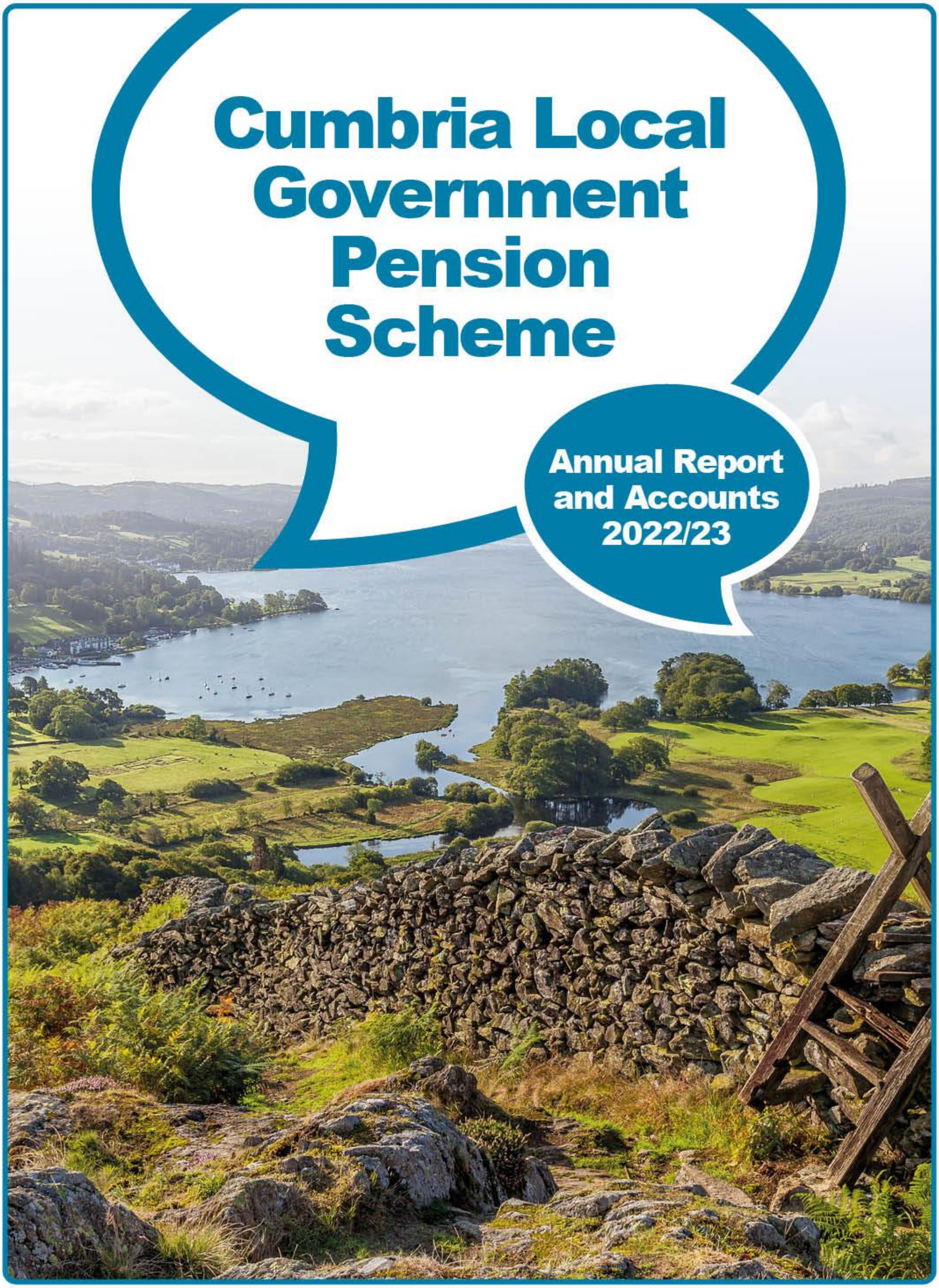
Cumbria County Council

Cumbria Local Government Pension Scheme

Annual Report and Accounts 2022/23



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CUMBRIA LOCAL GOVERNMENT PENSION SCHEME
ANNUAL REPORT AND ACCOUNTS 2022/23

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1. **CHAIR'S INTRODUCTION**

1 CHAIR'S INTRODUCTION

As the new Chair of the Pensions Committee of the Cumbria Local Government Pension Scheme (LGPS) ("Cumbria Pension Fund" or "the Fund") it is my pleasure to present, on behalf of my fellow Members, the Annual Report for 2022/23.

I would like to start this introduction to the 2022/23 Annual Report by extending my thanks to Cllr Mel Worth who acted as the Chair for the Pensions Committee from June 2009 to 31 March 2023, for his work and commitment to the Fund.

The Fund was administered by Cumbria County Council until 31 March 2023 and as a result of Local Government Reorganisation (LGR) within Cumbria the Administering Authority transferred to Westmorland and Furness Council from 1 April 2023. During LGR in Cumbria, the seven legacy Councils covering Cumbria were replaced by two new unitary councils from 1 April 2023 – Westmorland & Furness Council covering the areas of Barrow, Eden and South Lakeland, and Cumberland Council covering the areas of Allerdale, Carlisle and Copeland. Cumbria County Council ceased to exist as at 31 March 2023 and Westmorland & Furness Council became the Administering Authority of Cumbria LGPS from 1 April 2023.

The year ending 31st March 2023 saw the world and investment markets face a series of opportunities and challenges. These included the easing of Covid-19 restrictions in developed economies and the ongoing return to a more familiar, pre-pandemic world. These were offset by the continuation of the Russian invasion of Ukraine contributing to sharp falls in the value of government bonds and highly volatile global markets driven by concerns over high inflation and the respective actions taken in respect of base rates. At the time of writing the conflict in Ukraine is continuing. Our thoughts are with the many individuals directly affected by the conflict.

Despite these challenges, the Fund continued to be managed effectively throughout the year. By having clear long term strategic plans that are underpinned with robust internal performance measurement frameworks and effective governance arrangements throughout, I am pleased to report that 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 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.

2022/23 Summary Key Results:

Investment Portfolio: As at 31 March 2023 the value of the Cumbria LGPS Fund was £3,163m - a decrease of £155m from its value as at 31 March 2022 (£3,318m).

The Pensions Committee is primarily focussed on longer-term performance, and I am pleased to report that the Fund has matched its 5 year benchmark of 5.2% and outperformed both its 3 and 10 year benchmarks (3 year: 7.5% p.a. against a benchmark of 6.9% and 10 year: 7.3% p.a. compared to a benchmark of 6.6%).

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.

A key focus in 2022/23 has been the ongoing implementation of the Fund's Investment Strategy. As at 31st March 2023 the Fund's investments were in line with the agreed interim strategy, and work will continue towards the final target strategic asset allocation. Further details of this revised Target strategy are detailed in the Fund Policy Document – Appendix A to this annual report. The Strategy will be reviewed during 2023/24 to take into account the findings of the 2022 valuation of the Fund which concluded on 31 March 2023.

Pooling of Pension Assets**:** During 2022/23 the Fund continued to increase the value of its assets invested with Border to Coast Pensions Partnership Ltd (BCPP) in accordance with the government's requirement to pool assets in the LGPS. This included the approval of new investment commitments of £300m into BCPP's Infrastructure, Private Equity and Private Credit Funds during the year. The total of the Fund's portfolio which is either directly invested with BCPP or 'indirectly pooled' (i.e. benefitting from a reduced management fee rate because they are considered part of LGPS Pooling arrangements) was approximately 64% of the Fund's total portfolio as at 31st March 2023.

Throughout the year the outgoing Chair of the Pensions Committee continued to enjoy a positive relationship with the Chairs of the Pensions Committees of other Partner Funds of BCPP and I plan to continue to work together with them 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, the then Chair of the Cumbria Local Pension Board, attended one meeting in her capacity as a substitute Scheme Member Representative on the BCPP Joint Committee before standing down from that role later in the year.

Administration Activities: 2022/23 has been another busy year in terms of benefits and administration for the LGPS.

The Fund's pensions' administrator, Local Pensions Partnership – Administration (LPPA), completed 84.5% of pension administration activities within the agreed timeframes. This fell short of the agreed performance target of 95%. This was in part, due to LPPA's migration to a new administration system "UPM", during which time the Fund agreed relaxed performance targets. Officers continue to work with and challenge LPPA to ensure that they return to the high quality service the Fund aims to provided to the 62,278 scheme members and 125 employers within the Fund.

Governance**:** The Cumbria LGPS Local Government Pension Board has had another successful year and their Annual Report is included at page 8.

In November 2022, the Fund launched its new website which includes information for scheme members, employers and other interested parties. This website can be accessed at **www.cumbriapensionfund.org**

During the year the Fund produced its second Stewardship Report under the revised UK Stewardship Code (2020). The 2020 Code sets high expectations on those investing pension fund monies, seeking to set a benchmark for the responsible allocation,

1. CHAIR'S INTRODUCTION

management and oversight of assets to create long term value and lead to sustainable benefits for the economy, the environment and society. I am pleased to report that the Fund's Stewardship report was once again approved by the FRC in April 2023, thereby evidencing the Fund's ongoing Stewardship activities meet the requirements of the 2020 Code.

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.

Looking ahead and summary:

Many of the challenges faced in 2022/23, by the Fund and the LGPS in general, have continued into 2023/24. At a national level the rising cost of living, increasing interest rates and global unrest continue to present uncertainties. From an LGPS-specific perspective a number of changes to national regulatory requirements and statutory guidance (previously anticipated in 2022/23), have been or are expected to be introduced in 2023/24.

At a local level, in addition to adapting to the aforementioned changes and challenges, a key focus for the Cumbria Pension Fund will be seeking to maintain regulatory compliance, deliver good investment performance, achieve sound governance and improve scheme member and employer satisfaction following local government reorganisation in Cumbria. Key areas of focus will be ensuring that strong governance arrangements are in place (including ensuring all involved in governing the Fund are appropriately trained); reviewing the Fund's approach to Responsible Investment as part of a review of its investment strategy; scheme member focused services and communication remain a priority; and performance driven monitoring and active outward facing engagement continues across all activities.

Ultimately, despite challenges, the outlook for the LGPS as a whole, and the Cumbria Fund in particular, remains positive in the medium and long term.

I would like to convey the Committee's thanks to all the council staff involved in administering the Cumbria LGPS as well as LPPA, 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 all of the previous Committee Members for their contributions during 2022/23, and in doing so welcome all of the new Members, from both councils, to form the new Cumbria Pensions Committee, to manage the Cumbria Fund into the future.

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

Cllr. Doug Rathbone

Chair of Cumbria Pensions Committee
August 2023

1. CHAIR'S INTRODUCTION

Information on the work of the Cumbria Pensions Committee can be found The Fund's website at:
https://www.cumbriapensionfund.org/fund-information/the-pensions-committee/

1.1 ANNUAL REPORT OF CUMBRIA LGPS LOCAL PENSION BOARD FOR 2022/23

ANNUAL REPORT OF CUMBRIA LGPS LOCAL PENSION BOARD FOR 2022/23

As Chair of the Cumbria Local Pension Board (LPB) it is my pleasure to present the Annual Report for 2022/23 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 ('CLGPS' or 'the Fund').

On 1 April 2023, following Local Government Reorganisation in Cumbria, Westmorland and Furness Council replaced Cumbria County Council as Administering Authority of CLGPS. As Cumbria County Council was the Administering Authority throughout the period to which this report relates (2022/23), all references hereafter to 'the Council' relate to Cumbria County Council.

The Council's Constitution required 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 were held on a quarterly basis.

Membership

There was one change to the Board's membership during the year. During the year Mrs Kerry Powell left her role with the Lake District National Park Authority and therefore stepped down from her role as an employer representative on the Board. During her time on the Board Mrs Powell had at various times filled the roles of Chair and Vice Chair and I would like to thank her for her contribution to the Board. Following a selection process undertaken in accordance with the Board's Terms of Reference a new employer representative – Mr Gavin Capstick - was appointed to the Board.

Work Programme during 2022/23

2022/23 was another successful year with the Fund launching its new website in November 2022, providing scheme members, scheme employers and other interested parties with key information about the Fund and the wider LGPS: **www.cumbriapensionfund.org**.

Local Pensions Partnership Administration (LPPA) implemented a new pensions administration system ("UPM") during the year. Pensions continued to be paid on time each month and Annual Benefit Statements were issued well ahead of the statutory deadline. Returns on Fund investments continued to outperform their benchmark and the Fund maintained its strong governance arrangements. In addition to this, the Fund's previous year Stewardship report has once again been assessed by the Financial Reporting Council (FRC) as meeting the requirements of UK Stewardship Code.

During the year the Board were apprised of key work undertaken by the Fund, reviewed the governance process around Pensions Committee decisions, and maintained an oversight of the key risks to the Fund – including the new risk around Climate Change and emerging risk relating to Biodiversity Loss.

1.1 ANNUAL REPORT OF CUMBRIA LGPS LOCAL PENSION BOARD FOR 2022/23

Focus remained on improving pension administration arrangements for the benefit of all scheme members and employers of the Fund including the continual improvement programme for the quality of data held by the Fund. Targeted work by officers ahead of the Fund's actuarial valuation at 31 March 2022 to ensure data was as up to date as possible had led to significant improvements and the valuation was completed for the statutory deadline of 31 March 2023.

Training

To support their work on the Local Pension Board, Members continued to maintain and develop their knowledge of the LGPS. Members were able to access a number of training events throughout the year:-

Training	Delivery	Date
CIPFA LPB Conference	External	June 2022
Actuarial Valuation 2022	External	June 2022
Cyber Security & Risk	External	July 2022
TCFD & Climate Metrics; Shareholder Voting; Scheme Advisory Board Update; McCloud/Legal Update & Local Government Reorganisation	Internal/External	September 2022
BCPP Annual Conference	External	September 2022
LGA Fundamentals (over 3 days)	External	Oct/Nov/Dec 2022
Roles & Responsibilities re: LGPS Governance	External	January 2023
LGPS Training Update (over 3 days)	Internal/External	Feb/March 2023
Public Service & Trustee Toolkit	Individual	Ongoing

Looking forward to 2023/24:

The Board's formal Work Plan is reviewed on a quarterly basis allowing for updates for any issues arising. The Plan for 2023/24 includes:

- Reviewing implementation of the fund's Cyber Security Action Plan;
- Quarterly review of the service provision and performance of LPPA through robust monitoring of key pensions administration indicators and attendance at Board meetings;
- Review of governance arrangements in response to financial, regulatory and structural changes, including actions arising from the Scheme Advisory Board's Good Governance Review and Compliance with the Pensions Regulator's new single Code of Practice; and
- 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.

1.1 ANNUAL REPORT OF CUMBRIA LGPS LOCAL PENSION BOARD FOR 2022/23

I would like to convey the Board's thanks to all the Council's staff involved in administering the Cumbria LGPS, staff at LPPA, and our external advisors for their work during this particularly challenging 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 2022/23.

Deirdre Burnet

Chair of the Cumbria LGPS Local Pension Board
13 July 2023

Information on the work of the Cumbria Local Pension Board can be found The Fund's website at:
https://www.cumbriapensionfund.org/fund-information/local-pensions-board/

2. THE LOCAL GOVERNMENT PENSION SCHEME

2 THE LOCAL GOVERNMENT PENSION SCHEME

2.1 REGULATORY BACKGROUND

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

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

Whilst the regulations are set on a national basis, individual Funds are managed by designated administering authorities at a local level. Throughout England and Wales there are 86 such authorities. Cumbria County Council was the Administering Authority for the Cumbria LGPS until 31 March 2023 and as such was responsible for administering the Fund for the benefit of its own employees and the employees of scheduled bodies and admission bodies. The Fund is being administered by Westmorland and Furness Council from 1 April 2023. Full details of the 125 employers participating within the Fund as at 31 March 2023 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 Local Pensions Partnership Administration website at:
https://www.lppapensions.co.uk/members/schemes/local-government-scheme/.

[1] Further details of cost control in the LGPS can be found on the Scheme Advisory Board website at: **https://lgpsboard.org/index.php/projects/cost-management**

2. THE LOCAL GOVERNMENT PENSION SCHEME

2.3 CONTRIBUTION RATES

2.3.1 EMPLOYEE CONTRIBUTION RATES

Employee contribution rates are set by regulation. During 2022/23 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 2022 to 31 March 2023		
If your whole time pay rate is:	You pay a contribution rate of:	50:50 Section
up to £15,000	5.50%	2.75%
£15,001 - £23,600	5.80%	2.90%
£23,601 - £38,300	6.50%	3.25%
£38,301 - £48,500	6.80%	3.40%
£48,501 - £67,900	8.50%	4.25%
£67,901 - £96,200	9.90%	4.95%
£96,201 - £113,400	10.50%	5.25%
£113,401 - £170,000	11.40%	5.70%
Over £170,001	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. Employer contribution rates applicable during 2022/23 were derived from the 2019 valuation of the Fund. For further detail see **section 6.4** of this report.

The Fund was most recently valued as at 31 March 2022 with the results of this valuation setting employer contribution rates for the period 1 April 2023 to 31 March 2026. The next triennial valuation is scheduled to be undertaken based on the assets and liabilities of the Fund as at 31 March 2025.

2.4 REGULATORY CHANGES

There were no material changes to LGPS regulations enacted during 2022/23:

2.5 OTHER MATTERS ARISING IN 2022/23

2.5.1 No new legislation or material regulatory changes were made in 2022/23 affecting the Local Government Pension Scheme however there are a number of areas where work has been progressing at a national level that are expected to affect the Fund in 2023/24 or beyond. A number of these are summarised in the sections below.

2. THE LOCAL GOVERNMENT PENSION SCHEME

2.5.2 Age Discrimination in Public Sector Pension Schemes

In 2015, the Government introduced reforms to public sector pension schemes (similar LGPS reforms were introduced in 2014). 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 remedy to the McCloud case was issued in July 2020 and the Government issued its response to this in April 2023. Following a further technical consultation over the summer of 2023, it is expected that revised Regulations will be laid and implemented on 1 October 2023, backdated to 1 April 2014.

2.5.3 Pension Regulator Codes of Practice

The Pensions Regulator issued a draft Code of Practice in March 2021 consolidating 10 of the 15 existing Codes of Practice (including CoP14 - Governance and Administration of Public Service Pension Schemes) into one new Code, commonly referred to as the General Code.

The Department for Work and Pensions has confirmed that the new Code must be laid in Parliament for 40 sitting days before it passes into law and this is expected during in 2023/24.

2.5.4 Task Force on Climate-Related Financial Disclosures (TCFD)

In September 2022 the Government released a consultation on the governance and reporting of climate change risks. As expected, the proposals set out in the consultation were broadly consistent with the requirements recently introduced in the private sector. Amended regulations and guidance associated with this are expected to be issued in 2024.

3 MANAGEMENT AND FINANCIAL PERFORMANCE

3.1 FUND MANAGEMENT AND ADVISORS

Officers responsible for the Fund

Pam Duke
Director of Finance (Section 151 Officer),
until 31 December 2022

Jo Moore
Interim Director of Finance (Section 151
Officer, until 31 March 2023

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 2023 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 Dr S Haraldsen Mr P Thornton Mr P Turner Mr C Whiteside Mr M Wilson
District Council Elected Member Mr J Mallinson
Trade Union Non-Voting Members Ms T Barber Ms J Wear

Updated details of the membership of the Pensions Committee (including appointed substitutes, should they be required) are available at the following web address:
https://westmorlandandfurness.moderngov.co.uk/mgCommitteeMailingList.aspx?ID=277

Local Pension Board

Details of the membership of the Local Pension Board during the year to 31 March 2023 are set out below. For further details of the role of the Local Pension Board, please see **Section 7.2.4**

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Local Pension Board Members	
Mrs D Burnet (Chair)	– Pensioner member representative
Mrs K Powell until June 2022 (Vice Chair)	– Other Employers representative
Mr G Capstick from June 2022	– Other Employers representative
Lord RJ Liddle (Vice Chair from June 2022)	– Cumbria County Council representative
Mrs K Thomson	– Deferred member representative
Ms K Wilson	– Active member representative
Mr G Archibald	– 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: **https://westmorlandandfurness.moderngov.co.uk/mgCommitteeMailingList.aspx?ID=279**

Investment Managers

Manager	Core Asset Class	Notes
Abrdn Group (previously Aberdeen Standard Investments)	Direct property, cash fund	
Apollo Management International	Multi Asset Credit	
Aviva	Long lease property	
Barings	Private Loan Funds	
BlackRock Investment Management	Alternatives	(to June 2012 – remaining fund held until maturity)
Border to Coast Pensions Partnership Limited (BCPP)	Active UK, Overseas & Global equities, Private Equity, Infrastructure Private Credit and Multi Asset Credit	LGPS Asset Pooling Investment vehicle
CQS	Multi Asset Credit	
Federated Investors	Cash fund	
HealthCare Royalty Partners	Healthcare royalties	
Hearthstone Investments (Langham Hall Fund Mngt)	Residential Property Fund	
Insight Investments	Cash and fixed income funds	To August 2022
JP Morgan	Infrastructure	

3. MANAGEMENT & FINANCIAL PERFORMANCE

Legal and General Investment Management	Passive equities, gilts, cash and currency hedge	
M&G	Real estate debt & long lease property	
Northern Trust	Cash funds	
Pantheon Ventures	Private Equity	
Partners Group	Infrastructure & Private Market Credit	
PIMCO Investment Management	Multi Asset Credit	To November 2022
SL Capital Partners (part of Abrdn Group)	Private Equity Secondaries, Infrastructure	
Unigestion	Private Equity Secondaries	

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

Custodian
Northern Trust Corporation

Additional Voluntary Contribution providers:
Prudential
Scottish Widows
Standard Life
Utmost Ltd

Actuary
Mercer Ltd

Legal Advisers
Cumbria County Council Legal Services
Eversheds Sutherland LLP
Institutional Protection Services (IPS) / Labaton Sucharow (class actions)

Bankers
National Westminster Bank PLC

Auditor
Grant Thornton UK LLP

Performance Monitoring
Northern Trust Corporation
Local Authority Pension Performance Analytics

3. MANAGEMENT & FINANCIAL PERFORMANCE

Independent Advisors
Dr Amarendra (Bob) Swarup, Camdor Global Advisors Ltd
Mrs Clare Scott, Giffordgate Limited

Pensions Administration (a delegated function from Cumbria County Council to Lancashire County Council)
Local Pensions Partnership Administration (LPPA)
Cumbria LGPS Team
PO Box 1382, Preston PR2 0WQ
www.lppapensions.co.uk/contact/
Telephone: 0300 323 0260

Good to know:

You can access details of your pension through PensionPoint (previously My Pension On-Line). Members will need to re-register for the new portal, the link is available at:

https://www.lppapensions.co.uk/members/

3.2 Risk Management

Risk management is the process by which the Council systematically identifies and addresses the risks associated with its activities and 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.

