evidence required to determine financial dependence of cohabiting partner on fund member or financial interdependence of cohabiting partner and fund member	**R**Sch1 & **TP**17(9)(a)	Require evidence of co-habitation and financial interdependence in accordance with the criteria set
Decide to treat child (who has not reached the age of 23) as being in continuous education or vocational training despite a break	**R**Sch1 & **TP** 17(9)(a)	Adopt this discretion
Decide whether to trivially commute a member's pension under section 166 of the Finance Act 2004	**B**39(1)(a) & **T**14(3)	To do so at the member's request
Decide whether to trivially commute a lump sum death benefit under section 168 of the Finance Act 1994	**R**39(1)(b)	To do so at the beneficiaries request
Decide whether to pay a commutation payment under regulations 6 (payment after relevant accretion), 11 (de minimis rule for pension schemes) or 12 (payments by larger pension schemes) of the Registered Pension Schemes (Authorised Payments) Regulations 2009 (excludes survivor pensions and pension credit members).	**R**39(1)(c)	To commute payment where requested by the member and in accordance with the guidance of the Government Actuary.
Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled	**B**42(1)(c)	Always pay the highest benefit to a member of the fund

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Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
to a benefit under 2 or more regulations in respect of the same period of Scheme membership		
Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre01/04/08)	**T**Sch 1 & **L**23(9)	Always pay the highest benefit to or on behalf of a member of the fund

* These are matters about which the regulations require there must be a written policy.

Discretions under the Local Government Pension Scheme Regulations 1997 (as amended) in relation to:

- active councillor members, and
- councillor members who ceased active membership on or after 1 April 1998, and
- any other fund members who ceased active membership on or after 1 April 1998 and before 1 April 2008 being discretions under:

- the Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [prefix TP]
- the Local Government Pension Scheme Regulations 2013 [prefix R]
- the Local Government Pension Scheme Regulations 1997 (as amended)

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
Frequency of payment of councillors' contributions	12(5)	Determined that councillors are not eligible for membership of the CLGPS

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Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Decide to whom death grant is paid in respect of post 31 March 1998. / pre 1 April 2008 leavers	38(1) & 155(4)	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Decide to treat child (who has not reached the age of 23) as being in continuous education or vocational training despite a break.	**TP**17(9)(a) 7 **R**Sch 1	Adopt this discretion
Apportionment of children's pension amongst eligible children.	47(1)	Adopt this discretion
Pay child's pension to another person for the benefit of the child.	47(2)	The Fund would ordinarily pay child pension benefits into a child's own bank account or to a joint account with the nominees being the child and another appointed person. Where payment is proposed to be made solely to another person for the benefit of that child, then each case will be individually determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Decide whether to trivially commute a member's pension under section 166 of the Finance Act 2004 (includes pre 1 April 2008 leavers or Pension credit members where the effective date of the Pension Sharing Order was pre 1 April 2014 or where the effective date is after 31 March 2014 but the debited	49(1) & T14(3)	To do this at member's request

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Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
member had no post 31 March 2014 membership.		
Decide whether to trivially commute a lump sum death benefit under section 168 of the Finance Act 2004	49(1)	To do this at the beneficiaries request
Decide whether to commute benefits due to exceptional ill-health (including Pension Credit members where the effective date is after 31 March 2014 but the debited member had no post 31 March 2014 membership	50 and 157	Adopt this discretion
Whether to require any strain on Fund costs to be paid "up front" by employing authority following early payment of a deferred benefit on health grounds or from age 50 and prior to age 55 with employer consent.	80(5)	The strain on Fund costs to be paid up front following early payment of deferred benefits with employer consent unless the Fund actuary advises otherwise
Whether to require any strain on Fund costs to be paid "up front" by employing authority if the employing authority "switches on" the 85 year rule for a member voluntarily retiring on or after age 55 and prior to age 60, or waives an actuarial reduction on compassionate grounds under **TP**Sch2 para 2(1)	**TP**Sch 2, para 2(3)	The strain on Fund costs to be paid up front following early payment of benefits with employer consent unless the Fund actuary advises otherwise
Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits (pre 01/04/08 leavers)	89(3)	Adopt this discretion
Timing of pension increase payments by employers to fund.	91(6)	Pension increase payments will be invoiced monthly, quarterly or annually dependant on circumstances

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Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
Whether to pay the whole or part of the amount that is due to the personal representatives (including anything due to the deceased member at the date of death) to: • personal representatives, or • anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less that amount specified in s6 of the Administration of Estatees (Small Payments) Act 1965.(death of pre 01/04/08 leaver)	95	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Approve medical advisors used by employers.	97(10)	Delegated to the employer
Whether to extend six month period to lodge a stage one IDRP appeal	**TP**23 & **R**74(4)	At the discretion of the adjudicator making stage one IDRP decision
Decide procedure to be followed by adjudicator when exercising stage one IDRP functions and decide the manner in which those function are to be exercised	**TP**23 & **R**74(6)	Procedure laid down in the IDRP employers guide
Decide procedure to be followed by administering authority when exercising its stage two IDRP functions and decide the manner in which those functions are to be exercised.	**TP**23 & **R**76(4)	Procedure laid down in the IDRP employers guide
Whether administering authority should appeal against employer decision, or lack of a decision.	**TP**23 & **R**79(2)	Will decide this depending on the particular circumstances

APPENDIX A - 8. DISCRETIONS POLICY

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
Whether to extend 6 month period for an administering authority to lodge an appeal against an employer decision.	**TP**23, & **R**79(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable administering authority to discharge its functions	**TP**23, **TP**22(1) & **R**80(1)(b)	Information to be supplied in accordance with the approved administration strategy set out in the Scheme policy document
Date to which benefits shown on annual deferred benefit statement are calculated	106A(5)	Benefits to be based as at 31 March
Abatement of pensions following re-employment	109* & 110(4)(b)	Not to abate pension following re-employment
Retention of Contributions Equivalent Premium where member transfers out.	118	Adopt this discretion
Discharge Pension Credit liability.	147	Depending on individual circumstances

*These are matters about which the regulations require there must be a written policy.

Discretionary policies in relation to scheme members who ceased active membership before 1 April 1998:

- LGPS Regulations 1995 [Prefix TL]
- The Local Government Pension Scheme (Transitional Provisions) Regulations 1997 [Prefix TL]
- The Local Government Pension Scheme Regulations 1997 (as amended) [Prefix L]
- The Local Government Pension Scheme (Administration) Regulations 2008 [Prefix A] LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 [Prefix TP]
- The Local Government Pension Scheme Regulations 2013 [Prefix R]

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
Decide to whom death grant is paid.	E8	To generally pay in accordance with expression of wish or letters of administration but to retain absolute discretion in all cases where there are exceptional circumstances. Cases under £500 are determined

APPENDIX A - 8. DISCRETIONS POLICY

Discretion	Regulation	Discretion made by Cumbria County Council as Administering Authority
		by the Senior Manager – Pension & Financial Services with cases over £500, determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Whether to pay spouse's pensions for life (rather than ceasing during any period of remarriage or co-habitation)	F7	To adopt this discretion
Decide to treat child (who has not yet reached the age of 23) as being in continuous education or vocational training despite a break.	**TP**17(9)(a) & **R**Sch 1	Adopt this discretion
Apportionment of children's pension amongst eligible children.	G11(1)	Adopt this discretion
Pay child's pension to another person for the benefit of the child.	G11(2)	The Fund would ordinarily pay child pension benefits into a child's own bank account or to a joint account with the nominees being the child and another appointed person. Where payment is proposed to be made solely to another person for the benefit of that child, then each case will be individually determined by the Director of Finance (S151 Officer) in consultation with the Chair and Vice Chair of the Pensions Committee
Whether to extend six month period to lodge a stage one IDRP appeal	**TP**23 & **R**74(4)	At the discretion of the adjudicator making stage one IDRP decision
Decide procedure to be followed by adjudicator when exercising stage one IDRP functions and decide the manner in which those functions are to be exercised	**TP**23 & **R**74(6)	Procedure laid down in the IDRP employers guide
Decide procedure to be followed by administrating authority when exercising	**TP**23 & **R**76(4)	Procedure laid down in the IDRP employers guide