Pensions Committee and Local 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 2023:

The risk register presented to Pensions Committee in March 2023 identified 19 risks to the Pension Fund.

Of the 19 risks in the risk register, there was one risk in the red category (information security arrangements), five identified in the amber category and thirteen in the green category. A summary of the risk register as at 31 March 2023 is shown below at **3.2.2**. Full details of the

3. MANAGEMENT & FINANCIAL PERFORMANCE

red and amber risks are presented in section **3.2.3**. The full risk register is available to view in the Agenda Report pack for the Cumbria Pensions Committee by accessing the following link:
https://westmorlandandfurness.moderngov.co.uk/CeListDocuments.aspx?CommitteeId=440&MeetingId=2485&DF=14%2f03%2f2023&Ver=2
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 2023:

	PENSION FUND RISKS	Q1	Q2	Q3	Q4	Target	DOT
1	1.1. Information security arrangements	15	15	15	15	15	→
2	1.2. Pensions administration processes	6	6	6	9	6	↑
3	1.3. Scheme member communication	4	4	4	4	4	→
4	1.4. Data quality	6	6	6	6	3	→
5	1.5. Payment of contributions	8	8	8	8	8	→
6	1.6. McCloud Judgement	12	12	12	12	9	→
7	1.7 Scam Detection & Prevention	4	4	4	4	4	→
8	2.1. Risk of significant regulatory breach	5	5	5	5	5	→
9	2.2. Regulatory changes	8	8	8	8	8	→
10	2.3. Financial irregularity	6	6	6	6	6	→
11	2.4 Loss of key personnel	4	4	8	8	4	→
12	2.5. Conflicts of Interest	4	4	4	4	4	→
13	2.6 Operational interruption	4	4	4	4	4	→
14	2.7 Local Government Reorganisation	6	6	6	6	6	→
15	3.1 Investment performance	8	8	8	8	8	→
16	3.2 Availability of investment opportunities	6	6	6	6	6	→
17	3.3 Russian invasion of Ukraine	9	9	9	9	9	→
18	3.4 Inflation	9	9	9	9	9	→
19	3.5 Climate Change	n/a	n/a	12	12	12	→

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		2.4	1.6		
3 Possible		2.3	1.2; 3.3; 3.4	3.5	1.1
2 Unlikely		1.3; 1.7; 2.5	1.4; 3.2; 2.7	1.5; 2.2; 3.1;	
1 Very unlikely				2.6	2.1

Summary of risk changes since last report to Pensions Committee

New risks added in Q4:

- No new risks have been added to the risk register in Q4.

Risks removed in Q4:

- No risks have been removed from the register in Q4.

Risk Score Changes in Q4:

- The risk score associated with Pensions Administration Processes (Risk 1.2) has been increased to reflect the performance of LPPA. Whilst the service improved in Q3 (see section 5.1 of the report) Officers will continue with enhanced monitoring and challenge of LPPA until improvements are sustained. Consequently the likelihood score has been increased from 2 "unlikely" to 3 "possible".

Emerging Risks

- Biodiversity loss: refers to the decline or disappearance of biological diversity, understood as the variety of living things that inhabit the planet and it can have direct human health impacts, affecting livelihoods, income and local migration. Biodiversity loss is considered to be caused by five primary drivers: habitat loss, invasive species, overexploitation (hunting/fishing), pollution and climate change associated with global warming. Although the scale and extent is not yet clear and could be influenced by many factors including future regulatory changes, the Cumbria Pension Fund recognise that biodiversity loss should be acknowledged as a key emerging risk.

3. MANAGEMENT & FINANCIAL PERFORMANCE

3.2.3 RED AND AMBER RISKS IDENTIFIED AT MARCH 2023

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 Administration (LPPA) 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 LPPA.
		
		Disclosure of personal data or a data breach leading to financial penalties, liability claims and reputational damage.
			Cumbria Pension Fund:
			
			• 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 Information Security and Data Protection 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 the Data Protection Act 2018 (DPA18).
			• 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.
			
			Cumbria County Council (CCC) – Corporate Risk
			• 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 areas:
			  ◦ GDPR: 'Substantial Assurance' Internal Audit opinion Jun 2019
			  ◦ Cyber Security: 'Reasonable Assurance' Internal Audit opinion Jun 2019
			  ◦ PSN: Annual independent PSN Accreditation confirmed on 5 May 2022
			  ◦ Air gapped (i.e. disconnected network) backup solution fully implemented.
			• All National Cyber Security Centre (NCSC) configuration guidance is adhered to where appropriate and assured as part of the PSN process.
			• All NCSC cyber monitoring tools are implemented.
			• In the event of a Cyber Attack the Administering Authority will notify the appropriate government agencies (including Action Fraud, National Cyber

3. MANAGEMENT & FINANCIAL PERFORMANCE

Risk:	Caused by:	Resulting in:	Mitigated by:

			Security Centre (NCSC) and the Department for Levelling Up, Housing and Communities (DLUHC)) and their guidance will be adhered to. The Fund would never make any payment to a third party claiming responsibility for breaching the Fund's security arrangements.
			
			Local Pension Partnership Administration (LPPA):
			• 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 unauthorised access. Intrusion Prevention Systems are in place and penetration tests are completed annually.
			• LPPA's Cyber Essentials certification has been refreshed.
			• LPPA's 'Secure-Score' has been implemented primarily delivered through:
			  • Increased monitoring alerts and notifications of cyber security events, through use of Microsoft Identity monitoring & Cloud Application Security tooling.
			  • Introduction of control policies which manage detection of unsanctioned applications.
			Reviews of administrative privileges & compliance to Multi Factor Authentication (MFA) Policies.

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Risk:	Caused by:	Resulting in:	Mitigated by:
Pensions' Administration Processes There is a risk of delays in scheme members entering into pension or receiving other services from the Fund in an untimely manner.	Organisational restructure within LPPA, personnel changes and the need for retraining or reduced staffing levels.	Customer dissatisfaction with the service, reputational damage and breaches of law or regulations.	Formal agreement in place with Lancashire County Council for the discharge of pension administration functions through Local Pensions Partnership Administration (LPPA). 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. A similar arrangement is currently being developed for agreement between Westmorland & Furness Council and Lancashire County Council such that the existing arrangements continue after LGR vesting date. Formal quarterly meetings of LPPA and Cumbria LGPS officers to review and consider standards of service provision against LPPA internal performance targets. The Fund is currently undertaking enhanced monitoring due to the current poor performance against the agreed performance targets and in the period during and following the transition between pension administration software within LPPA. This poor performance has resulted in the "likelihood" risk score being increased in Q4 from 2 ("unlikely") to 3 ("possible"). Regular (at least quarterly meeting) of operational group and ongoing dialogue with officers at LPPA throughout the year. LPPA host an annual Client Forum providing officers the opportunity to engage with representatives from other Funds. Next meeting scheduled for 28 February 2023. A Senior Manager from LPPA 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 LPPA over the operation and administration of the pension fund's data are adequate and effective. LPPA also maintains its own internal audit programme and advise Officers of the findings of these reports.

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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; LPPA not having appropriate resource to undertake the work; the Fund having insufficient 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.	A consultation on the proposed resolution to the McCloud judgment was issued by MHCLG in July 2020. A consultation on further draft amendments to the LGPS Regulations is expected early in 2023 with the revised regulations scheduled to come into effect from 1 October 2023. The Fund is reviewing this risk with LPPA through its usual monitoring meetings and is making preparations for managing the additional workloads. The draft 2023/24 budget recommended to Pensions Committee includes an allowance for the additional cost associated with implementing McCloud. Associated software enhancements for McCloud have been paid for during 2022/23.
Russian Invasion of Ukraine There is a risk that the Russian invasion of Ukraine creates turbulence in the investment markets and negatively impacts on assumptions used by the actuary as part of the 2022 valuation which, in turn, could impact onto employer contribution rates payable to the Fund.	Possibly global market turbulence having a significant negative effect on the Funding Value of the Fund and individual employers or by a review of assumptions used by the Actuary in calculating the 2022 valuation.	Possible employer contribution rates increasing at the 2022 valuation or the Actuary proposing a mid-term adjustment to contribution rates before the 2025 valuation.	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 direct holdings in Russia, Belarus and Ukraine are less than 0.1% of the Fund however the impact of Russia's invasion of Ukraine may impact more widely on global investment markets, e.g. due to the impact on fuel and food prices. With the current controls and measures in place, it is not expected that there will be a material impact on the 2022 valuation, although the actuary does have the ability to amend the valuation based on any material impacts to markets up until the valuation is signed off on 31 March 2023. Officers are liaising on a regular basis with the Fund's actuary to assess the potential impact of Russian invasion on the valuation of the Fund. Where appropriate, Officers would give an early warning to employers if it were considered that this would have a material impact on the 2022 valuation of the Fund.
Inflation There is a risk that increased inflation may	Possibly by a forecast of sustained high levels of inflation both in the	Possible employer contribution rates increasing at the 2022	• Investment strategy reviews held at least every three years consider inflation risks and protection from different asset classes. Index linked gilts provide

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Risk:	Caused by:	Resulting in:	Mitigated by:
impact on liabilities which could impact onto employer contribution rates payable to the Fund.	UK and globally having a significant negative effect on the Funding Value of the Fund and individual employers or by a review of assumptions used by the Actuary in calculating the 2022 valuation.	valuation or the Actuary proposing a mid-term adjustment to contribution rates before the 2025 valuation. In addition, there is a risk of divergence between assumed inflation in the actuary's assumptions and actual inflation in the years following the 2022 valuation. This would have the effect of increasing the Fund's liabilities, thereby potentially impacting the funding position as well as the knock-on potential impact on employer contributions at or prior to the 2025 valuation	protection. Some other assets have some inflation linkage e.g. property, infrastructure and debt. • Investment strategy is very diversified. • Actuarial valuation uses discount rate linked to inflation to reduce short-term volatility of funding level and employer contributions. • Quarterly funding updates and regular liaison with Actuary. • Officers are liaising on a regular basis with the Fund's actuary to assess the potential impact of inflation on the valuation of the Fund. They will also continue to monitor inflation and its potential impact going forward. • Officers would give an early warning to employers if it were considered that inflation would have a material impact on the 2022 valuation of the Fund.
Climate Change There is a potential for Climate change to impact global financial markets and investment assets, impacting the value and investment performance of the Fund.	Climate change risk can be grouped into two categories: • Physical risks arising from changes in weather that impact on the economy; and • Transition risks arising from the	Both of these could result in: • Financial market performance being less than expected and / or underperformance from Cumbria's investment managers; and	Investment Strategy: • Many of the current controls and measures in place detailed within Risk 3.1 (Investment Performance) are relevant to the Fund's approach to managing the risk from Climate Change. • The Fund's Investment Strategy Statement and its Stewardship Report set out how the Fund incorporates Environmental, Social and Governance (ESG) factors including climate change into the investment process. • ESG factors, such as climate change can have a material impact on the value of financial assets in the long term. Being a responsible investor and incorporating ESG factors into investment decisions can help to improve the long-term value for investors.

3. MANAGEMENT & FINANCIAL PERFORMANCE

Risk:	Caused by:	Resulting in:	Mitigated by:
	transition to a low carbon economy.	• Societal and economic shifts towards a low-carbon future, which can be linked to policy and regulatory changes, technological risks and stranded assets – and ultimately lead to reputational and legal risks for the Fund. This could result in a material increase in employer contributions at the next triennial valuation.	The Fund considers it appropriate to have a diverse portfolio of assets that can maximise return whilst seeking to mitigate investment risks and it believes that the best way to be a responsible investor and to influence policy change is not through divestment or boycotting specific sectors but through active engagement.

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 2022/23. The Fund will take any appropriate 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 employer's 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. Managers' performance targets are set to balance exposure to risk and required performance. Their performance against target is monitored throughout the year and reported to the Investment Sub Group and Pensions Committee every quarter.

3. MANAGEMENT & FINANCIAL PERFORMANCE

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 2022/23 no specific audits were undertaken associated with the operation of the Cumbria LGPS 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. None of these late payments constituted a material breach and, due to the short durations of the delays in payment, no interest was levied on the overdue amounts.

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.

There were no material breaches of employer statutory obligations to the Scheme in 2022/23 and consequently no breaches were reported to The Pensions Regulator.

The following table sets out employer and employee contributions made during 2022/23 by employers within the Fund. Details of employer contributions as a percentage of pensionable pay are set out in the Actuarial Report on the Fund at **section 6** of this report.

	Employer Contributions* £'000	Employee Contributions £'000
Employers - Scheduled Bodies		
Allerdale Borough Council	1,885	444
Appleby Grammar Academy	161	30

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Barrow Borough Council	1,410	439
Burton Morewood Academy	56	14
Caldew Academy	290	63
Carlisle City	2,401	826
Cartmel Priory Academy	112	25
Changing Lives Learning Trust	705	175
Chief Constables Office	4,091	1,409
Cockermouth Academy	431	95
Copeland Borough Council	1,693	544
Cumbria Academy for Autism	63	25
Cumbria County Council	38,435	13,417
Cumbria Education Trust	1,436	349
Dallam Academy	398	91
Eaglesfield Paddle Academy	76	14
Eden District Council	722	309
Energy Coast UTC	62	29
Furness College	559	194
Furness Education Trust	817	176
George Hastwell Academy	200	47
Ghyllside Academy	126	30
James Rennie Academy	394	99
Kendal College	477	143
Kendal MAT	90	17
Keswick Academy	476	109
Kirkbie Kendal Academy	303	63
Kirkby Stephen Academy	137	24
Lake District National Park Authority	929	373
Lakes College West Cumbria	568	189
Learning for Life Trust	164	36
Lunesdale Learning Trust	507	105
Mater Christi MAT	707	211
Orian	1	62
Queen Elizabeth Grammar Academy	203	41
Richard Rose Academies	580	104
Settlebeck Academy	102	22
South Cumbria MAT	232	62
South Lakeland District Council	2,353	798
Stanwix Academy	114	23
Stramongate Academy	108	22
The Good Shepherd MAT	205	49
The Queen Katherine School Academy	386	76
Trinity Academy	556	122
Walney Academy	193	38
Less than 20 active members	738	208
Total for Scheduled Body employers	**66,652**	**21,741**

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Employers - Admitted Bodies		
Carlisle Leisure	26	39
Greenwich Leisure	33	12
West House	440	135
Less Than 20 Active Members	374	136
Total for Admitted Body employers	**873**	**322**
Total Contributions received	**67,525**	**22,063**

3.3.2 Performance against budget

The expenditure budget for administering the Cumbria LGPS for 2022/23 was £7.478m (excluding pooled fund costs and entry fees and transaction costs). The outturn for 2022/23 was £6.974m resulting in an underspend of £0.504m as detailed below.

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	2022/23 Budget (£)	2022/23 Outturn Actual (£)	Budget v Actual Variance (£'000)
Administration			
- Pensions Administration	1,447	1,499	52
- Employee Costs	346	349	3
- Legal Advice	30	23	(7)
- Other	-	1	1
Administration Total	**1,823**	**1,872**	**49**
Investment Management			
- Fund Management Fees	763	719	(44)
- Fund Management Fees - Border to Coast	3,994	3,556	(438)
- Custody Fees	40	33	(7)
- Pooled Fund Management Fees*	-	7,487	7,487
- Pooled Fund Performance Fees*	-	4,016	4,016
Investment Management Total	**4,797**	**15,811**	**11,014**
Oversight & Governance			
- Employee Costs	408	378	(30)
- Pension Fund Committee	24	26	2
- Pension Board	18	18	0
- Investment consultancy fees	107	48	(59)
- Performance monitoring service	45	41	(4)
- Shareholder voting Service	10	10	0
- Actuarial fees	104	156	52
- Audit fees	41	31	(10)
- Legal & Tax	47	20	(27)
- Other (including bank charges)	54	66	12
Oversight & Governance Total	**858**	**794**	**(64)**
Total Pensions Expenditure	**7,478**	**18,477**	**10,999**
*Excluding pooled fund management, performance and entry costs	-	**(11,503)**	**(11,503)**
Total Net Pensions Expenditure against Budget	**7,478**	**6,974**	**(504)**

* In accordance with CIPFA guidance on accounting for management expenditure, the pooled funds, entry fees and transaction costs are incorporated into the Management expenses within the accounts. For budgetary purposes however these costs were excluded, hence the adjustment shown at the base of the above table to reconcile between the figure for the accounts and the budget outturn as reported to Pensions Committee.

Due to the increasing focus on Investment Management expenses, and the growing proportion of the Fund's investments being held in pooled private market assets the Fund has incorporated a budget for these fees in the 2023/24 Pensions Administration budget.

3. MANAGEMENT & FINANCIAL PERFORMANCE

Good to know:

Total Management expenses paid in 2022/23 (£18,477m adopting CIPFA's 'Management Costs Guidance') equates to 0.58% of the Fund net assets at 31 March 2023.

Narrative on variances:

- **Pensions Administration** - Pensions Administration costs overspent by £0.049m against the budget of £1.823m. This underspend was primarily due to costs associated with informing scheme members about the implications of Local Government Reorganisation (LGR) within Cumbria on the Fund. N.B. Costs related to providing information to those scheme members who were employed by the seven legacy Councils was funded by the LGR implementation reserve and not charged directly to the Pension Fund.

- **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 £4.308m. This equated to £0.489m less than the budget of £4.797m. Pooled Fund and transaction costs (which are not included with the management budget) totalled £11.503m during the year. Due to the increasing focus on Investment Management expenses, and the growing proportion of the Fund's investments being held in pooled private market assets the Fund has incorporated a budget for these fees in the 2023/24 Pensions Administration budget.

- **Oversight & Governance** - The Fund's small underspend of £0.064m against the Oversight & Governance budget of £0.858m related to a number of budget lines. This included staff costs due to a budgeted post being recruited to part way through the year together with lower than anticipated costs relating to actuary, legal and professional advisory costs in 2022/23.

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 when necessary.

3.3.3 Non-Investment Assets and Liabilities

Details of the Cumbria Pension Fund's non-investment assets and liabilities, including any significant changes, are set out in the Pension Fund Accounts in **section 8** of this report.

3.3.4 Analysis of Pool Set up & Ongoing Costs

The expenditure shown at **3.3.2** 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'

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- provides further detail of these costs. These reconcile to the figures in the Fund's 2022/23 accounts as follows:

	2022/23 £'000	2021/22 £'000
Border to Coast costs within accounts:		
Fund management fees *	3,230	3,292
Pooled fund costs (part of 'Alternative' Funds) *	326	183
Total Border to Coast costs within accounts	3,556	**3,475**
Other direct costs of private market investment **	420	291
Minor timing adjustments	-	-
Total costs per below table	**3,976**	**3,766**

* Included in the figures shown in Note 8(a) to the accounts.

** Charged directly to the investment fund as cost of Investment.

In addition, costs disclosed under the Cost Transparency code are detailed in section **4.5.4** for all managers.

Cumbria Pension Fund's Allocation of BCPP Expenditure

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	2022/23 £'000	2021/22 £'000	2016/17 to 2020/21 £'000	Cumulative £'000
Set up Costs				
- Total Implementation costs	-	-	428	428
Other Set up Costs				
- Sub-fund development and projects	223	227	562	1,012
Sub-total Set-up Costs	223	227	990	1,440
Governance and oversight of company				
- Equal allocation to partner funds	398	298	599	1,295
- Allocation on 'assets under management' (AUM)	-	-	70	70
	398	298	669	1,365
Investment Management Fees				
- Direct Sub-fund costs	2,609	2,767	3,449	8,825
- Other direct costs of private Market Investments	326	183	287	796
	2,935	2,950	3,736	9,621
Transition Management Fees				
- Transition manager costs	-	-	171	171
Sub-total Ongoing Costs	3,333	3,248	4,576	11,157
Total Costs	**3,556**	**3,475**	**5,566**	**12,597**
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).*	(2,207)	(1,585)	(3,214)	(7,006)

Estimated savings due to pooling & LGPS discounts:

The Fund's allocation to actively managed listed equity has been invested in the BCPP pool for several years; it is estimated that the pool delivered savings on management fees in 2022/23 for these assets of £0.439m. 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 and multi-asset credit funds.

Taking both the savings generated by the negotiated fee rates and the savings on the actively managed listed equity management fees, the estimated total savings in investment management fees arising from collaboration with pooling partners (including on passive management) were £2.207m in 2022/23, and cumulatively from 2016-17 the savings amount to £7.006m. This figure does not take into account the set-up costs, costs to transfer assets, changes in investment strategy, 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.

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Based on estimates of total investment costs and fees for each of the authorities in the pool (totalling £126m as at March 2015), the proposal outlined potential total savings per annum of between £15m and £27m by March 2021, and between £21m and £39m by March 2024, excluding set-up costs and transition costs.

3.3.5 ANALYSIS OF PENSION OVERPAYMENTS, RECOVERIES AND AMOUNTS WRITTEN OFF

The Cumbria Pension Fund pays approximately 18,500 pensions every month and annual net pensions paid totalled £82.764m in 2022/23 (£79.129m in 2021/22). With such a large volume of pensioner payments, there is the risk of payment to a member of a pension greater than they are entitled to. The main cause of overpayments is the late notification of the death of a pensioner.

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

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

	2022/23		2021/22		2020/21		2019/20		2018/19	
	£	Number of cases	£	Number of cases	£	Number of cases	£	Number of cases	£	Number of cases
Overpayments	63,012	116	61,309	145	62,807	167	72,244	133	114,009	112
Overpayments as % of annual pensions paid	0.08%		0.07%		0.08%		0.09%		0.14%	
Overpayments recovered in year	52,698	95	58,130	140	46,194	159	69,825	131	114,009	112
Overpayments in process of recovery	9,694	21	3,179	5	16,613	8	2,018	2	0	0
Overpayments in process of recovery as a % annual pensions paid	0.012%		0.004%		0.020%		0.003%		0.000%	
Overpayments written off	2,358	19	2,134	5	3,272	3	7,459	7	160	2

3.4 PERFORMANCE AGAINST BUSINESS PLAN 2022/23

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 2022/23 Business Plan have either been completed during the year or are ongoing work that is on track for completion.

In addition to the 2022/23 Business Plan, originally approved in March 2022, the Fund has had to respond to unforeseen activities during the year. These activities include:

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- the impact of preparations for Local Government Reorganisation (LGR) on the Cumbria Pension Fund including the impact on workloads and resources; and

- assessing whether any changes were required to the Fund's Investment Strategy in response to rapidly increasing inflation. The impact of inflation on both the Fund's liabilities and the Actuary's assumptions in relation to the future investment returns were of particular concern, and Officers worked with the Independent Advisors and the Fund's Actuary to consider these (an Investment Strategy 'sense-check'). The conclusion was that no changes to the Fund's long-term asset allocations were required during the year.

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 2023/24

Looking forward to 2023/24, 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

- Working with LPPA to address any pension administration issues associated with Local Government Reorganisation (LGR) in Cumbria.

- 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;

- Embedding the new pensions administration system ("UPM") used by LPPA into the Fund

- 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; and

- Maintaining effective communication and liaison with Fund employers to meet the data requirements of The Pensions Regulator.

Investment Management

- Undertaking a full Investment Strategy Review to consider the key outcomes of the 2022 actuarial valuation and their implications for the Fund.

- Continuing to investigate and implement suitable investment options to implement the current investment strategy, and in addition, any revisions following agreement of the 2023 Investment Strategy Review;

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- Monitoring progress in moving towards the final target Investment Strategy and keep its ongoing suitability under review; and
- Liaising with Border to Coast Pensions Partnership Ltd (BCPP) to ensure that suitable opportunities exist within the pool for the Fund to transition to its amended Investment Strategy.

Oversight & Governance

- Addressing any issues associated with the governance of Cumbria Pension Fund resulting from Local Government Reorganisation (LGR);
- Completion of the 2022/23 Cumbria LGPS Annual Accounts and Annual Report incorporating any new regulatory/technical changes;
- Reviewing governance arrangements in response to financial, regulatory and structural changes;
- Reviewing and updating Fund risks, policies and strategies; and
- Reviewing, measuring and delivering training to Members and Officers as outlined in the Training Plan.

The Fund's work plan will be reviewed and amended where appropriate to ensure it addresses any relevant issues arising, including impacts from the ongoing volatility in global markets driven by concerns over high inflation and the respective actions taken in respect of base rates.

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 Administration (LPPA). This is a not for profit arrangement providing pension administration services to the public sector. LPPA's performance against key pension administration indicators in 2022/23 for Cumbria LGPS was 84% against a target of 95% as set out in the table below.

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Indicator	Target %	Actual 2022/23 %	Actual 2021/22 %	Actual 2020/21 %
Estimate benefits within 10 working days	95	**80**	97	100
Payment of retirement benefits within 10 working days	95	**82 *a** **89 *d**	93 *a 96 *d	98 *a 100 *d
Payment of death benefits within 10 working days	95	**88**	96	98
Respond to general correspondence within 10 working days of receipt	95	**96**	99	99
Action transfers out within 15 working days	95	**77**	95	100
Action transfers in within 10 working days	95	**79**	97	100
Pay refunds within 10 working days	95	**84**	99	100
Amend personal records within 10 working days	95	**92**	99	99
Total LPPA casework	95	**84**	98	99

**a = actives *d = deferred*

LPPA moved clients to new administration software during 2022, starting in January, with a second phase of clients, including Cumbria Pension Fund being onboarded in December 2022. The Fund anticipated that delivery against performance standards may become challenging for LPPA during these transition periods. In recognition of this, the Fund agreed with LPPA a 3 month period of relaxed targets with LPPA expected to prioritise retirement and death casework. These factors have contributed to reduced performance by LPPA in 2022/23 against targets.

3.5.1 Number of Scheme Members in the Fund

Over the last four years the Fund has seen an 8% increase in the numbers of Scheme Members as detailed below:

Membership Category	31-Mar-23	31-Mar-22	31-Mar-21	31-Mar-20	31-Mar-19
Actives	17,454	17,853	17,370	16,989	16,453
Deferred	25,877	24,280	23,535	24,420	25,202
Pensioners	18,947	18,179	17,506	16,987	16,185
TOTAL	62,278	60,312	58,411	58,396	57,840

3. MANAGEMENT & FINANCIAL PERFORMANCE

During the year 926 scheme members were put into pension. The breakdown of new pensioners is set out in the table below.

Retirement Method	Active Members	Deferred Members	Total
Ill Heath	21	3	**24**
Normal Retirement	32	296	**328**
Early Retirement	200	258	**458**
Late Retirement	67	49	**116**
TOTAL	**320**	**606**	**926**

3.5.2 Employers in the Fund

As at 31 March 2023, there were 125 employer bodies within the Fund (127 at March 2022). During the year five employers left the Fund, three Academies merged with others (multi-academy trusts) already in the Fund and six new employers joined the Fund.

The table below provides a summary of employers as at 31 March 2023 split between those with and without active members in the Fund.

	Scheduled Bodies	Admitted Bodies	Total
Employers with active members	66	12	**78**
Employers with liabilities but no active members	30	17	**47**
TOTAL	**96**	**29**	**125**

The service standards set and agreed between the Fund and employers are 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 assumptions 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 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; and
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible. This is the context of the Fund's aim to maintain as stable a rate of overall employer contributions (i.e. both primary and secondary employer contributions) as is possible whilst securing the solvency of the Fund and its long term cost efficiency.

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) was in 2022/23 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 Pensions Committee's time and to enable tactical investment decisions to be taken and actioned more nimbly, the Fund operated 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 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**.

At 31 March 2023, Cumbria LGPS's assets were held in custody either by the Fund's independent custodian - Northern Trust (cash) or by investment managers (pooled funds, UK property, some cash, and alternatives). The custodial services include trade settlement and processing, portfolio reporting, income collection and cash management.

A currency hedging account was operated directly with Legal & General until termination during 2022/23. In December 2021, Pensions Committee agreed to the unwinding of the foreign currency hedge, from 50% of equity investments denominated in overseas currencies, to nil. It was anticipated that timing the reduction would be considered in conjunction with the switch of the JPM infrastructure investment into the sterling hedged class (invested globally but previously denominated in dollars).

The unwinding of the foreign currency hedge on public equities took place from February 2022, when the hedge was reduced to only that needed to cover the Fund's investment in the JPM Infrastructure fund (at that time held in a USD share class), up until the date the switch to the GBP share class took place (on 1 July 2022).

Detailed investment performance monitoring is undertaken by Northern Trust. 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 last undertook a comprehensive review of the Investment Strategy in 2019/20 following the completion of the 2019 Triennial Actuarial Valuation of the Fund and the revised Investment Strategy was initially approved by the Cumbria County Council Pensions Committee in December 2019, with the impact of the pandemic on investment returns

4. INVESTMENT POLICY & PERFORMANCE

leading to revisions in March 2021. The Fund then also undertook a "sense check" in 2022 to assess whether any changes would be required to the Fund's Investment Strategy considering the inflationary environment and its impact on both the Fund's liabilities and the Actuary's assumptions in relation to the Fund's future investment returns. The conclusion in September 2022 was that no changes to the Fund's long-term asset allocations were required.

The key principles for the Investment Strategy are:

- Return generation - at a 98.9% funding level (as at the Fund's valuation date of 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.

- Stability for employers - stability of the funding level is 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 and diversified private debt.

- Public equity - 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 2019 review, the focus was on reducing this asset class in favour of assets with a similar expected return but less volatility. However, as expectations for future investment returns overall have reduced since the 2019 review, it was agreed as part of the 2020 interim review that the Fund should continue with the 35% allocation on the basis that this should provide additional return and liquidity for the Fund.

- Illiquidity premium – the Fund is managed as a going concern and can hold long term investments 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 interim asset allocation commenced immediately following Committee approval, recognising that in light of uncertainties affecting the markets investment decisions would be taken in a

4. INVESTMENT POLICY & PERFORMANCE

managed and responsive way, with the following changes being made in the period to 31 March 2023:

- Reducing the Fund's holding in Multi-Asset Credit funds (also known as liquid fixed income) from 14% at the start of the year to 9% at March 2023, investing the proceeds in the Fund's increased strategic allocation to private debt; as the private debt allocation is invested in private markets closed-ended funds it will take some years to grow substantially from 7% at March 2023 and reach the long-term aim of 14% of the Fund;

- Rebalancing between assets to address larger underweights and overweights within the Fund that developed through market movements during the year; in particular to reduce outperforming assets such as the Border to Coast UK Equity fund and Overseas Developed Equity fund and reinvesting these proceeds into index-linked gilts, as this asset had fallen to below the percentage range set for it in the Investment Strategy;

- The selection of suitable investments for the Private Markets portfolio in February 2023, including new investment commitments of £300m made to Border to Coast Pensions Partnership Ltd (BCPP) private markets funds to be launched following the year-end (Border to Coast Infrastructure 2023, Border to Coast Private Equity 2023 and Border to Coast Private Credit 2023); and

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

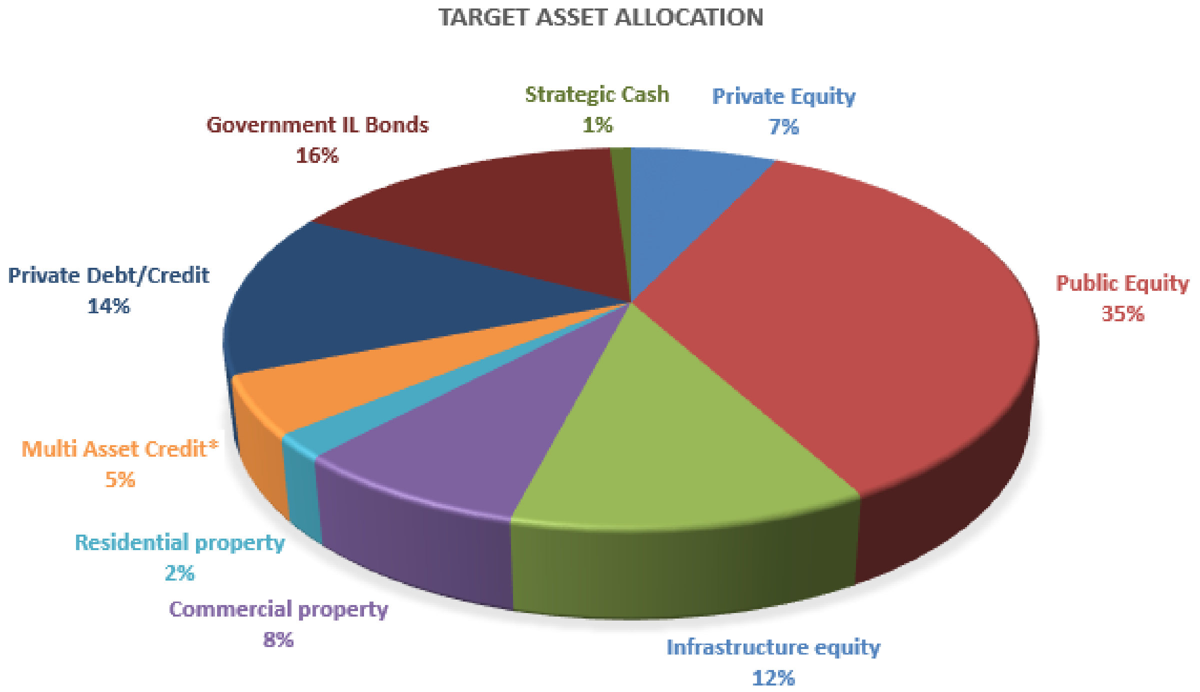
Looking ahead, the continued implementation of changes towards the revised Target Investment Strategy has been incorporated within the Fund's business plan for 2023/24.

Investment asset allocation once the Target 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 as set in the Investment Strategy:

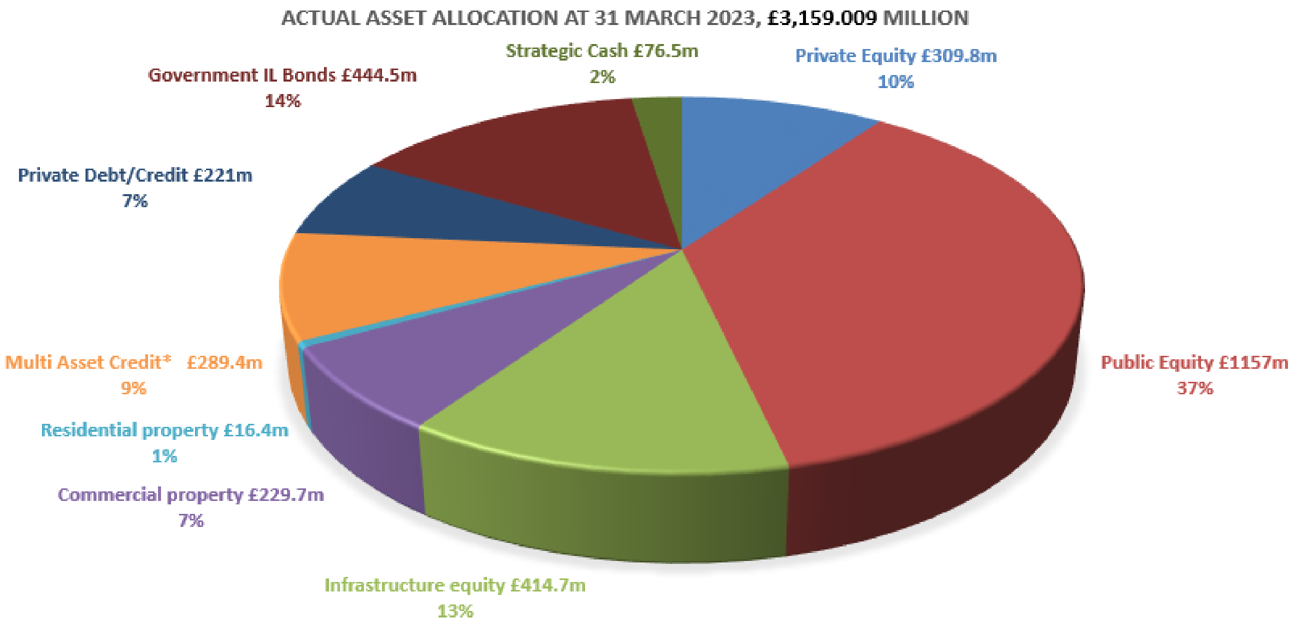
4. INVESTMENT POLICY & PERFORMANCE



* Also known as Diversified Credit

Investment assets as at 31 March 2023:

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

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 2022 and 31 March 2023:

4. INVESTMENT POLICY & PERFORMANCE

	Assets as at 31 March 2022	Assets as at 31 March 2023	Movement
UK Equities	5%	5%	-
Global Equities	25%	27%	2%
Overseas Equities	5%	5%	-
Index Linked Bonds	17%	14%	(3%)
Multi-Asset Credit	14%	9%	(5%)
Alternatives	23%	30%	7%
Property	9%	8%	(1%)
Cash & Derivatives	2%	2%	-
	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 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 and advisory ranges for each asset class can be found in **Appendix A-4.**

The key changes in asset holdings since the start of the year are the impact of increased inflation on the index-linked gilts, and the reduction of multi-asset credit that was used to increase the investments into alternatives. Other changes mainly reflect the relative performance from the asset type and conversion to sterling.

The Fund is temporarily overweight in multi-asset credit (9% versus a long-term target of 5%), 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 private debt (currently 7% with a long-term target of 14%).

As at 31 March 2023 commitments to alternatives (i.e. infrastructure, private equity, private debt/credit) totalled £1,984m which equates to approximately 63% of Fund assets compared to the target ISS allocation to alternatives of 33%.

- It is common practice to commit more than the target allocation to alternatives (or ‘private market investments’) as they are generally for a fixed life or term, and relatively illiquid (i.e. take time to invest), and also tend to distribute income and some capital both during and after the investment period.
- This is reflected in the Fund’s alternatives portfolio of which £1,101m (approximately 35% of Fund assets) had been invested by 31st March 2023 but 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 2023 was £919m).
- The further drawdown of the current committed and as yet unallocated amounts will be funded from the overweight elements, and projections indicate that the Fund should be broadly in line with its target allocation range for alternatives by 2025.

4. INVESTMENT POLICY & PERFORMANCE

Assets held in investment pooling arrangements: As at 31 March 2023, the investments managed by BCPP totalled £1,415.088m, with the remaining £1,743.921m investments managed outside of the pool, as shown in the following table.

Manager	Asset Class	31 March 2022		31 March 2023	
		£'000	%	£'000	%
Investments Managed by Border to Coast Pensions Partnership Ltd					
Border to Coast Global Equity Alpha Fund	Equities	657,893	19.9%	682,461	21.6%
Border to Coast UK Equity Fund	Equities	166,649	5.0%	149,663	4.7%
Border to Coast Overseas Developed Equity	Equities	153,626	4.6%	152,081	4.8%
Border to Coast Multi Asset Credit Fund	Multi Asset Credit	151,951	4.6%	146,913	4.7%
Border to Coast Cumbria LP	Infrastructure Funds	70,791	2.1%	123,899	3.9%
Border to Coast Cumbria LP	Private Equity Funds	66,642	2.0%	108,212	3.4%
Border to Coast Cumbria LP	Private Credit Funds	7,786	0.3%	51,859	1.7%
	Managed by BCPP Pool	**1,275,338**	**38.5%**	**1,415,088**	**44.8%**
Investments Managed outside Border to Coast Pensions Partnership Ltd	**Assets outside Pool**	**2,035,080**	**61.5%**	**1,743,921**	**55.2%**
Total Net Investments		**3,310,418**	**100.0%**	**3,159,009**	**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 **Note 10(a)** of the pension fund accounts **(section 8)**

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

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. 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 a result of this, the number of partner Funds in the pool reduced from 12 to 11 and consequently the Fund increased its unquoted UK equity investment from £0.833m to £0.909m representing the Fund's 1/11th shareholding of the company. Subsequently it has been necessary for BCPP to raise an additional amount of regulatory capital due to the increasing value of the assets under management which increased the Funds shareholding to £1.182m as at 31 March 2023.

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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 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 the unquoted investments 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 annually review its assets 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 2022/23 included updates regarding progress with building the Border to Coast UK Real Estate (property) fund proposals, expected to launch in 2024.

BCPP have a structure for the Fund to invest in private markets i.e. unquoted pooled funds in alternative investments. During 2022/23, Members of the Investment Sub Group supported new commitments totalling up to £300m into BCPP's Private Equity, Infrastructure and Private Credit sub funds (series 2b) to meet the needs of the Fund's strategy. These commitments will be invested in underlying funds chosen by BCPP over three years starting from April 2023.

Details of the BCPP set-up costs, savings to date and expected future benefits are outlined in section **3.3.4**.