APPENDIX A - 8. DISCRETIONS POLICY

Discretion	**Regulation**	**Discretion made by Cumbria County Council as Administering Authority**
stage two IDRP functions and decide the manner in which those functions are to be exercised		
Whether administering authority should appeal against employer decision (or lack of a decision)	**TP**23 & **R**79(2)	To review each case individually
Whether to extend six month period for an administering authority to lodge an appeal against an employer decision.	**TP**23 & **R**79(3)(b)	Exercised by the Secretary of State
Specify information to be supplied by employers to enable administering authority to discharge its functions.	**TP**23, **TP**22(1) & **R80**(1)(b)	Information to be supplied in accordance with the approved administration strategy set out in the Scheme policy document

APPENDIX A - 9. TRAINING POLICY

9.0 TRAINING POLICY

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9.0 CUMBRIA LGPS TRAINING POLICY

9.1 Introduction

A major factor in the governance arrangements of the Fund is ensuring committee members and officers have the relevant skills and knowledge. The Public Service Pensions Act 2013 provides for the regulation of the LGPS by the Pensions Regulator and, accordingly, an increased emphasis on trustee training.

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

- the Members of the Pension Committee and the Investment Sub-Group;
- the Members of Cumbria Local Pension Board; and
- officers of Cumbria CC responsible for the management of the Local Government Pension Scheme (LGPS).

The Training Policy is established to aid Members of the Pension Committee in performing and developing personally in their individual role in achievement of the collective responsibility of the Committee. The requirement of the Committee is to ensure that Members be able to demonstrate that collectively they have the required knowledge and skills to make appropriate decisions and offer challenge, and that Officers are adequately trained and experienced to undertake the day to day operation and management of the Fund.

The code of practice no. 14 – Governance and administration of public service pension schemes issued by the Pensions Regulator in April 2015 contains practical guidance for fund managers and pension board members. The code sets out standards of conduct and practice expected of those who carry out functions for public service pension schemes in relation to legal requirements. The legislative requirements about knowledge and understanding outlined in the code only apply to pension board members. It is their individual responsibility to ensure that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the pension board. However, fund managers are expected to take account of the guidance as it offers them support in understanding the legal framework and enables them to help pension board members meet their legal obligations.

On appointment, new Members of the Pensions Committee (including substitutes) and new appointees to the Local Pension Board (including substitutes) are provided with access to the relevant scheme documents including the most recent Annual Report and Accounts. To ensure a minimum level of training is achieved, a senior officer of the Pensions team holds an induction meeting with the new Members (including substitutes) to provide an oversight of the LGPS, details of the Cumbria LGPS and outline the key governance arrangements for the Fund including the responsibilities of Committee and Board members.

The EU directive, MiFID ii (Markets in Financial Instruments Directive), became enforceable in all European Economic Area (EEA) states from 3rd January 2018.

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Following the introduction of MiFID ii from 3rd January 2018, financial institutions were no longer be able to categorise a local authority as a ’per se professional client’. Instead, all local authorities must be classified as a ‘retail client’ unless they were opted up by firms to an ‘elective professional client’ status.

In July 2017, the Financial Conduct Authority (FCA) released details of the opt up criteria which local authority clients must satisfy in order for firms to reclassify them as an elective professional client. The Scheme Advisory Board in association with the Investment Association (IA) subsequently provided a range of supporting documentation for local authorities (in their role as administering authorities for LGPS pension funds) to support the opt up process.

MiFID ii allows for retail clients which meet certain conditions to elect to be treated as professional clients through an ‘opt up’ process. There are two tests which must be met by the client when being assessed by the financial institution (Investment Manager) - the quantitative and the qualitative test.

One of the qualitative tests indicates that Investment Managers needs to be able to assess whether the Fund as a client can demonstrate their expertise, experience and knowledge, such that the manager can gain reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned. The FCA criteria confirmed that this test could be assessed on an Administering Authority as a collective rather than on specific individuals.

The training policy assists the Fund to ensure that the assessed levels of expertise, experience and knowledge are maintained; in addition the Administering Authority are required to review the information and notify all managers of any changes to the collective circumstance which could affect their status.

9.2 Policy objectives

The Fund’s objectives relating to knowledge and skills are:

- The Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise, and that the knowledge and expertise is maintained in a changing environment
- Those persons responsible for governing the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage conflicts of interest
- Those persons responsible for governing the Fund have sufficient expertise, experience and knowledge, such that the investments managers can gain reasonable assurance that the Fund as the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned. This is required to maintain the Fund’s status as elective professional clients under the EU directive, MiFID ii (Markets in Financial Instruments Directive)

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- The Pension Fund and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund.

To assist in achieving these objectives, the Fund will aim for compliance with the CIPFA Knowledge and Skills Framework and Code of Practice and the public service code of practice issued by the Pensions Regulator (as detailed above).

9.3 Application of the Training Policy

The Training Policy will apply to all elected Members and representatives with a role on the Pension Committee and the Investment Sub-Group, and Officers equal to and above the level of Technical Finance Officer of the Fund regardless of experience. (Officers below this level will have their own sectional and personal training plans and career development objectives).

The Pension Board will be responsible for establishing their own training plan and identifying their individual training needs. Board members of a funded scheme e.g. the LGPS are required to have a working knowledge of documented policies about investment governance, therefore board members will be invited to attend the Member and Officer training and development sessions outlined in the 2020/21 training plan.

9.4 Purpose of training

Investment in training harnesses an individual's potential, focuses on what is to be achieved and provides personal development. As such the purpose of training to both Members and Officers of the Cumbria LGPS is to:

- equip those charged with the oversight and management of the Fund with the necessary skills, knowledge and training, and
- meet the required needs in relation to the Fund's objectives.

9.5 Review and maintenance

This Training Policy is expected to be appropriate for the long-term but to ensure good governance it will be formally reviewed at least annually by the Committee to ensure it remains accurate and relevant.

The Fund's Training Plans will be updated annually, taking account of the results from the Training Needs Evaluations, and on emerging issues. It will be updated with events and training opportunities as and when they become available or relevant to ongoing business or emerging issues.

Key themes for training in 2020/21 will be to:

- Assist with the ongoing development of Border to Coast Pensions Partnership Ltd (BCPP) sub-fund offering, with the other LGPS partner funds to allow Cumbria LGPS to comply with the requirement to pool LGPS assets.
- Review of governance arrangements in response to financial, regulatory and structural changes associated with the ongoing development of investment asset pools.

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- Support Pension Committee Members in respect of the workings of the Joint Committee of the partner funds of BCPP and the requirements of the role as shareholder of the BCPP company.
- Continue to develop the Fund's corporate governance and engagement framework in light of the changes to the Fund's investment managers and the government's continued focus in this area.
- Ongoing training of Officers to ensure they meet the high level of knowledge required to ensure the Fund continues to be well governed and managed and remain compliant with the MiFID ii regulations.
- Keep Members and officers abreast of developments in the wider pensions and investments markets in respect of the governments approach to the implementation of regulation such as:
    - Cost Transparency obligations which are required for inclusion in the financial accounts 2019/20.
    - The UK Stewardship Code 2020 which replaces the 2012 Code; the Fund's statement of compliance with the 2012 code was accepted at Tier 1 for Asset Owners. The changes set out in the new code are substantial and officers are working closely with BCPP and other partner funds to assess the requirements and develop an appropriate and consistent response.