4.5 INVESTMENT PERFORMANCE

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

The financial year 2022/23 was mostly focussed on inflationary pressures, easing of Covid restrictions in developed economies, the continuing Russian invasion of Ukraine, and the

4. INVESTMENT POLICY & PERFORMANCE

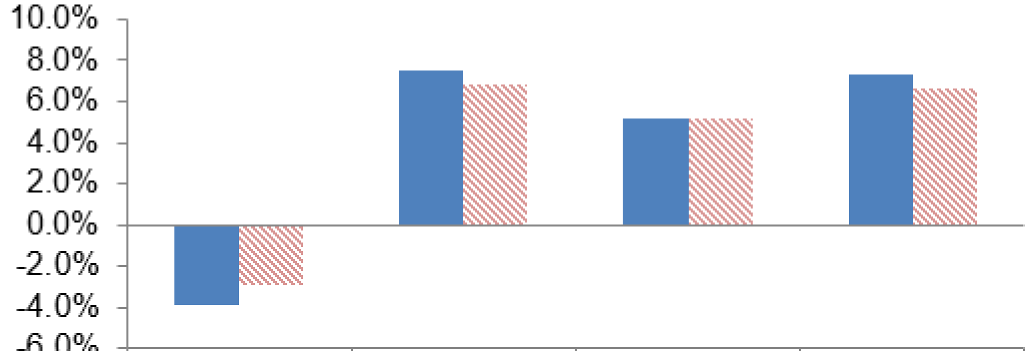
impact of a range of different UK Government policies resulting in a sharp fall in government bonds. The wider global markets experienced a highly volatile year, driven primarily by concerns over high inflation, base rate actions, and the prospect that developed economies could enter into recession.

One-year returns in listed equities were mixed for the 2022/23 period, with the MSCI All Country World Index recording a negative return of -1.4% for the twelve months, and the UK FTSE All Share recording a positive return of 2.9%. Europe recovered somewhat from the initial serious impact in early 2022 of the economic fall-out of the conflict, and the region outperformed the US for the twelve months with a positive return (Europe ex-UK 8.7% vs North America -2.5%).

The impact on other asset classes was varied. Government bond yields rose as higher inflation and increasing interest rates drove bond values downwards significantly through the year, with the UK Over-5 year index-linked gilts index showing a -30.4% return. UK property was also significantly impacted by the higher inflation and interest rates with the MSCI index (UK pension funds below £250m) showing a -13.8% return for the year. Private market assets (i.e. private equity, private debt and infrastructure funds) were the most stable at protecting capital; and outperformed public equities.

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.



	1 yr p.a.	3 yrs p.a.	5 yrs p.a.	10 yrs p.a.
Fund	-3.9%	7.5%	5.2%	7.3%
Benchmark	-2.9%	6.8%	5.2%	6.6%

4. INVESTMENT POLICY & PERFORMANCE

Good to know:

In 2022/23 the Fund outperformed its Fund specific benchmarks for the 3, 5 and 10 year periods.
The investment outperformance for the three year period of 0.7% means that the active management of investments has gained the Fund (after the investment management fees are paid) an average of £22m per year for three years over the 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 Property	(19.0)	2.7	1.7	7.0
Border to Coast UK Equity	4.9	14.0	n/a	n/a
Border to Coast Global Equity	3.7	18.3	n/a	n/a
Border to Coast Overseas Equity	2.3	n/a	n/a	n/a
Border to Coast Multi-Asset Credi	(3.3)	n/a	n/a	n/a
LGIM World Equity	(0.6)	16.9	10.7	11.3
LGIM Index-linked Gilts	(30.6)	(9.2)	(4.1)	1.7

Source: Northern Trust/LGIM
The Fund Manager mandates above cover 60% (£1,908m) of the fund in pooled, 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 2023	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
Equities	1.7	17.0	9.9	10.2
Fixed Income	(30.6)	(9.9)	(6.5)	0.2
Alternatives	6.6	7.6	8.0	9.9
Property	(17.9)	1.9	1.3	6.5
Total Assets	**(3.9)**	**7.5**	**5.2**	**7.3**

Source: PIRC LGPS Universe tables 2022/23
NB: The figures in the above table are based on the initial unaudited accounts prior to an updated valuation of Level 3 investments, primarily for private equity (which is included in 'Alternatives'), decreasing the value of these investments by £3.6m.

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

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Universe constructed by PIRC comprised 63 funds with an aggregate value of almost £243bn.

As previously noted, the Fund is a long-term investor and the primary area of focus in relation to performance is therefore the longer-term (i.e. at least 5 to 10 years). As such, the Fund's performance against the benchmark over the longer term periods of 10 and 20 years to 31 March 2023 is a key indicator. Over this timeframe PIRC assessed the Fund's performance as either matching or very marginally lagging the PIRC LGPS universe:

	10 year	20 Year
Fund	7.3%	8.2%
Universe Average	7.3%	8.4%

Furthermore, PIRC's analysis of risk and return, undertaken over the longer term periods, indicated that these returns were achieved at lower than average levels of volatility. This is illustrated in the following chart which illustrates that the Fund (the red dot) delivered a return equal to the average at a lower than average level of volatility (an efficient outcome):

Fund risk and return – 10 years (% p.a.):

Source: PIRC

Turning to the short-term, PIRC calculated that the average return achieved by its LGPS Universe for the year to 31 March 2023 was -1.6%. The Fund performance for the year (at approx. -3.9% prior to the uplift for increased valuations received) meant that it ranked in the 68th percentile position of the PIRC LGPS universe. The primary driver for this change in relative performance was the Fund's strategic allocation – it's allocation to both Index Linked

4. INVESTMENT POLICY & PERFORMANCE

Gilts and Property were a drag on performance compared with the universe average, both being impacted by the ongoing concerns over inflation and the resultant hikes in interest rates. The Fund's strategy seeks to deliver long-term returns with lower volatility than generally delivered by other strategies with higher allocations to listed equities. The Fund's performance, in what has been another year of high volatility in some markets, indicates that the strategy is performing in line with expectations and requirements.

4.5.4 INVESTMENT FUND MANAGER COSTS AND THE CODE OF TRANSPARENCY

The fund management fees of £11.762m and performance fees of £4.016m shown in the Accounts - **Note 8a** 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 2023, there were approximately 250 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 compliance system aims to make the process of collation more efficient than the previous 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 2022/23 and the 'Additional Costs' disclosed are detailed on the table below.

4. INVESTMENT POLICY & PERFORMANCE

2021/22 £'000	Investment Management Expenses	Accounts Note	2022/23 £'000
	Investment Management Fees through Accounts		
3,271	Public Markets - Management fees	8(a)	2,677
602	Direct Property - Management fees	8(a)	671
7,949	Private Markets - Management fees	8(a)	8,414
11,822	**Total of Management fees**		**11,762**
-	Public Markets - Performance fees	8(a)	-
-	Direct Property - Performance fees	8(a)	-
3,386	Private Markets - Performance fees	8(a)	4,016
3,386	**Total of Performance fees**		**4,016**
-	Public Markets - Transaction / Entry costs	8(a)	-
-	Direct Property - Transaction / Entry costs	8(a)	-
67	Private Markets - Transaction / Entry costs	8(a)	-
67	**Total of Transaction / Entry costs**		**-**
	Additional Costs - through Cost Transparency		
1,509	Public Markets - Other Costs (as described below)		1,794
1,370	Direct Property - Other Costs (as described below)		88
10,019	Private Markets - Other Costs (as described below)		12,875
12,898	**Total of Additional Costs**		**14,757**
28,106	**Total Investment Management Expenses & Costs**		**30,535**

Public Markets – Other costs: The templates received from Public Market managers, including the pooled equity managers and the passive manager 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 £1.794 in 2022/23. These costs were incurred in the course of normal transactions and trading of the portfolios;

- Approximately 28% 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).

Property Markets – Other costs: The Fund's UK directly held property manager has declared costs of £0.088m 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. The value is significantly lower than the 2021/22 due to there being no purchases in year which is when the major costs are incurred.

Private Markets – Other costs: The templates received from the pooled fund Alternative asset managers for 2022/23 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 £12.875m. These costs were incurred in the course

4. INVESTMENT POLICY & PERFORMANCE

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.

Whilst the Byhiras system procured by the LGPS Scheme Advisory Board provides more consistency in the format and completeness of reporting by managers; there remains a number of queries being raised with the managers. It is however expected that 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

Details of the Fund's activities relating to the responsible stewardship of its assets are set out in its Stewardship Report at **Appendix B**, but the below provides a brief overview of the Fund's approach to responsible investment.

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 be a responsible investor and to influence policy change is not through divestment in the first instance but to influence through active engagement and encourage continuous improvement.

Cumbria LGPS takes its responsibilities as an asset owner (shareholder) seriously and 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.

In October 2019, the Financial Reporting Council (FRC) issued an updated UK Stewardship Code (2020). The Fund's 2021/22 Stewardship Report was submitted in October 2022 to the FRC and was once again assessed as meeting the requirements of 'the Code' 2020, the Fund is therefore remains a signatory to the Code and can utilise the respective logo. The Fund's 2022/23 Stewardship Report is included as Appendix B to this report and will once again be submitted for assessment to the FRC. The report has been updated to include current year examples and some enhancements to wording and descriptions have been made in response to the feedback received from the FRC.

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Government legislation regarding implementation of climate reporting obligations in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) has been delayed until 2024. 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 listed as a signatory to the UK Stewardship Code (2020) following the 2021/22 Stewardship Report being assessed as meeting the requirements of 'the Code'. The Fund has compiled a new Stewardship Report for 2022/23 (included as **Appendix B** to this report) which has been submitted to the FRC to be assessed for ongoing compliance.*

Cumbria LGPS's investment managers adhere to principles of good stewardship, and many are already signatories to the UK Stewardship Code (2020) and 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 established 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.

<u>Actively managed listed equities</u>: 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/publications/?_sfm_publication_document_type=Responsible%20Investment%20Policies

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

4. INVESTMENT POLICY & PERFORMANCE

Policy and Guidelines are considered annually by the Partner Funds following input from 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 possibleto 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. Instead, the Fund seeks to ensure that the Fund Manager's Corporate Governance policy reflects the key principles of 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/**

In 2022 BCPP and Legal and General produced Stewardship Reports that were assessed by the FRC and the reports were considered to be compliant with the new Stewardship Code 2020. Like the Fund, BCPP will be seeking compliance for the report covering the 2022/23 financial year within the October 2023 to April 2024 submission window. In addition, both investment managers 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 Pensions Committee. These reports to Committee include full engagement reports as an appendix together with a link to reports on the Fund's website, containing full disclosure of voting activity. The complete committee report packs are available for viewing on the Council's website under meeting minutes. Full disclosure of voting activity is also available on the Cumbria Pension Fund website under 'Share Voting Record':
https://www.cumbriapensionfund.org/forms-publications/

LAPFF: 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 87 local authority pension funds and seven pools from across the UK with combined assets of over £350 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:

- Asia Transition Platform

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- Climate Action 100+
- ESG Data Convergence Initiative (ESDI)
- FCA Vote Reporting Group
- Institutional Investors Group on Climate Change (IIGCC)
- Investment Association
- Investor Mining and Tailings Safety Initiative
- LGPS Cross Pool RI Group
- Local Government Pension Scheme Advisory Board Code of Transparency
- Net Zero Asset Managers initiative
- Occupational Pensions Stewardship Council
- Task Force on Climate-related Financial Disclosures (TCFD)
- Transition Pathway Initiative (TPI)
- UK Pension Schemes RI Roundtable
- United Nations supported Principles for Responsible investment (PRI)
- Workforce Disclosure Initiative (WDI)
- 30% Club

Key voting and engagement issues affecting Cumbria LGPS investments during 2022/23:

Climate change continues to be an area of major focus for companies and their shareholders and is an escalating priority for Scheme Members and employers in the Fund. Along with an increasing emphasis on social issues, the challenges presented by climate change, have been key areas of voting and engagement activities of the Fund and its investment managers.

BCPP published their Net Zero Implementation Plan in October 2022, and have recently published their Responsible Investment and Stewardship Report 2022-23 and an updated Climate Change Policy. They amended their voting guidelines to further strengthen their approach on climate change and support their net zero commitment. They supported a shareholder resolution at the Shell Plc AGM in May regarding setting more demanding greenhouse gas (GHG) reduction targets, along with 20 % of shareholders. BCPP had informed Shell in advance of their voting intentions and will continue to engage with the company. They also supported a shareholder proposal at the BHP Group Ltd AGM requesting that the company include climate sensitivity analysis in its financial statements, along with 19% of shareholders.

Oppose votes were cast on the Fund's behalf across a range of companies in such areas as executive remuneration (for excessive pay or remuneration policies not being linked to long term performance) and re-election of directors (for lack of independence or diversity). Notably the advisory vote on executive pay at the Nike Inc AGM saw significant opposition from shareholders, including BCPP, with dissent from 35% of shareholders (up from 28% in 2021) highlighting an increasing level of scrutiny over their pay practices.

Following consultation with Partner Funds and other stakeholders BCPP selected four priority themes for engagement from 1 April 2022: low carbon transition, waste and water, social inclusion through labour management and diversity of thought. Robeco also undertook active engagement across a range of ESG themes on behalf of BCPP, which included making progress with Nestle SA in its roadmap to mitigate deforestation and harmful plastics and with Anglo American Plc on water security risk which is a major issue for the mining industry.

LAPFF has continued with its active engagement, with details provided to Pensions Committee Members on a quarterly basis. A key area has been a focus on the mining industry, engaging with a range of mining companies over the past four years (Anglo American, BHP, Glencore, Rio Tinto, and Vale). LAPFF published a report on mining and human rights in April 2022 and the Chair visited Brazilian communities affected by tailings dams collapses in August 2022 and met with the Chair of Vale. LAPFF's engagement in this area is ongoing.

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**).

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

Good to know:

During 2022/23 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 Administration (LPPA).

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, regular review meetings between officers from Cumbria LGPS and LPPA.

A key part of the monitoring process is the review of performance against agreed key performance indicators. Details of LPPA performance are provided in **section 3.5** of this report. It is recognised that LPPA performance has been below the required performance targets during the year due partly to the implementation of new pensions administration software. Officers have given a particular focus to constructively challenging LPPA with regard to this to understand the actions that have been taken and are planned to improve service provision.

The Cumbria Fund and Lancashire County Council continue to work together with LPPA to aim for members to 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 LPPA. This includes LPPA website, **www.lppapensions.co.uk**, as a source for members to get information about areas such as the retirement process, combining of service and tax issues. Further information is also available on the Fund's website at **www.cumbriapensionfund.org**.

A further objective of the Fund during 2022/23 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 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 section.

5.2.1 Communication with Scheme Members

Scheme members are encouraged to sign up to PensionPoint, an on-line tool at **https://members.lppapensions.co.uk/membership/register**. This self-serve portal enables scheme members to access and amend information, including:

- Benefit calculators to complete scheme member pension forecasts;
- View annual pension benefit statements;
- Annual Allowance details;
- Scheme member contact details and address details;
- Details of pension the scheme member's fund membership and their records;
- Death grant nomination details; and
- Pension newsletters
- Fund documents, guides, factsheets and leaflets.

For services not available through the PensionPoint portal, the principal way for scheme members to contact LPPA is via their website **www.lppapensions.co.uk/contact/contact-lppa**.

Alternatively, scheme members may contact the LPPA Helpdesk by phone on 0300 323 0260 or by writing to LPPA, PO Box 1383, Preston, Lancashire, PR2 0WR.

In addition, further information relating to Cumbria Pension Fund is also available on Fund's website at: **https://www.cumbriapensionfund.org/**

LPPA also provide a range of training events for scheme members and employers. During 2022/23 the Engagement Team within LPPA carried out a variety of training events, presentations and pension surgeries. The team carried out 16 virtual visits with scheme employers in need of one to one support.

155 delegates from across the Fund's scheme employers attended training provided by the Engagement team on topics including system navigation and monthly contribution returns. Additionally, the Engagement Team provided online scheme essentials presentations attended by over 289 scheme members.

5. FUND ADMINISTRATION REPORT & ADMINISTRATION STRATEGY

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

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

In addition to this, to take advantage of sharing best practice, enhanced training opportunities and so as to benchmark itself against other Funds, the Administering Authority was a subscriber to the following bodies during 2022/23:

- Local Authority Pension Fund Forum (LAPFF);
- CIPFA Pensions Network;
- CIPFA Benchmarking;
- Local Authority Pension Performance Analytics (LAPPA);
- 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 2022/23 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 2022/23 to assess its performance and costs against other LGPS Funds.

Results of this benchmarking exercise have not been received prior to publication of this Annual Report. When available, the Fund will use the benchmarking report to assist in assessing the quality of the service provided by the Fund and any further areas for development.

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. FUND ADMINISTRATION REPORT & ADMINISTRATION STRATEGY

5.5 Data Quality

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

The Fund completed its annual Scheme Return to The Pensions Regulator in November 2022 including data quality scores. Using the scoring mechanism as set out by The Pensions Regulator, as at 31 March 2023 the Fund was reporting that 97.7% (98.0% at March 2022) 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 92.8% (95.3% at March 2022) present and accurate.

In recognition of the importance of data quality, the Fund's risk register includes a specific risk – that member data is incomplete or inaccurate – which is reported 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 can normally be dealt with swiftly by contacting LPPA, 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 LPPA website at the following web address:
https://www.lppapensions.co.uk/ and downloading the guide entitled '**IDRP Employee's Guide**' from the "Members, Active, Deferred & Pensioner" section then the "Guides, Leaflets and Forms" tab. Alternatively LPPA can be contacted by telephone on 0300 323 0260.

The Fund undertook 13,238 calculations/enquiries during 2022/23 and received 97 complaints (equivalent to 0.7% of cases completed in 2022/23).

Additionally, the Administering Authority received 3 new Stage 1 Internal Dispute Resolution Procedure (IDRP) appeals in 2022/23. There were no appeals that had reached Stage 2 of the process. The Ombudsman also issued opinions on 2 appeals. Both opinions were agreed by all parties involved and the cases were then closed by the Ombudsman without a formal determination being made.

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. This includes setting employer contribution rates for the next three year period.

Employer contribution rates applicable in 2022/23 were based on the 2019 valuation of the Fund. This valuation was undertaken in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

A further scheduled valuation of the Fund took place as at 31 March 2022, with the results of this valuation setting employer contribution rates for the period 1 April 2023 – 31 March 2026. The next scheduled valuation of the Fund will be as at 31 March 2025.

The 2019 Actuarial Valuation Report (including the Rates and Adjustments Certificate as at 31 March 2020) and the 2022 Actuarial Valuation Report (including the Rates and Adjustments Certificate as at 31 March 2023) are both available on the Cumbria Pension Fund website at: **https://www.cumbriapensionfund.org/**

6.2 2019 VALUATION

The 2019 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 expected 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 £ millions	31 March 2016 £ millions	31 March 2013 £ millions
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 2022 valuation has reported the funding level at 31 March 2022 to be 110%, further to which the impact of the Fund's investment portfolio has since resulted in an estimated funding position of 106% as at 31 March 2023. It should be noted that this is for monitoring purposes only as it is based on the parameters used for the 2022 valuation with an update in the real discount rate (allowing for the increase in real yields and the Fund's correlation to those yields).

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 2022/23 were set by the 2019 Actuarial Valuation. In setting employer contribution rates during the 2019 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 2022/23 can be found at **6.5** and in the 2019 Actuarial Valuation Report available at **https://www.cumbriapensionfund.org/**.

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 web address shown in 6.1 above.

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). At the time of setting these employer contribution rates, the Fund was 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

MERCER

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 judgement 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.

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

6. ACTUARIAL REPORT ON THE FUND

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 judgement 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.

Signature:

Name: John Livesey

Qualification: Fellow of the Institute and Faculty of Actuaries

Date of signing: 31 March 2020

Signature:

Name: Mark Wilson

Qualification: Fellow of the Institute and Faculty of Actuaries

MARSH & McLENNAN COMPANIES

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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

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
Cartmel Priory CofE School	20%	£26,700	£27,300	£28,000	20% plus £26,700	20% plus £27,300	20% plus £28,000
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

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
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
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

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
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
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

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
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%
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%

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
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%
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

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
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
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

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
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 judgement. 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

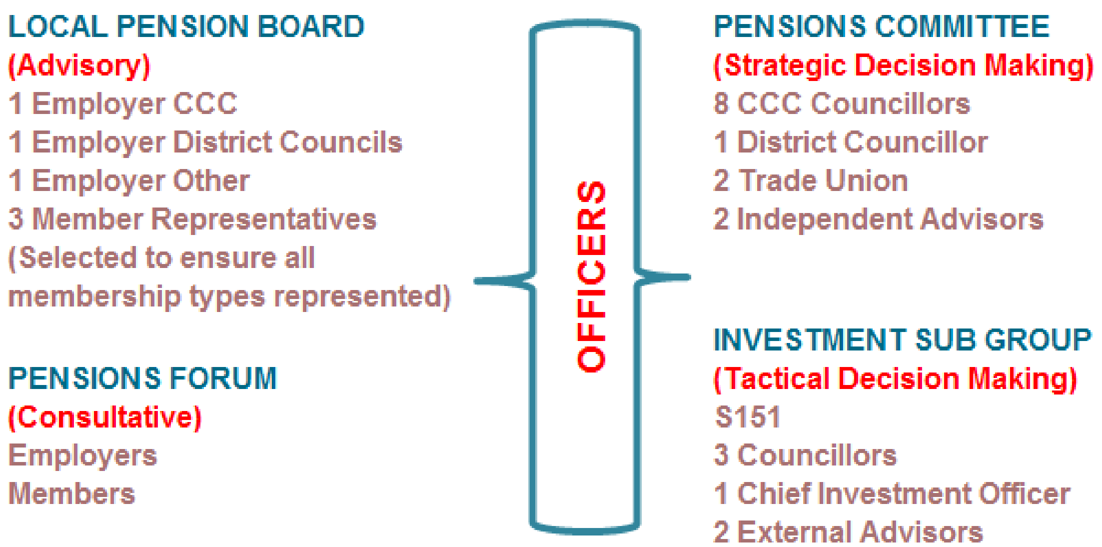
7.1 INTRODUCTION

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.

7.2 GOVERNANCE ARRANGEMENTS WITHIN THE CUMBRIA LGPS

During 2022/23 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**).

In addition to the detail provided below the Governance structures and roles and responsibilities within the fund are presented in detail under Principle 2 of the Fund's Stewardship Report which is presented as **Appendix B** to this report.



7.2.1 CUMBRIA PENSIONS COMMITTEE

The Local Government Pension Scheme, unlike private pension schemes, does not have trustees but elected Members who perform similar duties to Trustees. Cumbria County Council, as Administering Authority for Cumbria LGPS, had 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

Cumbria Pension Fund recognises that all scheme members and employers should be appropriately represented in the running of the Fund while at the same time ensuring that the Council, as the body with ultimate responsibility for running the Fund, maintains a majority position on the key governance bodies. To this end, the Council's Constitution specified that the committee had 11 members (8 County Councillors, 1 District Councillor and 2 non-voting employee representatives). Further details are set out in **section 6.5** (Seeking the views of beneficiaries – how and the reason for the chosen approach) of the Fund's Stewardship Report which is presented as **Appendix B** to this report.

Advice was given by Cumbria County Council's Section 151 Officer (who was 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 is primarily an investment specialist, the other complements these investment skills with actuarial knowledge of the liability profile of the Fund.

Services are also provided by the Fund actuary, and by other consultants, lawyers, custodians and wider service providers.

As detailed in **section 4.4**, in February 2017 the 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 are now those published within the Westmorland and Furness Constitution (Part 2 Section 5.15) available at: **Westmorland and Furness Constitution**

7.2.2 Cumbria Pensions Investment Sub Group

The dedicated Investment Sub Group assisted 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 were responsible for assisting 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 considered 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 are now those published within the Westmorland and Furness Constitution (Part 2 Section 5.15) available at: **Westmorland and Furness Constitution**

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7.2.3 Cumbria Pensions Forum

The Cumbria pensions Forum is not a formal body. It is a forum for engagement with Cumbria Pension Fund scheme employers, scheme members and their representatives. Further details of the Forum, including its Terms of Reference are detailed in in the Governance Policy Statement detailed **Appendix A-2**.

The Pensions Forum meets annually and during 2022/23 met on 21 November 2022. The meeting presented an overview of the Fund including 2021/22 performance & Local Government Reorganisation, an overview of Pensions Administration matters and a presentation from Mercer Ltd on the 2022 Actuarial Valuation.

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 Cumbria Local Pension Board are now those published within the Westmorland and Furness Constitution (Part 2 Section 5.15) available at: **Westmorland and Furness Constitution**

7.2.5 Advisors and Officers

Advice was given by Cumbria County Council's Director of Finance (S151 Officer), the Council's Pensions Finance Team and by two independent advisors. During the year the independent advisors to the Fund were Mrs Clare Scott and Dr Bob Swarup.

The current advisors have complementary knowledge and experience of investments, actuarial matters and wider pensions issues.

Advice is also provided by Mercer Ltd as Fund Actuary, Eversheds Sutherland LLP 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 Pensions 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 2022/23 any related party transactions that have been identified are either non-material or are associated with the normal activities of the individuals in question.

The Fund reviewed its Conflicts of Interest policy in light of the recommendations from the Scheme Advisory Board's Good Governance review work. Conflicts of Interest, and how the Fund manages them are detailed under Principle 3 of the Fund's Stewardship Report which is presented as **Appendix B** to this report.

7.2.7 Business Plan and Budget

As detailed in the Governance Policy Statement (**Appendix A-2**) the Terms of Reference for the Pensions Committee include the approval - prior to the commencement of the

7. GOVERNANCE AND THE GOVERNANCE COMPLIANCE STATEMENT

financial year – of an Annual Business Plan and associated Budget for that year to cover all matters of expenditure to be charged to the Fund. The Committees terms also stipulate that it will review performance against this throughout the year. The Business Plan and Budget for 2022/23 were agreed by the Pensions Committee at its meeting on 18 March 2022 and details of performance against the Budget and Business Plan in 2022/23 can be found at **sections 3.3.2** and **3.4** respectively.

7.2.8 FUND POLICIES

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 of the different elements of governance, including details of how Conflicts of Interests are managed, 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.

- **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.

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- **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.

7.3 TRAINING 2022/23

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 2023/24 (the 2022/23 Training Plan is set out in the 2021/22 Annual Report which can be found at: **https://www.cumbriapensionfund.org/forms-publications/** under 'Financial Reports and Valuations'

Training undertaken by members of the Cumbria Local Pension Board during 2022/23 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 2022/23 financial year has consisted of:

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

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DATE	TRAINING COURSE / INFORMATION REPORT
May-22	Training for Members to explain the use of Estimates in the LGPS Financial Statements.
Jul-22	New Committee or Board Member Training by officers on the core roles and functions of the Pensions Fund, the Pensions Committee and Board, together with Cumbria LGPS Key information and an update of national issues.
Sept 22	Training session for Members of the Pensions Committee and Board detailing an update on TCFD and Climate Metrics, Share Voting for Listed Equities, an update on the Local Government reorganisation process, LGPS issues and a McCloud remedy and Legal update.

3 dates in Feb & Mar 2023	Some existing and prospective new Committee and Board Members were offered training by Barnett Waddingham, Eversheds Sutherland, Local Pensions Partnership Administration, officers and independent advisors, as part of the preparations for Local Government Reorganisation. The topics covered included:
	• The structure of and the law governing UK pensions in general and the LGPS in particular
	• The Scheme – structure and benefits
	• Funding and valuation – and a bit of investment
	• The governance of public service schemes and the LGPS in particular
	• LGPS Investment
	• An Overview of the Cumbria Pension Fund including
	  ○ Investment Regulations and Fiduciary Duty
	  ○ Governance structures and responsibilities
	  ○ Pensions Administration arrangements and key challenges

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-22	LGPS Live – International Conflicts & LGPS implications		1
"	Local Authority Responsible Investment Seminar		1
"	HMRC – Pensions tax migration workshop		1
May-22	LGPS – Actuarial Valuation Seminar		1
"	Eversheds – Pensions Administration update		2
Jun-22	LGPS Live – SAB LGPS update & inflation		1
"	CIPFA – ESG Ratings Service webinar		1
"	CIPFA – Local Pension Board Annual Conference	1	
"	LGC – Place Based Investing webinar		1
"	LGA (Crowe) – Cyber Crime and Data Protection webinar		1
Jul-22	Professional Pensions – Sustainable Investment Festival	1	
"	Eversheds – McCloud remedy for Public Sector Pensions		2
"	CCC – LGR - Change, Resilience and me		1

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DATE	TRAINING COURSE	ATTENDEES	
		Members	Officers
"	Rm151 – Housing, Income, Impact & Inflation		1
Sep-22	LGC – LGPS Investment & Pension Summit	2	1
"	Nat West – Tackling Fraud, top threats to Local Authorities		3
"	BCPP – Annual Conference	6	2
Oct-22	RLAM – Understanding current market volatility		1
"	Abrdn – UK Market Update, Quantitative Confusion		1
"	LGPS Live – Governance & reporting Climate Change Risks		3
"	LGA – Fundamentals Training	2	
"	DG – Responsible & Impact Investment Summit		1
Nov-22	Pension Fund Service – LGPS Climate Change – TCFD		1
"	SW Councils – LGPS Pension Fund Managers Conference		2
"	Pensions Forum – Fund Update and Valuation 2022	4	7
"	LGA – Fundamentals Training	2	
Dec-22	LAPFF – Annual Conference	1	1
"	LGA – Fundamentals Training	2	
Jan-23	LGA – Annual LGPS Governance Conference	2	
Feb-23	LGPS Live – The year ahead and Human Rights		3
"	CIPFA – Preparing the Pension Fund Accounts		3
"	CIPFA – Levelling up in uncertain times		3
"	HMRC – Managing Pension Schemes		1
Mar-23	LGPS Live – Climate Transition		1
"	CIPFA – Audit and Accounting workshop		5

7.3.1 Summary of Committee, Sub Group and Local Pension Board attendance and formal training in 2022/23:

Committee Member (member of Pensions Committee only unless indicated)		Voting rights?	Attendance at meetings / total meetings	Training received (days)
Cllr. MH Worth	Chair - Committee & Investment Sub Group	Yes	8 / 8	2.5
Cllr. NH Marriner	Vice Chair - Committee & Investment Sub Group	Yes	8 / 8	3.0
Cllr. SB Collins	Committee & Investment Sub Group	Yes	5 / 8	4.0
Cllr. S Haraldsen		Yes	1 / 4	2.0
Cllr. P Thornton		Yes	2 / 4	2.5
Cllr. CP Turner		Yes	2 / 4	2.0

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Committee Member (member of Pensions Committee only unless otherwise indicated)		Voting rights?	Attendance at meetings / total meetings	Training received (days)
Cllr. C Whiteside		Yes	3 / 4	2.0
Cllr. M Wilson		Yes	3 / 4	1.5
Cllr. J Mallinson	Co-opted District Councillor	Yes	3 / 4	1.5
T Barber	Employee representative	No	1 / 4	1.0
J Wear	Employee representative	No	3 / 4	9.5

Local Pension Board Member		Voting rights?	Attendance at meetings / total meetings	Training received (days)
Mrs D Burnet	Chair	Yes	5 / 5	4.0
Lord R Liddle		Yes	2 / 5	1.0
Mr G Archibald		Yes	4 / 5	6.5
Mrs K Powell	Until June 2022, Vice Chair	Yes	0 / 1	0.0
Mrs K Thomson		Yes	3 / 5	2.0
Ms K Wilson		Yes	5 / 5	3.0
Mr G Capstick	From June 2022	Yes	3 / 4	2.5

7.4 AUDIT

The finance and operational arrangements of the Fund are subject to review and audit both by Grant Thornton and Cumbria's and Lancashire County Council's (as part of the delegated function) internal audit services to increase effectiveness and efficiency. Reports issued by the Fund's 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 will issue an Audit Findings Report for Cumbria Pension Fund when the audit of Cumbria County Council (the Administering Authority for 2022/23) is complete. At that time the Fund's financial statements will be published alongside those of the Administering Authority. This is expected to be in early 2024. The delay to the usual timeframe for the auditors approving the accounts is due to the complexity of closing down the District and County Council accounts as a result of LGR and the availability of audit resource. Grant Thornton have confirmed that these issues have no impact on the Fund's financial statements.

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Grant Thornton have indicated their provisional audit report for the Fund is likely to result in an unqualified and unmodified opinion (meaning that, in the auditor's opinion, the financial statements give a true and fair view and have been properly prepared in accordance with relevant regulations and guidance). The Auditor has also provisionally noted that that the quality of the accounts and the associated working papers accompanying the financial statements were of a very high standard and that the finance team were responsive to audit queries.

There are not expected to be any adjustments identified that require amendment to the primary statements of the Fund.

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

7.5 DISCRETIONS

All employers within the Fund are required by regulations to formulate, publish and keep under review a policy statement in relation to the exercise of a number of discretionary functions under the LGPS Regulations 2013 (as amended). These discretionary functions relate to:

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

Following the introduction of the 2014 Scheme, Cumbria LGPS updated the 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.

The Fund's Discretions Policy is presented in the Fund Policy Document at **Appendix A-8**.

During the year, the Fund exercised discretions in accordance with its Discretions Policy on 40 occasions. 37 of these discretions related to the payment of grants payable on the death of scheme members and three related to late aggregation requests.

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 the law 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.

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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 2022/23.

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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8.1 THE FINANCIAL STATEMENTS

PENSION FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2021/22		2022/23	
		£000's	£000's	£000's	£000's
Dealings with members, employers and others directly involved in the fund					
Contributions	3		83,717		89,588
Transfers in from other pension funds	4		8,422		11,348
			92,139		**100,936**
Benefits	5		(94,775)		(99,033)
Payments to and on account of leavers / employer exit	6		(27,829)		(7,061)
Net additions / (deductions) from dealings with members			**(30,465)**		**(5,158)**
Management expenses	7 & 8		(17,708)		(18,477)
Net additions / (deductions) including fund management expenses			**(48,173)**		**(23,635)**
Returns on investments					
Investment Income		59,109		49,542	
Taxes on Income		(121)		(67)	
Net investment income	9	58,988		49,475	
Profit / (losses) on disposal of investments and changes in the market value of investments	10(d)	239,693		(180,240)	
Net return on investments			**298,681**		**(130,765)**
Net increase (decrease) in the net assets available for benefits during the year			**250,508**		**(154,400)**
Net assets at the start of the year			**3,067,207**		**3,317,715**
Net assets at the end of the year			**3,317,715**		**3,163,315**

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NET ASSETS STATEMENT AS AT 31 MARCH 2023

	Notes	31 March 2022 £'000	31 March 2023 £'000
Long-term Investments	10	1,182	1,182
Investment assets	10	3,317,089	3,161,293
Investment liabilities	10	(7,853)	(3,466)
Total net investment assets		**3,310,418**	**3,159,009**
Long term assets		-	-
Current assets	12	9,130	6,496
Long term liabilities		-	-
Current liabilities	13	(1,833)	(2,190)
Net assets of the Fund available to fund benefits at the period end		**3,317,715**	**3,163,315**

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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" and "Cumbria Pension Fund") is a contributory defined benefit scheme to provide pensions and other benefits for all members of the Fund. The Fund was administered by Cumbria County Council until 31 March 2023 and is being administered by Westmorland and Furness Council from 1 April 2023 as a result of Local Government Reorganisation (LGR) within Cumbria.

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

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- other eligible employees of admitted employers of the Fund (usually this includes employers to whom contracts have been awarded for the provision of public services within the county).

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

As at 31 March 2023 the total membership of the Fund was 62,278 (2021/22: 60,312) and consisted of 17,681 contributors/actives (2021/22: 17,853), 25,650 deferred members (2021/22: 24,280) and 18,947 pensioners (2021/22: 18,179). The active and deferred membership numbers have been adjusted to account for those scheme members who are recorded as active members but are not actively contributing into the scheme and therefore have been considered to be currently in the process of being transferred to deferred leaver status.

At 31 March 2023 there were 125 (31 March 2022: 127) employer bodies in the Cumbria LGPS (for the full list see **Note 25**). The number of employers decreased by two during the year, which was a result of the admission of five new employers, the merger of three employers with existing Fund employers, and the exit of four employers from the Fund.

Basis of Preparation:

The Statement of Accounts for the Cumbria Local Government Pension Scheme (Cumbria LGPS) is presented in its entirety and separately from the General Fund in Cumbria County Council's Accounts. Although the County Council was 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 included in Cumbria County Council's Annual Accounts.

The Accounts for the Cumbria LGPS summarise the Fund transactions for the financial year 2022/23 and the position at the year-end date, 31 March 2023. They have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code) 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. Due to LGR in Cumbria, the seven legacy Councils covering Cumbria were replaced by two new unitary councils from 1 April 2023 – Westmorland & Furness Council covering the areas of Barrow, Eden and South Lakeland, and Cumberland Council covering the areas of Allerdale, Carlisle and Copeland. Cumbria County Council, ceased to exist as at 31

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March 2023 and Westmorland & Furness Council became the Administering Authority of Cumbria LGPS from 1 April 2023. The Fund will continue to provide services, as currently, to all of its scheduled, resolution and admitted bodies.

NOTE 1 (b): INVESTMENT MARKET ACTIVITY DURING 2022/23

The financial year 2022/23 was mostly focussed on inflationary pressures, easing of Covid restrictions in developed economies, the continuing Russian invasion of Ukraine, and the impact of a range of different UK Government policies resulting in a sharp fall in government bonds. The wider global markets experienced a highly volatile year, driven primarily by concerns over high inflation, base rate actions, and the prospect that developed economies could enter into recession.

One-year returns in listed equities were mixed for the 2022/23 period, with the MSCI All Country World Index recording a negative return of -1.4% for the twelve months, and the UK FTSE All Share recording a positive return of 2.9%. Europe recovered somewhat from the initial serious impact in early 2022 of the economic fall-out of the conflict, and the region outperformed the US for the twelve months with a positive return (Europe ex-UK 8.7% vs North America -2.5%).

The impact on other asset classes was varied. Government bond yields rose as higher inflation and increasing interest rates drove bond values downwards significantly through the year, with the UK Over-5 year index-linked gilts index showing a -30.4% return. UK property was also significantly impacted by the higher inflation and interest rates with the MSCI index (UK pension funds below £250m) showing a -13.8% return for the year. Private market assets (i.e. private equity, private debt and infrastructure funds) were the most stable at protecting capital; and outperformed public equities.

NOTE 1 (c): FUND PERFORMANCE 2022/23

As at 31 March 2023 the audited value of the Fund's net assets was £3,163.315m (a decrease of £154.400m from £3,317.715m as at 31 March 2022). The Fund's Actuary has estimated that the Cumbria LGPS was approximately 106% funded as at 31 March 2023. This result was calculated by updating the results of the actuarial valuation as at 31 March 2022 to include an update to the real discount rate, to reflect changes in real yields since the valuation and the correlation of the Fund's holdings to those yields.

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 reduced. Overall, the Fund made a negative return on its investments of -3.9% (net of fees) for the year-ended 31 March 2023.

As a long term investor, the Fund is primarily focussed on longer-term performance. and has outperformed both its 3 and 10 year benchmarks and matched the 5 year

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benchmark (3 year: 7.5% p.a. (net of fees) outperformed the benchmark of 6.9%, 5 year: 5.2% p.a. (net of fees) matched the benchmark, and 10 year: 7.3% p.a. outperformed the benchmark of 6.6% (net of fees)).

Performance to 31 March 2023 in relation to the Fund's bespoke benchmark over these timeframes is shown in the table below.

	Cumbria Performance	Bespoke Benchmark	Variance to Benchmark
1 year performance	-3.9%	-2.9%	- 1.0%
3 year performance (per year)	7.5%	6.9%	+ 0.6%
5 year performance (per year)	5.2%	5.2%	+ 0.0%
10 year performance (per year)	7.3%	6.6%	+ 0.7%

As shown above, the Fund's return of -3.9% for the year was below the Fund's bespoke index performance benchmark of -2.9% for the same period. The main detractors from performance against benchmark were assets with absolute or inflation-plus benchmarks, as this included the Fund's UK property holdings and in fixed income (the multi-asset credit funds).

The process of implementing in the Fund's agreed asset allocation is ongoing, with the associated investment decisions being taken in a managed and responsive way. Key changes made in the twelve months to 31 March 2023 included:

- Reducing the Fund's holding in Multi-Asset Credit funds (also known as liquid fixed income) from 14% at the start of the year to 9% at March 2023, investing the proceeds in the Fund's increased strategic allocation to private debt; as the private debt allocation is invested in private markets closed-ended funds it will take some years to grow substantially from 7% at March 2023 and reach the long-term aim of 14% of the Fund;

- Rebalancing between assets to address larger underweights and overweights within the Fund that developed through market movements during the year; in particular to reduce outperforming assets such as the Border to Coast UK Equity fund and Overseas Developed Equity fund and reinvesting these proceeds into index-linked gilts, as this asset had fallen to below the percentage range set for it in the Investment Strategy;

- The selection of suitable investments for the Private Markets portfolio in February 2023, including new investment commitments of £300m made to Border to Coast Pensions Partnership Ltd (BCPP) private markets funds to be launched following the year-end (Border to Coast Infrastructure 2023, Border to Coast Private Equity 2023 and Border to Coast Private Credit 2023); and

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

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

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2022/23 Business Plan:

All targets set within the 2022/23 Business Plan have been achieved during the year with key tasks either completed, or ongoing work that is on track for completion. This work, key highlights of which are summarised below, has been delivered within the approved budget.

- **Continual improvement activities**

  e.g. continual improvement programme for the quality of data held by the Fund. Work undertaken by the Fund and the Fund's pensions administration provider (Local Pensions Partnership Administration) has continued to see improvements in the common and conditional data scores reported to the Pensions Regulator.

- **Major annual pieces of work**

  e.g. preparation of the Annual Report and Accounts. The 2021/22 Financial Accounts and Annual Report were compiled in accordance with CIPFA's example accounts requirements. The accounts were audited by Grant Thornton and an unmodified opinion was given with no recommendations arising. The auditor formally signed off the accounts in early 2023 with the Fund's 2021/22 Annual Report published on its website on 1 December 2022.

- **Completion of the 2022 actuarial valuation of the Cumbria Pension Fund.**

  The 2022 valuation was signed off by 31 March 2023 in accordance with the regulatory timeframe. All employers received schedules detailing their respective funding position and contribution rates for 2023/24 – 2025/26.