9.6 CIPFA REQUIREMENTS

9.6.1 CIPFA Knowledge and Skills Framework

In January 2010 CIPFA launched technical guidance for Representatives on Pension Committees and non-executives in the public sector within a knowledge and skills framework. The framework sets the skill set for those responsible for pension scheme financial management and decision making.

The Framework covers six areas of knowledge identified as the core requirements-

- Pensions legislative and governance context
- Pension Accounting and auditing standards
- Financial services procurement and relationship development
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practice

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9.6.2 CIPFA Principles of Investment Decision Making and Disclosure

In response to the government's report updating the Myners Principles: A Response to Consultation, Local Government Pension Scheme (LGPS) Administering Authorities are required to prepare and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles replace the 10 Myners principles and the Fund reports its approach to them on a 'comply or explain' basis in the Investment Strategy Statement.

The six high level principles are:

- Effective decision making
- Clear objectives
- Risk and liabilities
- Performance assessment
- Responsible ownership
- Transparency and reporting

9.6.3 CIPFA's Code of Practice on Public Sector Pensions Finance, Knowledge and Skills (the "Code of Practice")

CIPFA's Code of Practice recommends (amongst other things) that LGPS administering authorities -

- formally adopt the CIPFA Knowledge and Skills Framework (or an alternative training programme)
- ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme)
- publicly report how these arrangements have been put into practice each year.

The Cumbria Pension Committee fully supports the CIPFA Code of Practice and adopts its principles.

In the context of LGPS reform, the Code and Framework are seen as meeting the requirements of the Public Sector Pensions Act 2013 and the reform agenda.

9.7 Measurement, Assessment and Training Provision

In order to identify training needs and assess whether we are meeting the CIPFA Framework requirements we will –

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9.7.1 Members:

- Undertake as a Committee and a Board, an annual Training Needs Evaluation exercise. This evaluation will be used to identify both group and individual training gaps.
- Substitute Members will be invited to complete this annual evaluation and training exercise so that they have a base grounding in the LGPS and the requirements placed on themselves as Committee or Board members.
- Where the evaluation highlights that there is a knowledge gap the Committee and Board will undertake either additional internal group be-spoke training or individual external training as appropriate.
- The Committee and Board will as part of the annual Business Plan commit to an outline of internal be-spoke training. This will be focused around either up and coming national changes or internal workloads (e.g. introduction of new asset classes).
- Investment Sub-Group Members – will be expected to obtain an individual level of knowledge and skills in relation to the investment modules of the CIPFA Framework. Support from Officers and the Fund's Independent Advisors will be available as and when required, but always in advance of any decision being taken.
- Report as appropriate in external documentation compliance with knowledge and skills requirements e.g. progress in the Fund's Annual Report and Accounts, and Governance Statement compliance with the CIPFA knowledge and Skills Framework and the CIPFA Principles of Investment Decision Making and Disclosure.

9.7.2 Officers:

All Cumbria LGPS officers with responsibility for administering / managing the LGPS at Technical Finance Officer level or above will be expected to achieve a reasonable level of competence across the topics within the CIPFA Training Needs Assessment for LGPS Practitioners taking account of the requirements of their roles.

9.7.3 Training Provision and Evaluation Cycle

To illustrate this above process see below diagram of the annual training evaluation and programme scheduling:

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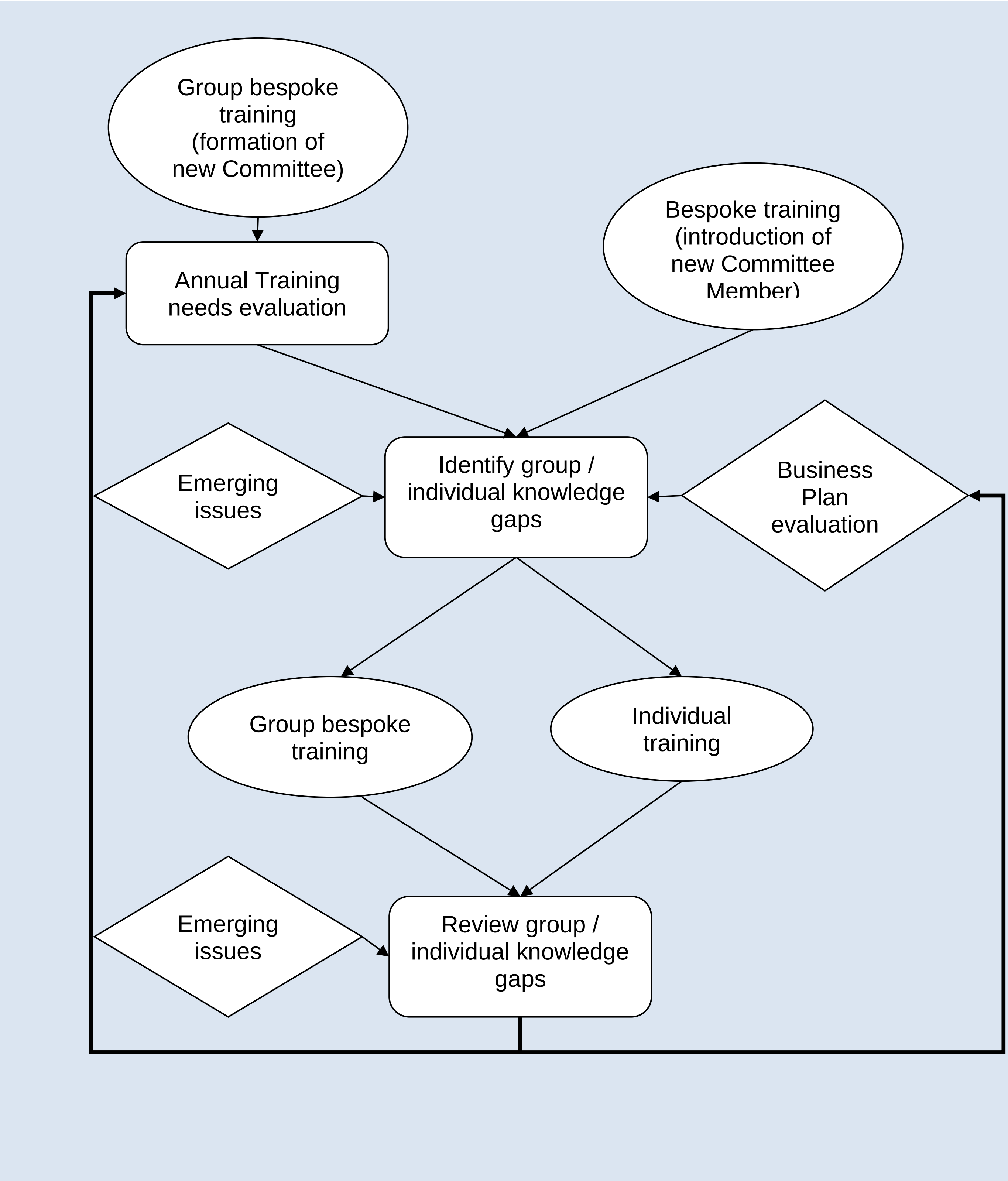

9.7.4 Delivery of Training

Consideration will be given to various training resources available in delivering training to Members of the Pension Committee, Pension Board, Investment Sub-Group or Officers.