- **Investigate and implement suitable investment options to implement the Investment Strategy approved by Pensions Committee and keep its ongoing suitability under review.**

  The continuation of capital drawdowns to previously agreed commitments to infrastructure, private equity and private debt funds achieved the movement of the asset allocation to the revised Interim Strategy.

- **Liaise with Border to Coast Pensions Partnership Ltd to ensure that suitable opportunities were available within the pool for the Fund to transition to its amended investment strategy.**

  The Fund continued to be active in influencing the range of sub-funds that BCPP provide with the aim of being reflective of the majority of Investment Strategy Asset classes.

  BCPP sub-funds currently under development include UK and global property, and UK Opportunities, in addition to further vintage funds in private markets; Infrastructure, Private Equity and Private Credit.

- **Prepare the Cumbria Pension Fund for organisational change resulting from Local Government Reorganisation (LGR).**

8. THE PENSION FUND ACCOUNTS

Throughout 2022/23 work was ongoing within the Fund to ensure that the Pension Fund continues to operate effectively following LGR.

This included ensuring the continuity of pensions' administration services which are delivered via a delegation of responsibilities arrangement with Lancashire County Council.

In addition a communication plan was developed to advise scheme members and employers as to how LGR would affect them.

In addition to the 2022/23 Business Plan, originally approved in March 2022, the Fund has had to respond to unforeseen activities during the first half of the year. These activities included:

- the impact of preparations for LGR on the Cumbria Pension Fund including the impact on workloads and resources over and above those considered when setting the business plan; and
- assessing whether any changes were required to the Fund's Investment Strategy in response to rapidly increasing inflation. The impact of inflation on both the Fund's liabilities and the Actuary's assumptions in relation to the future investment returns were of particular concern, and Officers worked with the Independent Advisors and the Fund's Actuary to consider these (an Investment Strategy 'sense-check'). The conclusion was that no changes to the Fund's long-term asset allocations were required during the year.

Looking forward to 2023/24:

In March 2023, the Cumbria Pensions Committee set the business plan for the Fund for 2023/24 (grouped under the three main service areas of Administration, Investment Management and Oversight and Governance). As set out below, these objectives are focused on the principal activities of the Fund as currently anticipated. However, given the changing nature of the LGPS and the economic climate, it is recognised that priorities may change throughout the year.

Pensions Administration

- Working with LPPA to address any pension administration issues associated with LGR in Cumbria.
- Appraising the impact of 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.
- Embedding the new pensions administration system ("UPM") used by LPPA into the Fund.

8. THE PENSION FUND ACCOUNTS

- 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.

Investment Management

- Undertaking a full Investment Strategy Review to consider the key outcomes of the 2022 actuarial valuation and their implications for the Fund. A specialist Investment Consultant will be procured to lead the work.
- Continuing to investigate and implement suitable investment options to implement the current investment strategy, and in addition, any revisions following agreement of the 2023 Investment Strategy Review.
- Monitoring progress in moving towards the final target Investment Strategy and keep its ongoing suitability under review.
- Liaising with Border to Coast Pensions Partnership Ltd (BCPP) to ensure that suitable opportunities exist within the pool for the Fund to transition to its amended Investment Strategy.

Oversight & Governance

- Addressing any issues associated with the governance of Cumbria Pension Fund resulting from LGR.
- Completion of the 2022/23 Cumbria LGPS Annual Accounts and Annual Report incorporating any new regulatory/technical changes.
- Reviewing governance arrangements in response to financial, regulatory and structural changes.
- Reviewing and updating the Fund's risks, policies and strategies; and
- Reviewing, measuring and delivering training to Members and Officers as outlined in the Training Plan.

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 2022/23 will be published on-line when finalised (and at the latest by the statutory deadline of 1 December 2023) on the Cumbria Pension Fund website **www.cumbriapensionfund.org**.

8. THE PENSION FUND ACCOUNTS

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 2022/23.

Fund account – revenue recognition

2.1. Contribution Income

Future service 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.

Other Employers contributions including pension strain costs 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. There are no such long term debtors at 31 March 2023.

Where an employer leaves the scheme, any contributions 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 **Note 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**).

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

8. THE PENSION FUND ACCOUNTS

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. In pooled funds with accumulation units, the Fund does not receive investment income directly from dividends or bonds, as this is received by the pooled fund and increases the value of the unitised holdings.

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)**).

Fund account – expense items

2.4. Benefits payable (Note 5)

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

2.5. Taxation

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

2.6. Administrative expenses (Note 7)

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

8. THE PENSION FUND ACCOUNTS

This section also includes the cost of Local Pensions Partnership – Administration who provide the technical pension administration function for the Fund through a Delegation of Functions agreement with Lancashire County Council.

2.7. Investment management expenses (Notes 7, 8 and 8a)

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 Fund has reviewed any fee information received from managers prior to the cut-off date for the 2022/23 accounts and, used this to inform the Management Fees disclosed in the Accounts. Where fee information was not available from the manager, officers have estimated these fees based on the market value of the investments and respective investment manager mandate.

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). However, the deadline for the returns was 30 June 2023 so the majority of the returns were received from managers after the cut-off date for inclusion within these Accounts. The cost transparency templates are assessed as they are received and will inform additional disclosures of investment costs in the Fund's 2022/23 Annual Report to be published by 1 December 2023. 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 transparency of 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 expenses for those charged with the governance of the Fund (e.g. training, travel and allowances) and the cost of obtaining investment advice from external investment consultants and advisors is included in oversight and governance costs. This section also includes actuarial fees, legal fees and shareholder voting services.

Net assets statement

8. THE PENSION FUND ACCOUNTS

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

Northern Trust Corporation, as independent Custodians to the Fund, value any directly held 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 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) Unquoted investments: The fair value of investments for which market quotations are not readily available is determined as follows:

- 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. Where the valuations are not audited as at 31 March 2023, the valuation is reported based on known transactional movement from the previous audited position. 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 generate any material profit and as the financial accounts for the Company show the shareholder funds to be equivalent to the regulatory capital invested (at cost). Consequently, the shares are valued at cost. At 31 March 2023, these are valued at £1,181,818 as detailed in **Note 22**.

- 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.

8. THE PENSION FUND ACCOUNTS

b) Limited partnerships: Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership. All valuations are performed in accordance with the appropriate Standards of Professional Appraisal Practices ("USPAP") and International Valuation Standards ("IVS") or provides an IPEVC (International Private Equity and Venture Capital) (or other recognised industry standard) compliant valuation as applicable. 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. The Fund reviews the Annual Reports of the partnerships which have been independently audited.

c) Pooled investment vehicles: Pooled investment vehicles are stated at the bid price quoted by their managers at close of business on 31 March 2023. 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.**

d) Freehold and leasehold properties: The properties are valued at fair value at 31 March 2023 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), i.e. "the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's-length transaction", is effectively the same as "Market Value", which is defined in the Red Book 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.

8. THE PENSION FUND ACCOUNTS

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 grants.

Further detail on Investment Properties is set out in **Note 10(b).**

e) Financial Assets measured at amortised cost: These are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost i.e. principal amount adjusted for any interest payable / receivable at the year-end date and may be referred to as Investment receivables or trade/other debtors.

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. Northern Trust Corporation 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 2023.

2.11. Derivatives

The Fund may use 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. There were no derivatives as at 31 March 2023.

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 were 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.

8. THE PENSION FUND ACCOUNTS

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 Assurance Company, Standard Life and Scottish Widows. The previous AVC scheme on offer to employees was operated by Equitable Life Assurance Society but in December 2000 it closed to new business. From January 2020, the Equitable Life AVC closed with investments transferring to Utmost Life.

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

8. THE PENSION FUND ACCOUNTS

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, if any, are included in the net assets statement to reflect the Fund's continuing economic interest in the securities. BCPP has an active stock lending programme, where it is permissible and as lenders of stock do not generally retain voting rights on lent stock, there are procedures in place to enable stock to be recalled prior to a shareholder vote if considered necessary from a responsible investment perspective. The Fund's passive global equity holding is managed by Legal and General who also operate a stock lending programme in selective overseas equity markets under strict conditions.

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

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

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

Where the basis for measurement of an amount is uncertain, the Fund will use a suitable estimation technique determined by the Director of Finance (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 2022/23 accounts.

8. THE PENSION FUND 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 2022/23 are as follows:

- Employees - range from 5.5% to 12.5% of pensionable pay dependent on the full-time salary of the member (these rates are halved for those employees opting for the flexibility of the 50:50 section of the LGPS).

- Employers - range from 13.7% to 34.5% of pensionable pay for future service, plus a lump sum payment for deficit recovery contributions where appropriate. 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	2021/22 £'000	2022/23 £'000
Employee contributions to the fund	19,898	22,062
Employer contributions to the fund:		
Normal contributions	60,948	64,503
Deficit recovery contributions	2,871	3,023
Total Employer contributions	63,819	67,526
Total Contributions receivable	**83,717**	**89,588**
By Employer Type	**2021/22 £'000**	**2022/23 £'000**
Administering Authority	48,411	51,852
Other Scheduled bodies	33,935	36,541
Admitted bodies	1,371	1,195
	83,717	**89,588**

As shown in the above table the Administering Authority contributions (Cumbria County Council) were £51.852m (£48.411m 2021/22).

In addition to future service contributions and historic deficit 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**, which is available on the Cumbria Pension Fund website. All other Cumbria LGPS employer policies that are relevant to the 2022/23 financial year are available under 'Forms and Publications / Policies'.

NOTE 4: TRANSFERS IN FROM OTHER PENSIONS

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

8. THE PENSION FUND ACCOUNTS

In 2021/22 one employer group transfer inwards took place, for Inspira transferring into Cumbria County Council.

	2021/22 £'000	2022/23 £'000
Group transfers	2,172	-
Individual transfers	6,250	11,348
	8,422	**11,348**

NOTE 5: BENEFITS

Pension benefits within the LGPS are based on final pensionable pay or career average, and duration 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	2021/22 £'000	2022/23 £'000
Net pensions paid	79,129	82,764
Net lump sum on retirement	13,738	13,778
Net lump sum on death	1,908	2,491
	94,775	**99,033**
By Employer Type	**2021/22 £'000**	**2022/23 £'000**
Administering Authority	52,668	54,487
Scheduled bodies	34,171	35,684
Admitted bodies	7,936	8,862
	94,775	**99,033**

As shown in the above table the Administering Authority (Cumbria County Council) benefits paid in 2022/23 were £54.487m (£52.668m 2021/22).

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. In 2021/22 one large employer group transfer out took place; Carlisle College transferred out to the Tyne and Wear Pension Fund.

	2021/22 £'000	2022/23 £'000
Refund of member contributions	250	194
Individual transfers out to other Schemes	2,976	6,326
Group transfer out to other Schemes	24,603	541
	27,829	**7,061**

8. THE PENSION FUND ACCOUNTS

NOTE 7: MANAGEMENT EXPENSES

Officers employed by the Administering Authority 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 administration services, provided by delegation of function to Lancashire County Council, through Local Pensions Partnership Administration Ltd (LPPA), 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:

	2021/22 £'000	2022/23 £'000
Administrative costs	1,732	1,872
Investment management costs	15,313	15,811
Oversight and governance costs	663	794
	17,708	**18,477**

The Code of Practice does not require any breakdown of pension fund administrative expenses. However, in the interest of greater transparency and comparability, the Council has opted 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 2022/23 is provided for information in the next note.

Administration costs were £0.140m (8.1%) higher in 2022/23 than the previous year, for further details refer to **Note 8**.

Investment management costs were £0.498m (3.3%) higher in 2022/23 than the previous year, for further details refer to **Note 8 and 8(a)**.

Oversight and governance costs were £0.131m (19.8%) higher in 2022/23 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

8. THE PENSION FUND ACCOUNTS

disclosure into the three headings suggested by CIPFA guidance, a detailed breakdown for 2022/23 is provided below.

	2021/22 £'000	2022/23 £'000
Administrative costs:		
Pensions Administration	1,416	1,499
Employee costs	296	349
Legal advice	19	23
Other	1	1
	1,732	1,872
Investment Management costs: See Note 8 (a)		
Management Fees	11,822	11,762
Performance Fees	3,386	4,016
Custody fees	38	33
Fund Entry costs	67	-
	15,313	15,811
Oversight and governance costs:		
Employee costs	328	378
Pension fund committee	18	26
Pension Board	10	18
Investment consultancy fees	76	48
Performance monitoring service	44	41
Shareholder voting service	10	10
Actuarial fees	44	156
Audit fees	31	31
Legal and tax advice	74	20
Other (including bank charges)	28	66
	663	794
	17,708	**18,477**

Variations on spend between years include:

- Pensions Administration - The budget for the Fund's pensions administrator, Local Pensions Partnership - Administration (LPPA), increased in 2022/23 due to increased numbers of Scheme Members in the Fund as well as higher costs within LPPA arising from additional scheme complexity, enhanced technology and improved customer service processes. In addition, a vacant post within the Administration team was filled during 2021/22 with the full year cost of this post being reflected in 2022/23.

- Investment Management Costs – Investment management costs increased in 2022/23 from £15.313m to £15.811m. In accordance with the CIPFA guidance,

8. THE PENSION FUND ACCOUNTS

disclosure note 8(a) has been included below to provide more detailed disclosure of Investment Management fees.

- Oversight and Governance costs – Actuarial costs increased in 2022/23 due to work undertaken associated with the triennial valuation of the Fund. Additionally, employee costs increased as a new post was recruited to during the year. The £0.031m of Audit fees reported in the accounts above include £0.023m relating to 2022/23 and £0.008m relating to 2020/21 which was invoiced in July 2022. The external auditor subsequently advised the uprated fee structure for the 2022/23 audit which totalled £0.077m, necessitating £0.054m of 2022/23 audit fees being reported in the 2023-24 accounts.

  For full details of the 2022/23 Audit fee, please refer to the fee schedule shown in the Grant Thornton - Audit Findings Report published alongside the Final Audited Accounts for 2022/23.

NOTE 8(a): INVESTMENT MANAGEMENT EXPENSES ADDITIONAL INFORMATION

As detailed above, in accordance with CIPFA Guidance this note provides more detailed disclosure of investment management fees across the more specific asset class headings for the Fund's Pooled investment holdings. The investment management fee values for 2021/22 are also provided for comparison purposes.

2022/23 Investment Management Expenses:

	Management Fees £'000	Performance Fees £'000	Transaction / Entry Costs £'000	2022/23 £'000
Asset Classes				
BCPP Asset Pool				
Pooled Equity Investments with BCPP	1,950	-	-	1,950
Pooled Multi Asset Credit with BCPP	378	-	-	378
Governance & Development costs of BCPP	901	-	-	901
Pooled Passive Investments	48	-	-	48
Private Markets				
Infrastructure Funds	2,365	2,396	-	4,761
Private Equity Funds	2,086	1,376	-	3,462
Private Debt Funds	1,403	244	-	1,647
Multi Asset Credit Funds	1,383	-	-	1,383
Property Funds	571	-	-	571
Directly held Property	671	-	-	671
Cash & FX Contract costs	6	-	-	6
	11,762	4,016	-	15,778
Custody Fees				33
Total Investment Management Expenses				**15,811**

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2021/22 Investment Management Expenses:

	Management Fees £'000	Performance Fees £'000	Transaction / Entry Costs £'000	2021/22 £'000
Asset Classes				
BCPP Asset Pool				
Pooled Equity Investments with BCPP	2,362	-	-	2,362
Pooled Multi Asset Credit with BCPP	161	-	-	161
Governance & Development costs of BCPP	769	-	-	769
Pooled Passive Investments	45	-	-	45
Private Markets				
Infrastructure Funds	1,994	819	-	2,813
Private Equity Funds	2,160	1,880	-	4,040
Private Debt Funds	1,031	687	-	1,718
Multi Asset Credit Funds	2,074	-	-	2,074
Property Funds	516	-	67	583
Directly held Property	602	-	-	602
Cash & FX Contract costs	108	-	-	108
	11,822	3,386	67	15,275
Custody Fees				38
Total Investment Management Expenses				**15,313**

- BCPP asset pool – the 2022/23 fees represent a full year's cost for the pooled Equity funds and the pooled Multi Asset Credit fund. In addition, there are the annual charges from the pool in relation to the operational and governance costs and ongoing development of the company and related investment management projects to increase capacity.

- Private Markets - The objective of the Fund's strategic investment allocation to private markets is to select a portfolio of private market assets which aids cash flow and increases diversification and stability. The growth in the portfolio values together with additional investments into private market funds has led to increased management fees.

  Total management fees on investments in private markets was £7.808m in 2022/23 which was a moderate increase on the previous year (£7.775m in 2021/22). There was an increase in the value of performance fees paid, from £3.386m in 2021/22 to £4.016m in 2022/23 however it is recognised levels of these fees are not consistent year on year, as the performance varies and is specific to each investment.

- Transaction and Entry costs – there were no transactions costs paid directly by the Fund in either year, however there was an Entry (equalisation) fee paid related to a new investment in a Residential property fund during 2021/22.

NOTE 9: NET INVESTMENT INCOME

Accruals are made for dividends receivable, interest receivable, and the recoverable tax on dividends. The investment income of £49.475m net of £0.067m irrecoverable

8. THE PENSION FUND ACCOUNTS

tax on dividends (2021/22 £58.988m, net of £0.121m irrecoverable tax on dividends) can be analysed as follows:

	2021/22 £'000	2022/23 £'000
Income from Equities	54	91
Infrastructure Funds Income	14,982	14,635
Private Equity Funds Income	15,059	10,164
Private Debt Funds Income	7,483	4,918
Multi Asset Credit Funds Income	11,277	8,463
Property Funds Income	2,897	2,274
Rents from Directly held Property	7,210	7,221
Interest on Cash deposits	26	1,709
	58,988	**49,475**

The Fund does not receive investment income directly from equity dividends, as this is received by the pooled fund and increases the value of the unitised holdings. The Fund however, continues to receive class action income several years after its direct ownership of shares, this is shown above as income from equities.

The majority of income earned relates to the Fund's private market portfolio (e.g. Infrastructure, Private Equity, Private Debt and Multi Asset Credit funds). The decrease in amounts received between 2021/22 and 2022/23 is due to the underlying investments maturing to varying degrees in each year; overall the Fund is committed to more investment in private markets. Timing of income is often dependent on the investment stage of the underlying investments with higher returns later in the investment cycle. 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

	Notes	31 March 2022 Total £'000	31 March 2022 Total £'000	31 March 2023 Total £'000	31 March 2023 Total £'000
Long-Term assets					
Unquoted Equities (shares in BCPP Ltd)			**1,182**		**1,182**
Investment Assets					
Pooled investment vehicles					
Pooled equity/fixed income (active):					
- UK equities		166,649		149,663	
- Global equities		657,893		682,461	
- Overseas equities		153,626		152,081	
- Fixed income funds		151,951		146,913	
		1,130,119		1,131,118	
Unitised insurance policies (passive):					
- Global equities		184,315		172,833	
- UK index-linked securities		558,368		444,547	
		742,683		617,380	
Other pooled funds and limited partnerships:					
- Infrastructure Funds		338,451		414,735	
- Private Equity Funds		254,425		309,840	
- Private Debt Funds		159,588		221,060	
- Multi Asset Credit / Fixed Income Funds		301,723		142,479	
- Property Funds		92,240		86,442	
		1,146,427		1,174,556	
Pooled investment vehicles & managed funds total			**3,019,229**		**2,923,054**
Investment properties	10(b)		**209,300**		**156,540**
Derivative contracts	10(c)		**-**		**-**
Cash & cash equivalents			**85,614**		**79,636**
Amounts receivable for sales *			**-**		**-**
Investment income accrued *			**727**		**406**
Property rental debtors *			**2,219**		**1,657**
			88,560		**81,699**
Subtotal investment assets			**3,317,089**		**3,161,293**
Investment liabilities					
Derivative contracts	10(c)		**(4,142)**		**-**
Amounts payable for purchases *			**-**		**-**
Property creditors *			**(3,711)**		**(3,466)**
Subtotal investment liabilities			**(7,853)**		**(3,466)**
Total Net Investments			**3,310,418**		**3,159,009**

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

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Note 10(a) analyses the investments by Investment Manager.

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

Note 10(c) details the derivative contracts. These are forward foreign exchange contracts and futures held at 31 March, presented as assets where there is a gain and liabilities where there is a loss on the individual contracts at 31 March 2023.

In response to government requirements in relation to the pooling of LGPS assets, Cumbria LGPS along with 11 other partner LGPS funds, set up 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. The share capital in BCPP Ltd is shown as a long-term asset as unquoted equities in the above table at a value of £1.182m (a 1/11th share of the total share capital in BCPP after Northumberland County Council Pension Fund and Tyne and Wear Pension Fund, two of the founding members of the BCPP, merged in 2020/21).

The Fund's largest active manager holding is with BCPP. The Fund's more liquid investments with BCPP total £1,131.118m and are shown in Note 10 as 'Pooled equity/fixed income (active). These consist of investments in the Border to Coast UK Equity Fund; the Border to Coast Global Equity Alpha Fund; the Border to Coast Multi-Asset Credit (MAC) fund, shown as 'Fixed income funds'; and the Border to Coast Overseas Developed Listed Equity fund. In addition to this, the Fund has invested in a number of private market investments managed by BCPP (infrastructure, private equity, and private credit). For a summary of the Fund's total investments with BCPP please refer to **Note 10(a)**.

The Fund's second largest manager holding is the unitised insurance policies with Legal and General totalling £617.380m, shown in the table categorised into the underlying asset types. These unitised, index-tracking (passive) 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 i.e. fixed interest gilts and equity.

The Fund holds a portfolio of private market 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 Pooled Funds and Limited Partnerships' in the table. The Fund is increasing its investment into private markets with the objective of generating diversification and more stable and / or inflation protected income streams. This portfolio totals £1,174.556m at 31 March 2023.

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NOTE 10(a): INVESTMENTS ANALYSED BY EXTERNAL MANAGER

Manager	Asset Class	31 March 2022		31 March 2023	
		£'000	%	£'000	%
Investments Managed by Border to Coast Pensions Partnership Ltd					
Border to Coast Global Equity Alpha Fund	Equities	657,893	19.9%	682,461	21.6%
Border to Coast UK Equity Fund	Equities	166,649	5.0%	149,663	4.7%
Border to Coast Overseas Developed Eq	Equities	153,626	4.6%	152,081	4.8%
Border to Coast Multi Asset Credit Fund	Multi Asset Credit	151,951	4.6%	146,913	4.7%
Border to Coast Cumbria LP	Infrastructure Funds	70,791	2.1%	123,900	3.9%
Border to Coast Cumbria LP	Private Equity Funds	66,642	2.0%	108,212	3.4%
Border to Coast Cumbria LP	Private Credit Funds	7,786	0.3%	51,859	1.7%
	Managed by BCPP Pool	**1,275,338**	**38.5%**	**1,415,089**	**44.8%**
Investments Managed outside Border to Coast Pensions Partnership Ltd					
Legal & General	Index-linked gilts	558,368	16.9%	444,547	14.1%
Legal & General	Global equities	184,315	5.6%	172,833	5.5%
Legal & General	Passive currency overlay	(4,142)	-0.1%	0	0.0%
JP Morgan	Infrastructure	167,371	5.1%	179,541	5.7%
Aberdeen Standard Investments	Direct property	211,424	6.4%	159,654	5.1%
Partners Group	Private Market Credit	102,360	3.1%	124,498	3.9%
Apollo	Multi Asset Credit	152,458	4.6%	113,223	3.6%
Strategic cash allocation	Cash	71,843	2.2%	74,712	2.4%
Partners Group	Infrastructure	64,552	1.8%	70,149	2.2%
Pantheon	Private Equity Funds	64,717	2.0%	70,075	2.2%
Healthcare Royalty Partners	Royalties Fund	43,341	1.3%	51,210	1.6%
Barings	Private Loan Fund	48,465	1.5%	44,703	1.4%
Aberdeen SL Capital	Private Equity Funds	31,510	1.0%	41,717	1.3%
Aberdeen SL Capital	Infrastructure	35,737	1.1%	41,146	1.3%
Aviva	Property Fund	43,988	1.3%	36,989	1.2%
Unigestion	Private Equity Funds	43,763	1.3%	36,343	1.2%
M&G	Property Fund	43,255	1.3%	33,057	1.0%
CQS	Multi Asset Credit	120,854	3.7%	29,256	0.9%
Hearthstone	Residential Property Fund	4,997	0.1%	16,396	0.5%
BlackRock	Private Equity Funds	4,452	0.1%	2,283	0.1%
Border to Coast Ltd	Share capital	1,182	0.0%	1,182	0.0%
Transition residual, tax accruals	Overseas/UK equities	316	0.0%	406	0.0%
PIMCO	Multi Asset Credit	28,821	0.9%	0	0.0%
Insight Investments	Fixed income / cash	10,156	0.3%	0	0.0%
M&G	Real Estate Debt	977	0.0%	0	0.0%
	Outside of BCPP Pool	**2,035,080**	**61.5%**	**1,743,920**	**55.2%**
Total Net Investments		**3,310,418**	**100.0%**	**3,159,009**	**100.0%**

Border to Coast Pensions Partnership Ltd (BCPP), the company created for the pooling of LGPS investment assets by initially twelve partner funds including Cumbria LGPS, launched its first investment funds in 2018/19. As shown above, the pool currently manages c.45% of Cumbria's investments, i.e. the Border to Coast UK Equity Fund, the Border to Coast Global Equity Alpha Fund, the Border to Coast Overseas Developed Equity Fund, the Border to Coast Multi Asset Credit Fund and the Border to Coast Cumbria Limited Partnership for private market investments in infrastructure, private equity and private credit.

Since 2012, the Fund has been increasing its investment into infrastructure and other private markets in its strategic asset allocation. The drivers for this change are intended

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to reduce risk by improving diversification and to generate more stable and / or inflation protected income streams.

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 2023 the portfolio valued at £156.540m included 21 properties ranging from £1.925m to £15.300m each. These properties cover a mix of sectors such as offices, industrial, 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(f) to (h).**

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

	2021/22 £'000	2022/23 £'000
Rental income from investment property	7,681	7,922
Direct operating expenses arising from investment property	(471)	(701)
	7,210	**7,221**

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:

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	2021/22 £'000	2022/23 £'000
Balance at the start of the year	**176,615**	**209,300**
Additions:		
Purchases	17,123	-
Subsequent expenditure	3,552	979
Disposals	(23,607)	(7,008)
Net gains/(losses) from fair value adjustments	35,617	(46,731)
Balance at the end of the year	**209,300**	**156,540**

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:

	2021/22 £'000	2022/23 £'000
Not later than one year	8,055	7,716
Later than one year and not later than five years	26,445	24,697
Later than five years	44,429	40,840
Total future lease payments due under existing contracts	**78,929**	**73,253**

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 arrears rather than on a probability-adjusted basis.

The full potential rental income receivable for the properties going forward is currently £7.716m per year, and due to the above targeted and prudent approach to the certainty of payment and bad debt provision, the future lease payments did not need to be

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reduced by an allowance for expected credit losses to those shown in the above table, for the forthcoming year. To provide context to this, it is worth noting that as at 31 March 2023 the Fund held £0.837m of deposits paid by tenants which help to mitigate loss to the Fund should rents not be paid.

As at 31 March 2023, an allowance of £0.286m for expected credit loss on outstanding rent arrears (which totalled £0.624m as at 31 March 2023), is recognised within the 'Property rental creditors' figure of £3.466m at Note 10. This represents approximately 4.0% of the 2022/23 net rental income of £7.221m. Of the £0.286m allowance for expected credit loss, £0.280m related to a current live lease (approximately 3.9% 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.

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.

Until February 2022, Cumbria LGPS had a passive currency overlay programme with 50% of its public equity investments denominated in overseas currencies hedged into sterling. The purpose was to reduce the Fund's exposure to the day to day fluctuations in foreign currency exchange rates depending on conditions and expectations in these markets. This was carried out using derivatives called forward foreign exchange contracts.

The Fund's passive currency overlay programme on its public equity investments was reduced to nil by July 2022 and instead the Fund will seek to manage its exposure to currency risk by investing in a diversified portfolio of assets using active management, holding the majority of its more stable contractual mandates (such as private debt and infrastructure) in sterling share classes, and maintaining an unhedged public equity exposure (to provide diversification during extreme markets movement).

The Fund had no directly held derivatives on 31 March 2023. The derivatives held by Cumbria LGPS (shown in **Note 10**) can be summarised as follows for 31 March 2022 only:

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	31 March 2022		
Reconciliation to Note 10	**Investment Asset / Unrealised Gain £'000**	**Investment Liability / Unrealised Loss £'000**	**Net Market Value £'000**
Total Derivatives			
Forward currency contracts	-	(4,142)	**(4,142)**
Futures	-	-	-
Derivative Contracts Gain/(Loss)	**-**	**(4,142)**	**(4,142)**

The open forward foreign exchange contracts as at 31 March 2022 can be summarised as follows:

Currency Bought		**Currency Sold**		**2021/22**	
Currency	**Local Value 000's**	**Currency**	**Local Value 000's**	**Unrealised Gain Sterling £'000**	**Unrealised Loss Sterling £'000**
Settlement one to six months					
GBP	162,991	USD	220,000	-	(4,142)
				-	**(4,142)**
Net forward currency contracts at 31 March 2022					**(4,142)**

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.

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

2022/23:

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Asset Class	Value at 1 April 2022 £'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 2023 £'000
Equities					
UK equities	1,182	-	-	-	1,182
Pooled investment vehicles	1,872,802	78,671	(57,158)	(145,817)	1,748,498
Other Managed funds	1,146,427	227,763	(225,007)	25,373	1,174,556
Property (See Note 10b)	209,300	979	(7,008)	(46,731)	156,540
Derivatives (forward foreign exchange contracts, futures)	(4,142)	20,358	(2,200)	(14,016)	0
	3,225,569	**327,771**	**(291,373)**	**(181,191)**	**3,080,776**
Cash & cash equivalents	85,614			951	79,636
Amounts receivable for sales	-				-
Investment income accrued	727				406
Property rental debtors	2,219				1,657
Amounts payable for purchases	-				-
Property creditors	(3,711)				(3,466)
Total Net Investments	**3,310,418**			(180,240)	**3,159,009**

Analysis of gains/(losses) for the year	2022/23 £'000
Realised - Profit and losses on disposal of investments	14,054
Unrealised - Changes in the market value of investments	(194,294)
	(180,240)

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

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2021/22:

Asset Class	Value at 1 April 2021 £'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 2022 £'000
Equities					
UK equities	1,182	-	-	-	1,182
Pooled investment vehicles	1,720,580	318,414	(308,082)	141,890	1,872,802
Other Managed funds	1,082,003	276,441	(283,176)	71,159	1,146,427
Property (See Note 10b)	176,615	20,675	(23,607)	35,617	209,300
Derivatives (forward foreign exchange contracts, futures)	(115)	26,774	(20,659)	(10,142)	(4,142)
	2,980,265	**642,304**	**(635,524)**	**238,524**	**3,225,569**
Cash & cash equivalents	81,747			1,169	85,614
Amounts receivable for sales	-				-
Investment income accrued	2,105				727
Property rental debtors	2,932				2,219
Amounts payable for purchases	-				-
Property creditors	(3,810)				(3,711)
Total Net Investments	**3,063,239**			239,693	**3,310,418**

Analysis of gains/(losses) for the year	2021/22 £'000
Realised - Profit and losses on disposal of investments	162,274
Unrealised - Changes in the market value of investments	77,419
	239,693

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

It is a requirement of the Pensions Statement of Recommended Practice (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 in 2022/23 is one of the four pooled sub-funds managed by BCPP, the two

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unitised insurance funds held with Legal and General, and an infrastructure investment with JP Morgan.

Holding	31 March 2022 £'000	% of Total Net Investments	31 March 2023 £'000	% of Total Net Investments
Border to Coast Pension Partnership Ltd - UK Equity	166,649	5.0%	149,663	4.7%
Border to Coast Pension Partnership Ltd - Global Equity Alpha	657,893	19.9%	682,461	21.6%
Investments over 5% managed by Border to Coast	**824,542**	**24.9%**	**832,124**	**26.3%**
Legal and General Over 5 Yr Index-Linked Gilts Index	558,368	16.9%	444,547	14.1%
Legal and General FTSE World Equity Index	184,315	5.6%	172,833	5.5%
Investments over 5% managed by Legal and General	**742,683**	**22.5%**	**617,380**	**19.6%**
Other pooled investments over 5% of Net Investment Assets				
JPMorgan - Institutional Infrastructure fund	167,371	5.1%	179,541	5.7%
	1,734,596	**52.5%**	**1,629,045**	**51.6%**

NB: Due to the removal of Apollo Total Return and PIMCO Diversified Income funds for comparator purposes, the totals no longer agree to the number stated in this note in the prior year accounts.

During the year Cumbria LGPS withdrew £24m from the BCPP UK Equity fund and £10m from L&G FTSE World Equity fund to address an overweight position which had developed due to growth in equity in the Fund, this was used to both rebalance into index-linked gilts and to make investments in private market assets.

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.

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

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

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Description of Asset/Liability	Basis of Valuation	Observable and unobservable inputs	Key Sensitivities affecting the valuations provided
LEVEL 1			
Cash and cash equivalents	Carrying value is fair value because of short-term nature (daily access)	Not required	Not required
LEVEL 2			
Forward foreign exchange derivatives*	Market forward exchange rates at the year-end.	Exchange rate risk	Not required
Pooled investments - unitised funds with underlying assets in quoted equity (UK or overseas), quoted fixed income, index-linked gilts or cash	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
LEVEL 3			
Investment Properties: Freehold and leasehold properties and property funds	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 equity and other private market assets (Pooled funds in infrastructure, private equity, private debt, unquoted multi-asset credit)	Investments in private equity funds and unquoted limited partnerships are valued based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.	Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

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

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

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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 2023.

Fair Value – Sensitivity of Asset values at Level 3

	Assessed valuation range (+/-)	Value at 31 March 2023 £'000	Value on increase £'000	Value on decrease £'000
Private market funds - Infrastructure	9.1%	414,735	452,476	376,994
Private market funds - Private Equity	10.1%	309,840	341,134	278,546
Private market funds - Private Debt	5.7%	221,060	233,660	208,460
Private market funds - Multi Asset Cred	6.0%	142,479	151,028	133,930
Property - direct and pooled funds	16.2%	242,982	282,345	203,619
Total		**1,331,096**	**1,460,643**	**1,201,549**

Further details on estimates and sensitivities of values 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 periods between April 2020 and March 2023, which included significant volatility related to COVID-19 and Russia's invasion of Ukraine, and also a period of high inflation, have all 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(g): FAIR VALUE HIERARCHY

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

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

To ensure that it continues to meet its funding target the Fund seeks 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

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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: 3% of Total Investments (2021/22: 2%)
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.

Level 2: 55% of Total Investments (2021/22: 57%)
Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value, the techniques used are based significantly on observable market data.

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

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

Level 3: 42% of Total Investments (2021/22: 41%)
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

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observable. Those current & long term assets/liabilities detailed in **Note 10** Investment Assets which are not measured at 'fair value through profit and loss' have not been included in this or the following table.

	31 March 2022				31 March 2023			
	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 Unquoted Equities (shares in BCPP Ltd)	-	-	1,182	1,182	-	-	1,182	1,182
Pooled Investments	-	1,872,802	1,146,427	3,019,229	-	1,748,498	1,174,556	2,923,054
Derivative contracts	-	0	-	0	-	-	-	-
Cash & cash equivalents	79,128	10,156	-	89,284	82,309	-	-	82,309
Total Financial assets at fair value through profit and loss	**79,128**	**1,882,958**	**1,147,609**	**3,109,695**	**82,309**	**1,748,498**	**1,175,738**	**3,006,545**
Investment properties (Non-financial assets) at fair value through profit and loss	-	-	209,300	209,300	-	-	156,540	156,540
Financial liabilities (Derivative contracts) at fair value through profit and loss	-	(4,142)	-	(4,142)	-	-	-	0
Total Investments at Fair Value	**79,128**	**1,878,816**	**1,356,909**	**3,314,853**	**82,309**	**1,748,498**	**1,332,278**	**3,163,085**
Percentage of Total Investments	**2%**	**57%**	**41%**	**100%**	**3%**	**55%**	**42%**	**100%**

NOTE 10(h): 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 2022/23	Market value 1 April 2022 £'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 2023 £'000
Unquoted Equities	1,182	-	-	-	-	-	-	1,182
Level 3 pooled investments (i.e. Other managed funds)	1,146,427	-	-	227,763	(225,007)	17,855	7,518	1,174,556
Investment Properties	209,300	-	-	979	(7,008)	3,153	(49,884)	156,540
	1,356,909	**-**	**-**	**228,742**	**(232,015)**	**21,008**	**(42,366)**	**1,332,278**

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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 2022 £'000	31 March 2023 £'000
Financial Instruments	3,104,356	3,004,115
Statutory debts / liabilities & provisions	4,059	2,660
Investment Property	209,300	156,540
Net Assets of the Fund	**3,317,715**	**3,163,315**

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. Money market funds totalling £67.971m within the 'Cash and cash equivalents' category at 31 March 2022 were reclassified as 'fair value through profit and loss' from 'assets at amortised cost' due to IFRS9. No other financial instruments were reclassified during the accounting period to 31 March 2023.

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	31 March 2022				31 March 2023			
	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	1,182	-	-	1,182	1,182	-	-	1,182
Pooled investment vehicles	3,019,229	-	-	3,019,229	2,923,054	-	-	2,923,054
Derivative contracts	-	-	-	-	-	-	-	-
Cash & cash equivalents	78,127	11,157	-	89,284	73,219	9,090	-	82,309
Investment receivables/debtors	-	2,946	-	2,946	-	2,063	-	2,063
Current & long-term assets	-	648	-	648	-	341	-	341
	3,098,538	**14,751**	**-**	**3,113,289**	**2,997,455**	**11,494**	**-**	**3,008,949**
Financial Liabilities								
Derivative contracts	(4,142)	-	-	(4,142)	-	-	-	-
Investment payables/creditors	-	-	(3,711)	(3,711)	-	-	(3,466)	(3,466)
Current/long-term liabilities	-	-	(1,080)	(1,080)	-	-	(1,368)	(1,368)
Total Financial Instruments	**3,094,396**	**14,751**	**(4,791)**	**3,104,356**	**2,997,455**	**11,494**	**(4,834)**	**3,004,115**
ANALYSIS OF NET GAINS AND (LOSSES) FOR YEAR ENDED 31st MARCH								
Financial Assets	208,218	-	-	208,218	(133,509)	-	-	(133,509)
Financial Liabilities	(4,142)	-	-	(4,142)	-	-	-	-
Total Net Gains/(Losses)				204,076				(133,509)

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: 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 2022 £'000	31 March 2023 £'000
Cash balances	**3,670**	**2,673**
Current Debtors		
Contributions due	4,392	3,073
Miscellaneous	1,068	750
Total Current Debtors	**5,460**	**3,823**
Total Current Assets	**9,130**	**6,496**

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Cash balances held by the Administering Authority are variable as the need arises to have cash available for pension payments and 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: 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.

	31 March 2022 £'000	31 March 2023 £'000
Current Creditors		
Investment Managers fees	215	316
Tax payable	753	822
Miscellaneous	865	1,052
Total Current Liabilities	**1,833**	**2,190**

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 asset 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	Market Risk: Liquidity	Market Risk: Other risks	2021/22 £'000	2022/23 £'000
UK Equities	◍	◍	◍	○	◍	167,831	150,845
Overseas Equities	◍	●	◍	○	◍	995,834	1,007,375
Index Linked Gilts	○	○	◍	○	◍	558,368	444,547
Property *	◍	○	◍	●	◍	209,300	156,540
Alternative Investments	◍	◍	◍	●	◍	1,298,378	1,321,469
Derivatives**	◍	●	○	○	◍	(4,142)	-
UK Cash	◍	○	◍	○	◍	81,125	73,081
Overseas Cash	◍	●	◍	○	◍	8,159	9,228
Total Investments at Fair Value						**3,314,853**	**3,163,085**

Overall Procedures for Managing Risk

The principal powers under which a 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 Pension Fund website under 'Forms and Publications / Policies'.

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 2023.

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 Pension Fund website under 'Forms and Publications / Policies''.

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

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

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expensive, resource intensive and time consuming. While conducting an 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 3-5 years.

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). In the following two years, with the impact of the pandemic on global investment markets increasing the risk of the Fund achieving lower investment returns than those reflected in the Actuary's assumptions, the Fund undertook a further review of its Investment Strategy to assess and react to the impact this could have on employer contributions in future years. This gave a longer-term target strategic allocation - an evolution of the Fund's strategy from the 2019 position - which was agreed at Pensions Committee in March 2021. In addition, follow up work regarding implementation steps to achieve the longer-term allocation was considered by the Investment Sub-Group and Pensions Committee in late 2021 and early 2022 and, as noted below, a further "sense check" of the Strategy was undertaken in mid-2022 in response to rising inflation. Undertaking reviews to continually evolve the strategy, 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:

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

- Stability for employers - 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 which are therefore 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 the Fund recognises that, as part of its diversified portfolio, it requires allocations to assets that are linked to inflation e.g. long lease property, index-linked gilts and infrastructure equity/debt, to maintain its strong funding position.

  N.B. in recognition of rises in inflation in both the UK and globally the Fund undertook a "sense check" of the Fund's Investment Strategy to assess whether any changes were required in response to the impact of inflation on both the Fund's liabilities and the Actuary's assumptions in relation to the future investment returns of the current Investment Strategy. The conclusion in September 2022 was that no changes to the Fund's long-term asset allocations were required.

- 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

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increase the Fund's exposure to less liquid assets in order to benefit from the illiquidity premium.

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 10 years it has been in place. The process continues to evolve as the Fund continues to enhance its governance and monitoring.