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Evaluation will be given to the mode and content of training in order to ensure it is both targeted to needs (based on annual evaluation per paragraph 9.7.1 to 9.7.3) and ongoing requirements (per the Annual Business Plan) and emerging events. It is to be delivered in a manner that balances both demands on Members time and costs. These may include but are not restricted to:

For Pension Committee, Investment Sub-Group and Local Pension Board Members	For Officers
• In-house • Using an Online Knowledge Library or other e-training facilities • Attending courses, seminars and external events • Internally developed training days and pre/post Committee sessions • Shared training with other Schemes or Frameworks • Regular updates from officers and/or advisors	• Desktop / work based training • Using an Online Knowledge Library or other e-training facilities • Attending courses, seminars and external events • Training for qualifications from recognised professional bodies (e.g. IMC/CFA, CIPP, CIPFA,) • Internally developed sessions • Shared training with other Schemes or Frameworks

9.7.5 External Events

Members All relevant external events will be e-mailed to Members as and when they become available. Officers will maintain a log of all events attended for compliance with reporting and monitoring requirements.

Officers attending external events will be expected to report to their direct line manager with feedback covering the following points –

- Their view on value of the event and the merit, if any, of attendance at this event or similar events in the future.
- A summary of the key learning points gained from attending the event, and
- Recommendations of any key issues identified of relevance to Cumbria LGPS to which training would be beneficial to other officers.
- Any other issues arising

Officers attending events will also be expected to provide knowledge sharing with the wider Pensions team at the team meeting following event attendance.

9.7.6 Training Plan (per the Business Plan agreed at Committee March 2020)

The table of training topics below provides a summary of the proposed training programme as highlighted by the Annual Training Needs Assessment. It has been

APPENDIX A - 9. TRAINING POLICY

prepared by taking account of up and coming national legislative / policy changes such as the continued development of BCPP as the Funds chosen vehicle to comply with LGPS Pooling, the further development the Fund's approach to the Cost Transparency regulations for inclusion in the 2019/20 financial accounts, the assessment of requirements of the FRC UK Stewardship Code 2020 and develop an appropriate response, ongoing work specific to LGPS and knowledge gaps identified from the training needs assessment questionnaires which Members returned in December 2019 and January 2020.

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.

Training Topics
The progression of the Cost Transparency agenda, including the availability of accurate information and related reporting requirements.
Awareness of the revised UK Stewardship Code (2020) and how this links to shareholder engagement, responsible investing and the views of the wider community.
The implications of national consultations on the LGPS for example the Scheme Advisory Board's 'Good Governance Review'
LGPS discretions policy and how these are operated in practice.
Roles and powers of the Pensions Regulator and the Pensions Ombudsman.
The implications of Climate Change within Responsible Investment.

As indicated in section 9.7.4 Delivery of Training, where possible the Fund will endeavour to timetable internal training by officers or external presenters to coincide with scheduled meetings of the Committee or Board which are detailed on the schedule below for 2020/21.

Date	Meeting Title and Venue
15 April 2020	Cumbria Local Pension Board in Carlisle
23 June 2020	Quarterly Pensions Committee in Carlisle
2 July 2020	Cumbria Local Pension Board in Kendal
15 & 16 September 2020	Quarterly Pensions Committee in Edinburgh
6 October 2020	Cumbria Local Pension Board in Carlisle
26 October 2020	Annual Pension Forum in Penrith
15 December 2020	Quarterly Pensions Committee in Carlisle

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Date	Meeting Title and Venue
October to December 2020	Annual Training Needs Evaluation
13 January 2021	Cumbria Local Pension Board in Carlisle
30 March 2021	Quarterly Pensions Committee in Carlisle

APPENDIX A - 10. POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

10 CUMBRIA LGPS POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

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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 Cumbria County Council (also known as the 'Scheme Manager' or 'Administering Authority'), in relation to reporting breaches of the law.

10.1.2 Under the Pensions Act 2004 certain persons have a duty to report breaches of the law when there is reasonable cause to believe that:

- A legal duty relevant to the administration of the scheme has not been, or is not being, complied with; and
- The failure to comply is likely to be of material significance to the regulator.

10.1.3 Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.

10.1.4 The duty to report overrides any other duties however it does not override 'legal privilege'. This means that, generally, communications between a professional legal 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 Pension Committee;
- all officers involved in the management of the Fund;
- personnel of the shared service pensions administrator providing day to day administration services to the Fund;
- any professional 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

APPENDIX A - 10. POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

10.2 Requirements

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

10.2.1 Pensions Act 2004

Section 70 of the Pensions Act 2004 requires that certain people must report breaches of the law in writing to The Pensions' Regulator as soon as reasonably practicable and where they have reasonable cause to believe that:

a. a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with: this could relate for instance to keeping records, internal controls, calculating benefits and investment governance and administration matters; and
b. the failure to comply is likely to be of material significance to The Pensions' Regulator (TPR).

The Act states that a person can be subject to a civil penalty, imposed by the Pensions Regulator, if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However, the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal 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.

10.2.3The Pensions Regulator's Code of Practice

Practical guidance in relation to this legal requirement is included in The Pensions Regulator's Code of Practice[5] including in the following areas:

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

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

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10.2.2 Application to Cumbria LGPS ('the Fund')

This policy and procedure has been developed to reflect the guidance contained in The Pensions Regulator's Code of Practice in relation to the Fund and this document sets out how the Fund will strive to achieve best practice through use of a formal reporting breaches procedure.

10.3 The Fund Reporting Breaches Procedure

10.3.1 Introduction

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the Fund. It aims to ensure individuals responsible are able to meet their legal obligations, avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

10.3.2 Clarification of the law

Individuals may need to refer to regulations and guidance when considering whether or not to report a possible breach. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004:
  www.legislation.gov.uk/ukpga/2004/35/contents
- Employment Rights Act 1996:
  www.legislation.gov.uk/ukpga/1996/18/contents
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations):
  www.legislation.gov.uk/uksi/2013/2734/contents/made
- Public Service Pension Schemes Act 2013:
  www.legislation.gov.uk/ukpga/2013/25/contents
- Local Government Pension Scheme Regulations (various):
  http://www.lgpsregs.org/timelineregs/Default.html (pre 2014 schemes)
  http://www.lgpsregs.org/index.php/regs-legislation (2014 scheme)
- The Pensions Regulator's Code of Practice:
  http://www.thepensionsregulator.gov.uk/doc-library/codes.aspx
  In particular, individuals should refer to the section on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the code on 'Maintaining contributions'.

Further guidance and assistance can be provided by the Director of Finance (S151 Officer); Senior Manager: Pensions & Financial Services and the Chief Legal Officer (Monitoring Officer) (see 10.3.3 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).

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10.3.3 Clarification when a breach is suspected

Individuals need to have reasonable cause to believe that a breach has occurred, not just a suspicion. Having 'reasonable cause' to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated. In establishing whether there is reasonable cause to believe that a breach has occurred, it is not necessary for a reporter to gather all the evidence which the Administering authority or the 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 Finance (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 **http://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=150** & **http://councilportal.cumbria.gov.uk/mgCommitteeDetails.aspx?ID=1164** respectively); or
- a member of the Pensions Team (**pensions@cumbria.gov.uk**).

There are some instances where it would not be appropriate to report reasonable suspicions to the above individuals or to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases, The Pensions Regulator should be contacted without delay.

10.3.4 Determining whether the breach is likely to be of material significance

To decide whether a breach is likely to be of material significance an individual should consider the following, both separately and collectively:

- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

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Further details on the above four considerations are provided in Annex A to this procedure.

The individual should use the traffic light framework described in Annex B to help assess the material significance of each breach and to formally support and document their decision.

10.3.5 Referral to a level of seniority for a decision to be made on whether to report

Subject to paragraph 10.3.3 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 Finance (S151 Officer) (or in their absence the Senior Manager – Pensions & Financial Services (Deputy S151 Officer LGPS)) and/or the Chief Legal Officer (Monitoring Officer) (or in their absence the Senior Manager – Legal & Democratic Services) and/or External Audit. They are considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to TPR, where appropriate.

Information may also be available from national resources such as the Scheme Advisory Board or the LGPC Secretariat (part of the LG Group - **http://www.lgpsregs.org/**). If timescales allow, legal advice or other professional advice can be sought.

The matter should not be referred to any of these officers if doing so will alert any person responsible for a possible serious offence to the investigation. If that is the case, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to the Regulator before the submission may be appropriate, particularly in more serious breaches. Before referring to the Pensions Regulator the individual may prefer to approach External Audit for their opinion.

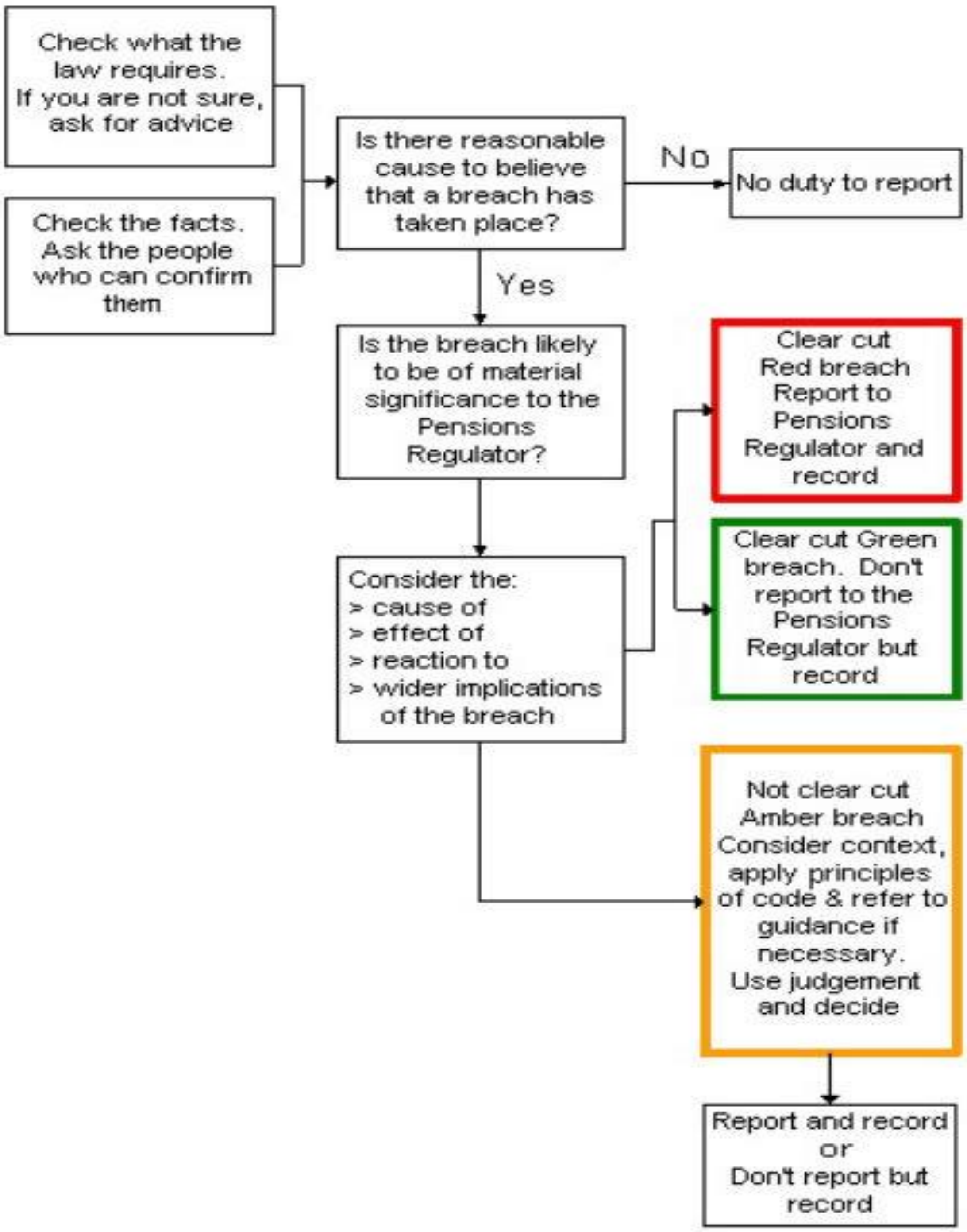
Individuals must bear in mind that the involvement of the Senior Manager – Pensions & Financial Services (Deputy S151 Officer LGPS) and/or the Monitoring Officer is to help clarify the potential reporter's thought process and to ensure this procedure is followed. The reporter remains responsible for 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.

APPENDIX A - 10. POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

Decision-tree: deciding whether to report



APPENDIX A - 10. POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

10.3.7 Timescales for reporting

The Pensions Act and The Pensions Regulator's Code require that if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not rely on waiting for others to report and nor is it necessary for a reporter to gather all the evidence which TPR may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on "reasonable cause to believe" and on "material significance" should be consistent with the speed implied by 'as soon as reasonably practicable'. In particular, the time taken should reflect the seriousness of the suspected breach.

Early identification of very serious breaches: In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, TPR does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty, the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert TPR to the breach.

10.3.8 Recording all breaches even if they are not reported

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). Cumbria County Council will maintain a record of all breaches identified by individuals and reporters should therefore provide copies of reports to the Senior Manager: Pensions & Financial Services (Deputy 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 Pension Committee, and this will also be shared with the Local Pension Board.

10.3.9 Reporting a breach

Reports must be submitted in writing via TPR's online system at www.tpr.gov.uk/exchange, or by post, email or fax, and should be marked urgent if appropriate. If necessary, a written report can be preceded by a telephone call. Reporters should ensure they receive an acknowledgement for any report they send to TPR. TPR will acknowledge receipt of all reports within five working days and may contact reporters to request further information. Reporters will not usually be informed of any actions taken by TPR due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full fund name (Cumbria Local Government Pension Scheme);

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- description of breach(es);
- any relevant dates;
- name, position and contact details;
- role in connection to the fund; and
- employer name or name of administering authority (the latter is Cumbria County Council).

If possible, reporters should also indicate:

- the reason why the breach is thought to be of material significance to TPR;
- fund address (provided at the end of this procedures document);
- administering authority contact details (provided at the end of this procedures document);
- pension scheme registry number (PSR – 10079082); and
- whether the breach has been reported before.

The reporter should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

10.3.10 Confidentiality

If requested, TPR will do its best to protect a reporter's identity and will not disclose information except where it is lawfully required to do so. If an individual's employer decides not to report and the individual employed by them disagrees with this and decides to report a breach themselves, they may have protection under the Employment Rights Act 1996 if they make an individual report in good faith.

10.3.11 Reporting to Pensions Committee and Pension Board

The monitoring report presented to the Pensions Committee and available to the Local Pension Board on a quarterly basis will include details of:

- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates;
- in relation to each breach, details of what action was taken and the result of any action (where not confidential);
- any future actions for the prevention of the breach in question being repeated; and
- highlighting new breaches which have arisen in the last year/since the previous meeting.

This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings). An example of the information to be included in the quarterly report is provided in Annex C to this procedure.

APPENDIX A - 10. POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

10.4 Review and maintenance of the policy:

This policy is expected to be appropriate for the long-term but to ensure good governance it will be formally reviewed by the Cumbria Pensions Committee at least annually to ensure that it remains accurate and relevant. It may be changed as a result of legal or regulatory changes, evolving best practice and ongoing review of the effectiveness of the policy.

APPENDIX A - 10. POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

Annex A

Determining whether a breach is likely to be of material significance

1. To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:

   - cause of the breach (what made it happen);
   - effect of the breach (the consequence(s) of the breach);
   - reaction to the breach; and
   - wider implications of the breach.

2. Where appropriate expert or professional advice should be taken into account when deciding whether the breach is likely to be of material significance to the regulator.

3. The cause of the breach

3.1. Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:

- dishonesty;
- poor governance or poor administration, i.e. failure to implement adequate administration procedures;
- slow or inappropriate decision-making practices;
- incomplete or inaccurate advice; or
- acting, or failing to act, in deliberate contravention of the law.

3.2. When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake.
- whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant N.B. historical information should be considered with care, particularly if changes have been made to address previously identified problems.

4. The effect of the breach

4.1. Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having the appropriate degree of knowledge and understanding, which may result in them not fulfilling their roles, the Fund not being properly governed and administered and/or the administering authority breaching other legal requirements;

APPENDIX A - 10. POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

Annex A

- Conflicts of interest of Committee or Board members, which may result in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the Fund and/or the administering authority breaching legal requirements;
- Inadequate internal controls, which may lead to the Fund not being run in accordance with scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the Fund at the right time;
- Inaccurate or incomplete information about benefits and scheme information provided to members, which may result in members not being able to effectively plan or make decisions about their retirement;
- Appropriate records not being maintained, which may result in member benefits being calculated incorrectly and/or not being paid to the right person at the right time;
- Misappropriation of assets, resulting in scheme assets not being safeguarded; and
- Any other breaches which may result in the scheme being poorly governed, managed or administered.

5. The reaction to the breach

5.1. Where prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, notify any affected members the regulator will not normally consider this to be materially significant.

5.2. A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence;
- are not pursuing corrective action to a proper conclusion; or
- fail to notify affected scheme members where it would have been appropriate to do so.

6. The wider implications of the breach

6.1. Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

APPENDIX A - 10. POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

Annex B

Traffic light framework for deciding whether or not to report

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

RED

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.

AMBER

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.

GREEN

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.

APPENDIX A - 10. POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

Annex B

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

When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. Some useful examples of this is framework is provided by The Pensions Regulator at the following link:
https://www.thepensionsregulator.gov.uk/en/document-library/code-related-guidance/complying-with-the-duty-to-report-breaches-of-the-law

APPENDIX A - 10. POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

Annex B

Example Record of Breaches

Date	**Category** *(e.g. administration, contributions, funding, investment, criminal activity)*	**Description and cause of breach**	**Possible effect of breach and wider implications**	**Response of relevant parties to breach**	**Reported / Not reported (with justification if not reported and dates)**	**Outcome of report and/or investigations**	**Outstanding actions**

APPENDIX A - 11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY

INTERNAL CONTROL & RISK MANAGEMENT POLICY

1. Background

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

1.2. Internal controls are systems, arrangements and procedures that are put in place to ensure that the Fund is being run in accordance with Local Government Pension Scheme regulations and other law. They cover:
- o scheme administration and management,
- o monitoring that administration and management, and
- o the safe custody and security of Fund assets.

1.3. They should include a clear separation of duties, processes for escalation and decision making and documented procedures for assessing and managing risk, reviewing breaches of law and managing contributions to the scheme.

1.4. It is not possible to eliminate all risks. Accepting and actively managing risk is therefore a key part of the risk management strategy.

1.5. Internal controls should address significant risks which are likely to have a material impact on the Fund. A risk-based approach should be taken to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

1.6. A key determinant in selecting the actions to be taken in relation to a risk will be its potential impact on the Fund's objectives in the light of the administering authority's risk appetite. Equally important is striking a balance between the cost of risk control actions against the possible result of the risk occurring.

2. Regulatory requirements and Guidance

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

2.2. **Pensions Act 2004:**

2.2.1. Sections 249A(5) and 249B of the Pensions Act 2004 require that the scheme manager of a public service pension scheme such as the Cumbria Local Government Pension Scheme must establish and operate internal controls. These must be adequate for the purpose of securing that the Fund is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.

APPENDIX A - 11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY

2.3. **The Pensions Regulator:**

2.3.1. In accordance with Section 90(2)(k) of the Pensions Act 2004 the Pensions Regulator has issued a code of practice (09) on internal controls (the Code). This requires Scheme Managers (i.e. administering authorities) such as Cumbria County Council to establish and operate adequate internal controls and that these should address significant risks which are likely to have a material impact on the Fund.

2.3.2. The Code states that, before implementing an internal controls framework, Funds should carry out a risk assessment and produce a risk register which should be reviewed regularly. The impact of a risk on Fund operations and members and the likelihood of it materialising should be considered and Funds should focus on those areas where the impact and likelihood of a risk materialising is high.

2.3.3. Following this consideration of risk, the Code states that Funds should consider what internal controls are appropriate to mitigate the main risks identified and how best to monitor them. This should be a continual process and should take account of a changing environment and new and emerging risks.

2.3.4. Under section 13 of the Pensions Act 2004, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

2.4. **Other relevant guidance**:

2.4.1. CIPFA's publication 'Managing Risk in the Local Government Pension Scheme' (2018 edition)

2.4.2. CIPFA's publication 'Delivering Good Governance in Local Government: Framework' (2016 Edition)

2.4.3. CIPFA's 'Preparing and Maintaining a Funding Strategy Statement in the LGPS' (2016 Edition)

2.4.4. CIPFA's guidance on Investment Pooling and Governance Principles, (published in 2016)

3. <u>Review of policy</u>

3.1. The undertakings set out within this Internal Control and Risk Management policy will be reviewed and published annually.

3.2. This Internal Control and Risk Management Policy was approved at the Cumbria Pensions Committee on 13 March 2020.

APPENDIX A - 11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY

4. Application to the Fund

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

5. Responsibility

5.1. The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Director of Finance (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.

5.2. The Pensions Committee is charged with actively monitoring, on a quarterly basis, progress in relation to controls and actions taken to mitigate risk. Should any major risk emerge between meetings, this will be escalated by Fund Officers to the Chair and Director of Finance (S151 Officer).

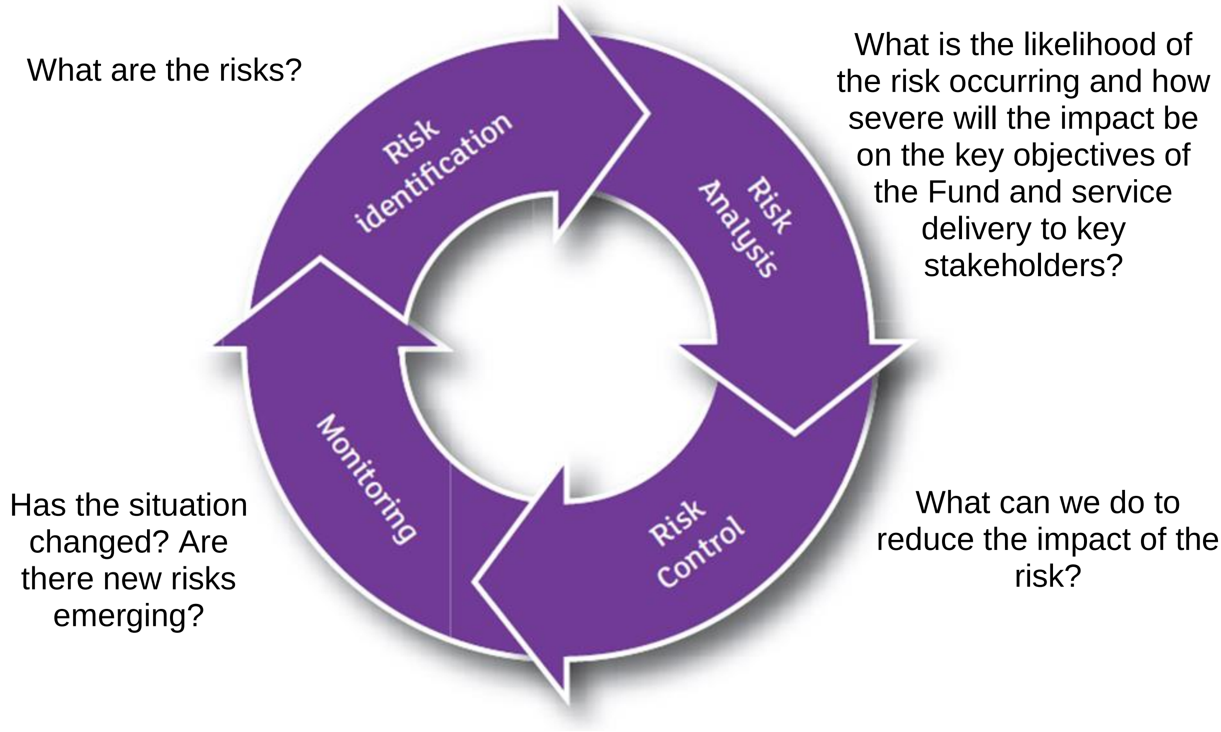
5.3. The Local Pension Board, in its role in assisting the Administering Authority of the Fund to comply with relevant legislative requirements and ensuring the effective governance of the scheme, provides comment on and inputs into the management of risks.

5.4. It is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

6. Process

6.1. The Fund's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections:

APPENDIX A - 11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY



6.2. **Risk Identification:**

6.2.1. Risk identification involves assessing risks in the context of the objectives and targets of the Fund. The risk identification process is both a proactive and reactive one: looking forward i.e. horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the Fund.

6.2.2. Risks to the Fund are identified by a number of means including, but not limited to:

- Formal risk assessment exercises,
- Informal meetings of senior officers or other staff involved in the management of the Fund,
- Findings of External or Internal audit work,
- Performance monitoring (e.g. administrative KPIs),
- Monitoring against the Fund’s Business Plan,
- Feedback from Local Pension Board and / or Pensions Committee meetings or directly from members,
- Liaison with other administering authorities and regional and national groups, including the Scheme Advisory Board, CIPFA, Border to Coast Pensions Partnership Ltd (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.

APPENDIX A - 11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY

6.2.3. Once identified, risks are documented on the Fund's risk register, which is the primary control document for the subsequent analysis and classification, control and monitoring of those risks.

6.3. **Risk Analysis:**

6.3.1. Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the table below.

Impact / Likelihood	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Most severe
5 Very Likely	5	10	15	20	25
4 Likely	4	8	12	16	20
3 Possible	3	6	9	12	15
2 Unlikely	2	4	6	8	10
1 Very unlikely	1	2	3	4	5

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

6.4. **Risk Control:**

6.4.1. The objective of risk management is not to completely eliminate all possible risks but to recognise risks and deal with them appropriately. Everyone connected to the Fund should understand the nature of risk and how the Fund systemically identifies, analyses, treats, monitors and reviews those risks.

6.4.2. Fund officers will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pensions Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls of the Fund could result in any of the following:

- *Risk elimination:* e.g., ceasing an activity or course of action that would give rise to the risk;
- *Risk reduction*: e.g. choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises;

APPENDIX A - 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.

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

6.4.4. Risk appetite: this is the level of risk the Fund chooses to take (or 'accepts') in pursuit of its strategic objectives. The Fund's overarching appetite for risk is conservative and focused on complying with its fiduciary duty and ensuring reliable delivery of quality services to stakeholders. The Fund recognises that it is not possible to completely eliminate all possible risks but seeks to recognise risks and deal with them appropriately. Further details on how this is taken into account in relation to the Fund's Investments can be found in the Investment Strategy Statement (section 4.5.2)

6.5. **Risk Monitoring:**

6.5.1. Risk monitoring is an ongoing part of the risk management cycle and is the responsibility of the Pensions Committee. In monitoring risk management activity, the Pensions Committee will consider whether:

- The risk controls taken achieve the desired outcomes;
- The procedures adopted and information gathered for undertaking the risk assessment were appropriate;
- Greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk; and
- There are any lessons to be learned for the future assessment and management of risks.

6.5.2. Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to internal controls, will be provided to the Pensions Committee and Local Pension Board on a quarterly basis. An example of the summary page of the risk register (as at March 2020) is shown below, indicating the matrix of risk profiles that are considered.

APPENDIX A - 11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY

	PENSION FUND RISKS	Q4	Q1	Q2	Q3	Target	DOT
1	1.1. Information security arrangements	15	15	15	15	10	→
2	1.2. Pensions administration processes	12	12	12	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	n/a	n/a	12	12	9	→
7	1.7 Scam Detection & Prevention	n/a	n/a	n/a	4	4	NEW
8	2.1. Pension Regulator Intervention	5	5	5	5	5	→
9	2.2. Regulatory changes	8	8	8	8	8	→
10	2.3. Financial irregularity	6	6	6	6	6	→
11	2.4 Loss of key personnel	4	4	4	4	4	→
12	2.5. Conflicts of Interest	4	4	4	4	4	→
13	2.6 Operational disaster	4	4	4	4	4	→
14	3.1 Investment performance	8	8	8	8	8	→
15	3.2 Availability of investment opportunities	n/a	n/a	n/a	6	6	NEW

CORPORATE RISK PROFILE
(Risk Score = Likelihood x Impact)

Likelihood \ Impact	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Most severe
5 Very Likely					
4 Likely			1.6		
3 Possible		2.3	1.2		1.1
2 Unlikely		1.3; 1.7; 2.4; 2.5	1.4; 3.2	1.5; 2.2; 3.1	
1 Very unlikely				2.6	2.1

Summary of risk changes since last quarter

New Risks:

- Availability of investment opportunities that enable the Fund to implement its Investment Strategy.
- Ability of the Fund to detect and prevent scams

Removed Risks:

- Cashflow to ensure monthly pensions can be paid
- Flexibility of investment strategy

Amended Risks:

- Reduction in the risk of a failure occurring within YPS having a detrimental effect to Scheme Members

Emerging Risks

- Currently there are no emerging risks of specific significance within the Fund.

APPENDIX A - 11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY

6.5.3. The Pensions Committee and Local Pension Board will be provided with updates on a quarterly basis in relation to any changes to risks and newly identified risks. Should any major risk emerge or significant control failure takes place between meetings, this will be escalated by Fund Officers to the Chair of the Committee and Director of Finance (S151 Officer). Where changes to a risk, a new risk or control failures arise as a result of a breach of the law or indicate a potential breach of the law, the Fund's policy and procedure on reporting breaches of the law must be followed.

6.5.4. Where a risk is identified that could be of significance to the Council it will be recorded in the Corporate Risk Register. Where appropriate the Fund will adhere to the Council's broader risk reporting framework and escalation process.

7. Key risks to the effective delivery of this Policy

7.1.1. The key risks to the delivery of this Policy are outlined below. The Pensions Committee will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pensions Committee and/or Local Pension Board membership, the two Independent 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.

8. Costs

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

APPENDIX B: GLOSSARY

APPENDIX B: 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).*

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

Black-Scholes – Is a pricing model used to determine the fair price or theoretical value for an 'over-the-counter' derivative option based on six variables such as volatility, type of option, underlying stock price, time, strike price, and risk-free rate.

APPENDIX B: GLOSSARY

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.

Call option – see Options contract.

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

CIPFA – Chartered Institute of Public Finance & Accountancy.

Class Action – An action where an individual represents a group in a court claim. The judgment from the suit is for all the members of the group (class). This is often done when shareholders launch a lawsuit against a company, mainly because it would be too expensive for each individual shareholder to launch their own law suit.

Conflicts of Interest - Real or apparent instances where a person or firm has an incentive to serve one interest at the expense of another. Some of these conflicts are inherent in any large, diversified organisation, while others stem from the nature of the services offered to clients. These conflicts are managed through disclosure and with policies and procedures that are designed to protect client’s interests. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties.

Consumer Price Index (CPI) - The rate of increase in prices for goods and services. CPI is the official measure of inflation of consumer prices of the United Kingdom.

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

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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. Open funds with a long term focus commonly hedge 50% of their exposure to mitigate the worst effects that any adverse currency movement would have on the value of the Fund.

Custodian – Organisation which is responsible for the safekeeping of asset, income collection and settlement of trades for a portfolio, independent from the asset management function.

DCLG – Department for Communities and Local Government. In January 2018 this was renamed the Ministry of Housing, Communities and Local Government ("MHCLG").

Defined Benefit – An employer-sponsored retirement plan where employee benefits are assessed based on a formula using factors such as salary history and duration of employment. Public sector pension schemes, including the LGPS, were defined benefit prior to the introduction of the Career Average Revalued Earnings (2014) Scheme.

Defined Contribution – A retirement plan in which a certain amount or percentage of money is set aside each year by a company for the benefit of the employee. There are restrictions as to when and how you can withdraw these funds without penalties. There is no way to know how much the plan will ultimately give the employee upon retiring. The amount contributed is fixed, but the benefit is not.

Derivative – Financial instrument whose value is dependent on the value of an underlying index, currency, commodity or other asset.

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.

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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.

Equity Protection – a product which is designed to protect the value of an equity portfolio, from significant falls in the value of specific equity market indices. These products can cover equities held in more than one country e.g. UK, US and Europe and often utilise derivative options contracts.

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

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

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

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

Fixed Interest Securities – Investments mainly in government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which

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are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

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

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

Gilts – These are the simplest form of UK government bond. A conventional gilt is a bond issued by the UK government which pays the holder a fixed cash payment (or coupon) every six months until maturity, at which point the holder receives his final coupon payment and the return of the principal.

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

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

Index-linked Gilts – UK government stock where the interest payments and the final redemption proceeds are linked to the Retail Price Index. Such stocks provide protection against inflation.

Index-Tracking Fund (Managed Fund) – Pooled investment vehicle which aims to match the returns on a particular market index. The fund may hold all stocks in the index or select a sample that will perform closely to the index. Investors can buy and sell units of the fund on an on-going basis.

Infrastructure - The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

Investment Strategy – Investor's long-term distribution of assets among various asset classes taking into consideration, for example, goals of the investor, attitude to risk and timescale etc.

Liabilities – Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pensions liabilities are the pensions benefits and payments that are due to be paid when someone retires; the LGPS is a 'final-salary' scheme where pension relates to years service and final salary and so the pensions liability can be estimated by the actuary.

Market Value – The price at which an investment can be bought or sold at a given date.

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MHCLG – The Ministry of Housing, Communities and Local Government. Prior to January 2018 this was Department for Communities and Local Government ("DCLG").

Multi-Asset Credit – MAC is a term used for a fund investing in a range of investments that are classed as 'credit' i.e. fixed income, and will often include corporate debt, loans directly to companies, absolute return bonds, emerging market debt, asset-backed securities, real-estate debt and high yield bonds. The MAC fund will aim to be diversified across many asset types (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.

Options contract – this grants to the entity the right, but not the obligation to buy or sell an underlying asset at a set price on or before a certain date. The two terms used to identify the type of option are:

- Call option – gives the holder the right but not obligation to buy an underlying asset
- Put option – gives the holder the right but not obligation to sell an underlying asset

Over-the-Counter (OTC) - A security traded in some context other than on a formal exchange such as the London Stock Exchange, New York Stock Exchange, etc. The phrase "over-the-counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

Passive Management – Portfolio which aims to replicate a particular market index or benchmark and does not attempt to actively manage the portfolio. *(Also see Active Management).*

PIRC – Pensions & Investment Research Consultants

Pooled Investment Fund – A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region. The underlying assets the funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity shares. They are used as an efficient low-risk method of investing in the asset classes.

Pooling – In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale thereby, as requested by DCLG: 'significantly reducing costs whilst maintaining investment performance'.

Portfolio – Block of assets generally managed under the same mandate.

Private Equity – Shares in unquoted companies. Usually high risk, high return in nature.

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Private Equity Secondaries – Shares in unquoted companies that were pre-existing investor commitments to private equity which have since been sold in a secondary market. Usually high risk, high return in nature.

Put option – see Options contract.

Retail Price Index – Measure of price inflation in the UK used as a guide for pensions updating. A basket of representative goods in the market is priced on a regular basis to monitor the rate of inflation. (The Government is also publishing details of the Consumer Prices Index).

Real Estate Debt – Commercial property loans; the debt is secured against commercial property or portfolios of property, eg. hotels, shopping centres, offices.

Resolution Body – Employers who, under Schedule 2 Part 2 of the Local Government Pension Scheme Regulations 2013 (as amended), have the automatic right but not the requirement to be an employer within the LGPS (also referred to as a Designated body).

Return – Increase in value of an investment over a period of time, expressed as a percentage of the value of the investment at the start of the period.

Risk – Likelihood of a return different from that expected and the possible extent of the difference. Also used to indicate the volatility of different assets.

Scheduled Body – Public sector employers or resolution bodies that have an automatic right and requirement to be an employer within the LGPS.

Scheme Employers – employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations (as amended)) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

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

Shareholder Voting - Shareholders are people and organisations who buy shares in UK companies. In large companies, shareholders are overwhelmingly large institutional investors, such as pension funds, insurance companies, mutual funds or similar foreign organisations.

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

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

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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.

Stewardship - The active and responsible planning and management of entrusted resources now and in the longer term, so as to hand them on in better condition.

Stock Lending – Lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

Target – Managers are set a target for investment performance such as 1% above benchmark per year over three year rolling periods.

Triennial Actuarial Valuation – Every three years the actuary formally reviews the assets and liabilities of the Cumbria LGPS Fund and produces a report on the Fund's financial position.

Unit Trust – A specific type of pooled investment fund.

Unquoted (Unlisted) Stock – A company share that is not available for purchase or sale through the stock market.

Venture Capital – Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange.

APPENDIX C: CONTACT US

PENSIONS CONTACT DETAILS: for personal pensions and benefits queries please contact:

Your Pension Service
Cumbria LGPS Team
PO Box 1382,
Preston,
PR2 0WQ

Email: **AskPensions@localpensionspartnership.org.uk**
Telephone: 0300 323 0260

Alternatively, for general LGPS scheme information, consult the website **www.yourpensionservice.org.uk/local-government-scheme/**

ADMINISTERING AUTHORITY CONTACT DETAILS: for any queries relating to the Annual Report and Accounts please contact:

Cumbria County Council
Pensions and Financial Services
Finance Department,
The Parkhouse Building,
Baron Way,
Kingmoor Business Park,
Carlisle,
Cumbria,
CA6 4SJ

Email: **pensions@cumbria.gov.uk**

Telephone: 01228 226565 or 01228 226279

ACCESS TO PENSION COMMITTEE PAPERS: for access to publicly available papers please see the website, or contact:

Cumbria County Council
Corporate, Customer & Community Services
Democratic Services,
Cumbria House,
117 Botchergate,
Carlisle,
CA1 1RD

Web: **https://www.cumbria.gov.uk/council-democracy/yourcouncil.asp**

If you require this document in another format (e.g. CD, audio cassette, Braille or large type) or in another language, please telephone 01228 226565.

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