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 BCPP's 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 2023 were £2.673m (2021/22: £3.670m) within current assets (see **Note 12**), and £79.636m (2021/22: £85.614m) shown as cash and cash equivalents within investments (see **Note 10**). These funds

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

Cash and Cash Equivalents	Rating at 31 March 2023	Balances as at 31 March 2022 £'000	Balances as at 31 March 2023 £'000
Money Market Funds			
Northern Trust GBP Liquidity Fund	AAA	62,748	65,456
Northern Trust USD Liquidity Fund	AAA	4,588	5,099
Northern Trust EUR Liquidity Fund	AAA	635	2,664
Bank deposit accounts			
National Westminster Bank	A+	3,670	2,673
Bank current accounts			
Barclays Bank	A+	3,616	4,924
Northern Trust Company (GBP)	AA	936	28
Northern Trust Company (USD, EUR)	AA	2,881	1,465
State Street Bank (CHF)	AA	46	-
State Street Bank (EUR)	AA	8	-
Cash Equivalents - Fixed income funds			
Insight Liquidity Plus fund	AAAf/S1	10,156	-
Total		**89,284**	**82,309**

Market Risk

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

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

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

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Mitigation against market risk is also achieved by diversification 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 private market asset classes (e.g. infrastructure, real estate debt, private equity secondary funds, royalties, private market loans) which the Fund is now investing in.

Market Risk – Sensitivity Analysis

The Fund's funding position is sensitive to changes in market prices (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 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 March 2020 and March 2021 as well as January 2022 to March 2022, which included a significant portion of the volatility related to COVID-19 and Russia's invasion of Ukraine respectively have 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.

Market Risk - Sensitivity Analysis	2022/23 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
Equities	1,158,220	14.0%	1,320,371	996,069
Index Linked Gilts	444,547	16.6%	518,342	370,752
Infrastructure Funds	414,735	9.1%	452,476	376,994
Private Equity Funds	309,840	10.1%	341,134	278,546
Private Debt Funds	221,060	5.7%	233,660	208,460
Multi Asset Credit Funds	289,392	6.0%	306,756	272,028
Property and Property Funds	242,982	16.2%	282,345	203,619
Cash	82,309	2.4%	84,284	80,334
	3,163,085		**3,539,368**	**2,786,802**

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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 2023, the Fund had overseas investments of £1,703.856m and £9.228m 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 March 2020 and March 2021 as well as January 2022 to March 2022, which included a significant portion of the volatility related to COVID-19 and Russia's invasion of Ukraine respectively have 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 £128.117m, or 4.1% of the Fund's total value.

Foreign Exchange - Sensitivity Analysis	2022/23 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
US Dollar denominated assets	1,058,088	9.1%	1,154,374	961,802
European currency denominated assets	365,615	5.3%	384,993	346,237
Other currency denominated assets	197,669	6.3%	210,122	185,216
UK assets within Global equity funds	91,712	0.0%	91,712	91,712
	1,713,084		**1,841,201**	**1,584,967**

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 some of their foreign currency exposure to minimise potential losses due to adverse currency movements between the purchase and sale of an asset. As such, during the most recent Investment Strategy Review the Fund's approach to hedging was reviewed.

As reported in the Financial Statements for 2021/22 the conclusion of this review was that the Fund should no longer hedge 50% of its public equity investments denominated in overseas currencies but instead hold its more stable contractual mandates (such as private debt and infrastructure) in sterling share classes where possible.

The 'unwinding' of the Fund's use of foreign exchange derivates and the move to holding the majority of the Fund's more stable contractual mandates in sterling share

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classes was undertaken in stages between February and July 2022. As at 31 March 2022, the Cumbria Fund had a remaining hedge in place for one infrastructure fund investment denominated in US dollar currency, hedged into sterling in accordance with a passive currency overlay program, until the planned transfer into a GBP share class. This was reduced to nil by July 2022 (see **Note 10(c)**).

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The UK Bank Rate had been 0.75% in March 2022, and was increased on eight occasions in the twelve months, to 4.25% in March 2023. 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 2023 and 31 March 2022 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value. Therefore a 0.75% change in interest rates (which would bring the base rate up to 5.0%) will increase or reduce the Fund's return by £3.951m (2021/22 £4.857m) on an annualised basis.

Assets exposed to interest rate risk	**31 March 2022 £'000**	**31 March 2023 £'000**
Fixed interest securities (including pooled investments)	558,368	444,547
Cash and cash equivalents	21,313	9,090
Money market funds and pooled cash vehicles	67,971	73,219
	647,652	**526,856**

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

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collects more in annual income from contributions and investments than it requires to fulfil all obligations).

In 2022/23, 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.

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(g) 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 2023 the value of assets which could be converted to cash within three months, without significant loss to the Fund, is £1,830.807m, i.e. 58% of net assets (31 March 2022 £1,957.944m, 59%). The value of the illiquid assets including investment properties was £1,332.278m which represented 42% of net assets (31 March 2022 £1,356.909m, 41%).

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

A maturity analysis for investment liabilities for 2021/22 (all of which were derivatives) is shown in **Note 10(c)** there are no investment liabilities for 2022/23. The current liabilities of the Fund (see **Note 13**) are all due within 12 months from the Net Assets Statement date. The Fund has no long term liabilities over 12 months.

Counterparty Risk

The principal mitigation of the counterparty risk on investment assets including foreign currency trades 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 advisors and investment managers as part of the oversight of risks. Subject to overriding requirements as the Fund's 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, and
- the bank's position in the market for sourcing Private Finance Initiative (PFI), corporate, utility and other non-government sources of inflation-linked debt.

8. THE PENSION FUND ACCOUNTS

Neither the investment manager nor any of its related companies would act as counterparty in a deal they traded. As part of the manager's credit and counterparty risk framework, the creditworthiness of all counterparties is reviewed on a regular basis.

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. Investment managers usually apply operational settlement netting, thus allowing clients to reduce their settlement exposures by having smaller amounts due to or from them.

There is no movement of principal capital; the credit exposure to either party is represented by the profit or loss on the positions at that point in time i.e. £4.142m loss on the currency derivatives at 31 March 2022 only, there are no investment liabilities as at 31 March 2023 (see **Note 10c**).

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.

The Fund has allocations to unquoted pooled investment vehicles including infrastructure, pooled property funds, private loan funds 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 2023 are as follows:

8. THE PENSION FUND ACCOUNTS

Asset Class	2021/22 £'000	2022/23 £'000	Manager	Holding Details
Pooled investment vehicles				
Managed by Pool	1,130,119	1,131,118	Border to Coast	UK, Overseas and Global equity funds, fixed income multi-asset fund
	70,791	123,900	Border to Coast Cumbria LP	Infrastructure Funds
	66,642	108,212	Border to Coast Cumbria LP	Private Equity Funds
	7,786	51,859	Border to Coast Cumbria LP	Private Credit Funds
Unitised insurance policies	742,683	617,380	Legal and General	Index tracking funds
Other managed funds	167,371	179,541	JP Morgan	Infrastructure
	102,360	124,498	Partners Group	Private Market Credit
	152,458	113,223	Apollo	Multi Asset Credit
	64,552	70,149	Partners Group	Infrastructure
	64,717	70,075	Pantheon	Private Equity Funds
	43,341	51,210	Healthcare Royalty Partners	Royalties Fund
	48,465	44,703	Barings	Private Loan Fund
	31,510	41,717	Aberdeen SL Capital	Private Equity Funds
	35,737	41,146	Aberdeen SL Capital	Infrastructure
	43,988	36,989	Aviva	Property Fund
	43,763	36,343	Unigestion	Private Equity Funds
	43,255	33,057	M&G	Property Fund
	120,854	29,256	CQS	Multi Asset Credit
	4,997	16,396	Hearthstone	Residential Property Fund
	4,452	2,283	BlackRock	Private Equity Funds
	28,821	-	PIMCO	Multi Asset Credit
	10,156	-	Insight Investments	Fixed income / cash
	977	-	M&G	Real Estate Debt
UK equity unquoted	1,182	1,182	Border to Coast	Company share capital
	3,030,977	**2,924,237**		

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.

8. THE PENSION FUND ACCOUNTS

The three providers offered are Prudential Assurance Company, 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 Utmost Life, are shown below:

	2021/22 £'000	2022/23 £'000
Standard Life	882	407
Scottish Widows*	820	820
Utmost Life	411	361
Prudential Assurance Company	2,919	3,997
Total AVCs	**5,032**	**5,585**

*Due to Administration issues, Scottish Widows have been unable to provide values as at 31 March 2023, the value for 2022/23 in the above table is a carry forward of the 2021/22 valuation.

As part of the Prudential update the Fund were advised of a slight adjustment to the value of £2.916m at 31 March 2022 published in the 2021/22 accounts. The revised value for 31 March 2022 is £2.919m (shown in the table below) which then links to the current year table shown above.

	2020/21 £'000	2021/22 £'000
Standard Life	921	882
Scottish Widows	795	820
Utmost Life	456	411
Prudential Assurance Company	2,055	2,919
Total AVCs	**4,227**	**5,032**

8. THE PENSION FUND ACCOUNTS

AVC contributions of £1.461m were paid from employees to the providers during the year, including those to Prudential Assurance Company (£0.012m excluding those to Prudential Assurance Company). During 2021/22 the contributions paid by employees including to Prudential Assurance Company totalled £1.082m (£0.053m excluding those to Prudential Assurance Company).

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 the 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 indicated in Note 22, in 2017/18 the Fund became a partner in BCPP as its chosen route to pool investment assets across the LGPS. BCPP is the organisation set up to run pooled LGPS investments for the Fund and initially 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 initially issued 12 £1 A Ordinary shares. There are now 11 £1 A Ordinary shares in issuance following the merger of two of the founding members of the BCPP (Northumberland County Council Pension Fund and Tyne and Wear Pension Fund) in 2020/21. 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 2022/23.

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

8. THE PENSION FUND ACCOUNTS

Fund were asked to complete a declaration on related parties. An examination of the returns for 2022/23 reveals that there were no material transactions between the members/officers and their families affecting involvement with the Fund. Each member of the Pensions 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 at least 85% of the active membership. This target has been exceeded in 2022/23, with 90% coverage.

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 employed the staff involved in providing the duties of the Administering Authority (excluding the pensions administration service which is provided by 'LPPA') 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 2022/23 (see Note 14 to those statements).

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

Notes on below table:

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

- Benefits in Kind – includes expense allowances liable for taxation including for example, travel and mileage expenses. For 2022/23 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 2022/23.

- Cumbria County Council's Employer's Future Service Rate – LGPS 18.4% (current service cost).

8. THE PENSION FUND ACCOUNTS

- 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 2022/23 on Cumbria LGPS specific work.

- During 2022/23 the Director of Finance (S151) of Cumbria County Council of the Fund left and was replaced by an interim Acting Director of Finance (S151). Costs for the Acting Director of Finance were paid to an employment agency and therefore the Officer did not meet the definition of an employee of the Council. The cost attributable to the Pension Fund for the interim Acting Director of Finance (S151) in 2022/23 was £5,003 and is noted for completeness only.

- During 2022/23, in addition to the Remuneration of Senior Officers of Cumbria County Council who have significant management responsibilities for Cumbria LGPS, one officer (1FTE) (2021/22:1FTE) received remuneration (excluding pension contributions) in the £55,000 - £59,999 range however the remuneration (excluding pension contributions) 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 2022/23 this allowance was £7,502. 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

2022/23 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) – P. Duke	10,472	10,472	1,877	12,349
Senior Manager – Pensions & Financial Services (Deputy S151 Officer - LGPS)	51,376	51,376	11,929	63,305
	61,848	**61,848**	**13,806**	**75,654**

2021/22 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) – J. Crellin	2,642	2,642	486	3,128
Director of Finance (S151 Officer) – P. Duke	10,105	10,105	1,859	11,964
Senior Manager – Pensions & Financial Services (Deputy S151 Officer - LGPS)	47,053	47,053	14,657	61,710
	59,800	**59,800**	**17,002**	**76,802**

8. THE PENSION FUND ACCOUNTS

NOTE 17: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

There are no contingent liabilities or outstanding contractual commitments at 31 March 2023.

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. 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.

Historically, there have been some notable court cases such as Manninen and Fokus, *EU Commission v Germany, Santander, and EU Commission v Portugal* initially added to the strength of the argument, however more recent developments outlined below have been less favourable and have prompted Officers to question Cumbria's commitment to continue in the group litigation when the overall chance of success for these claims appears diminished.

During 2022/23 the Fund received updates from the leading professional services firm, acting on behalf of the Cumbria Fund, detailing developments in the various cases and providing an updated assessment of the prospects of a successful claim as detailed below.

- **FIDs/Manninen**: The Fund received a refreshed Opinion from Counsel, which lowered the prospects of success for the FID's Manninen claims, indicating a number of claimants had withdrawn from the group litigation, including the test claimant. As no new test claimant came forward the group litigation needed to be disbanded, and this process is now underway. Cumbria Pension Fund has reached its cost cap and will not be required to contribute to any adverse costs

- **Manufactured overseas dividends (MODs):** The UK Supreme Court (UKSC) issued its unanimous judgement on 27 April 2022 which found in favour of HMRC, overturning previous favourable decisions. The Group litigation for Manufactured Overseas Dividend (MODs) claims was later disbanded after all participants including Cumbria Pension Fund indicated their wish to withdraw the claims. There is no cost cap in this case and the Fund has recently been advised of its share of costs.

- **Fokus Bank:** There were no repayments during 2022/23, although the Fund has received £0.271m of income in previous years. The leading professional services firm, acting on behalf of the Cumbria Fund has reported in respect of the Fokus Bank claims that the French Tax Authority (FTA) and the German Central Tax office are now actively addressing claims and have started issuing

8. THE PENSION FUND ACCOUNTS

information requests to claimants. Work is ongoing by officers in the Cumbria Fund to establish the availability and cost of providing any requested historic data. These are now the only claims in which the Fund remains an ongoing participant.

The estimated value of claims still outstanding at 31 March 2023 was £0.868m (value in GBP), which relates to the Fokus Bank claims only.

The fees incurred to date for all of the outstanding tax claims mentioned above total £0.515m and have been charged as expenditure to the fund account in the appropriate accounting period.

Class Actions

Where shareholder value has been eroded by wrongful action by company directors, sometimes it is possible for monies to be recovered via the courts by a shareholder class action against the company or its directors. The Fund uses Institutional Protection Services Ltd to monitor these class actions. The Fund will seek to recover any significant monies due where professional advice has been received detailing that the probability of success is believed to outweigh the additional cost of doing so.

NOTE 19: IMPAIRMENT LOSSES

All outstanding debts for non-recovery of pension overpayments and all other debts raised during 2022/23 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 2022/23.

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 £3.823m (£5.460m at 31 March 2022) of current debtors (see **Note 12**) is £0.011m of debtors aged between two and six months (£0.163m at 31 March 2022) and £0.029m of debtors aged greater than six months (£0.053m 31 March 2022).

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 was wound down in 2020/21.

Within the BCPP UK and Global equity sub-funds that the Fund has subscribed to, BCPP actively participates in stock lending and the income from this forms part of the return on the holding. Legal and General also operate a stock lending programme in selective overseas equity markets under strict conditions and income from this forms part of the return on the passive global equity holding.

The Fund had no securities on loan at 31 March 2023 and earned no income directly in 2022/23 through stock lending.

NOTE 21: EVENTS AFTER THE REPORTING DATE

The Russian invasion of Ukraine remains an ongoing issue and the more recent conflict in the Middle East are a focus of instability in financial markets. In addition, whilst interest rate increases and high inflation in the UK continue to affect valuations in index-linked gilt markets, the valuation of these assets has made a modest recovery in the last quarter due to interest rates remaining stable during this period. The impact of these matters on the valuation of the Fund's assets continued to be assessed up until the publication of the audited accounts.

Post year-end volatility across a number of asset classes has led to an overall increase to valuations of the Fund's assets in the following three quarters; as at 31 December 2023 the estimated total Fund value is £3,292m. This represents a 0.7% increase compared to the reported Fund value of £3,163m at 31 March 2023. There have been no 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).

Local Government Reorganisation took place in Cumbria on 1 April 2023 and as detailed in Note 1(a), Westmorland & Furness Council became the Administering Authority of Cumbria LGPS, as set out in legislation via a Statutory Instrument. Whilst a significant event for the Fund, there are no financial implications to the Pension Fund arising from this vesting of Administering Authority.

NOTE 22: 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. Whilst none are critical judgements those with most significant effect are:

- the wider Local Government Pension Scheme and specifically the functions of the Cumbria Fund will continue in operational existence for the foreseeable future as a going concern;
- and
- the valuation of 'level 3' assets (as described further below).

8. THE PENSION FUND ACCOUNTS

No investments are impaired (**Note 19**, and further detail on the investment strategy and approach to managing risk in **Note 14**).

Those charged with governance have been provided with further information detailing the use of estimates within these financial statements. This includes the processes and procedures in place including the risks and associated controls so as to ensure that they understand and are content with the levels of scrutiny and controls in place where estimates are applied. This includes estimates used to determine the value of:

- Level 3 assets (as provided by Investment Managers and the underlying independent valuers (where applicable));
- Property (as provided by an independent property valuer); and
- Historic pension liabilities (as assessed by the Fund's Actuary).

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 at 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. £31.590m, with a decrease having the opposite effect. Level 3 investments including property – often income will be inflation linked e.g. CPI 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, and 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. For further information on the Sensitivity of Asset values at Level 3 including property, please refer to Note 10(f). Further information on the sensitivity analysis of market prices for the Fund's investments (excluding

8. THE PENSION FUND ACCOUNTS

Item	Uncertainties	Effect if actual differs from assumptions
		derivatives) is included in the Market Risk section of Note 14.
Pensions Liability (or Surplus)	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 Cumbria Pension Fund website.	The effects on the funding level of changes in the individual assumptions can be measured; but interact in complex ways. For instance: • a 0.25% increase in life expectancy would result in a £23m decrease in funding surplus; • a 0.25% reduction in the real investment return achieved would result in a £134m decrease in the funding surplus, or; • a 25% reduction in Asset values would result in a £829m decrease in the funding surplus; as determined at the 2022 valuation.

Investment in the Fund's asset pooling company – Border to Coast Pensions Partnership Ltd (BCPP) company number 10795539

Cumbria County Council, as Administering Authority for the Cumbria Local Government Pension Scheme, holds 'A Ordinary' share capital and class B non-voting shares in BCPP. For accounting purposes this holding is included and reported within the Cumbria LGPS Annual Report and Accounts and has been valued at transaction price (i.e. cost, as an appropriate estimate of fair value) as follows:

- The Class A share is valued at £1 and reflects the ownership stake in the company carrying full voting rights, dividend and capital distribution rights; and
- The Class B shares are valued at £1,181,818 and represented the Fund's contribution to the company's FCA regulatory capital requirement.

Management have made this judgement using the criteria set out in IFRS 9 Financial Instruments:

- Fair value cannot be otherwise established for these assets as there is currently no market for the shares and no identical or similar market to compare to;
- After two of the pool's partner funds (Northumberland and Tyne & Wear) merged on 1 April 2020, the obligation to meet the company's capital requirement were re-allocated between the remaining eleven partner funds. This serves as a precedent that in the event of a future exit from the partnership, the Fund's shares could be disposed of at cost back to the pool and re-issued to the remaining partners; and
- The first four years of financial accounts for the Company show the shareholder funds to be equivalent to the regulatory capital invested (at cost) and there is no intention for the company to generate any material profit and shareholders have agreed that the minimal amount of profit for 2022-23 will be retained, meaning

that no dividend to shareholders has been declared and there is no expectation of a future dividend being projected.

The cost of these shares has therefore been determined as a reasonable and appropriate estimate of their fair value.

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).

The valuation of 'level 3' assets

Valuations for Private Equity investments are usually received at least a quarter in arrears, and these investments are valued at an estimate to the fair value at 31 March, as best as is available at the time of preparation. For 31 March 2023, the 31 December 2022 valuations have been the latest available for the private equity investments shown at Note 10 (9.9% of the net investments assets), further cash transactions up to 31 March are reflected. Private equity has historically been shown to protect value when public quoted equity falls, which was seen in the final quarter, but to remain prudent no assumptions for a value uplift have been incorporated into the estimate to fair value.

Infrastructure investments have been positively impacted overall from rising inflation and power demand, as these include operational and essential assets in renewable and contracted energy, power distribution and utilities. For 31 March 2023, the 31 December 2022 valuations have been the latest available for £193.966m of the infrastructure investments shown at Note 10 (6.1% of the net investments assets), further cash transactions up to 31 March are reflected, but to remain prudent no assumptions for a value uplift have been incorporated into the estimate to fair value.

NOTE 23: ACTUARIAL POSITION OF THE FUND

The Fund Actuary assessed the valuation of the Cumbria Local Government Pension Scheme as at 31 March 2022 to determine the contribution rates with effect from 1 April 2023 to 31 March 2026.

The full Actuarial Valuation Report as at 31 March 2022 and the previous Actuarial Valuation Report as at 31 March 2019 are available on the Cumbria Pension Fund website at www.cumbriapensionfund.org.

8. THE PENSION FUND ACCOUNTS

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.

	31 March 2022 £'m	31 March 2023 £'m
Valuation Basis		
Present value of past service liabilities	(3,017)	(2,986)
Net assets of the Fund	3,318	3,163
Net Surplus (Liability)	**301**	**177**
IAS 19 Basis		
Present value of past service liabilities	(4,157)	(2,913)
Net assets of the Fund	3,318	3,163
Net Surplus (Liability)	**(839)**	**250**

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.

Mercer

CUMBRIA LOCAL GOVERNMENT PENSION FUND

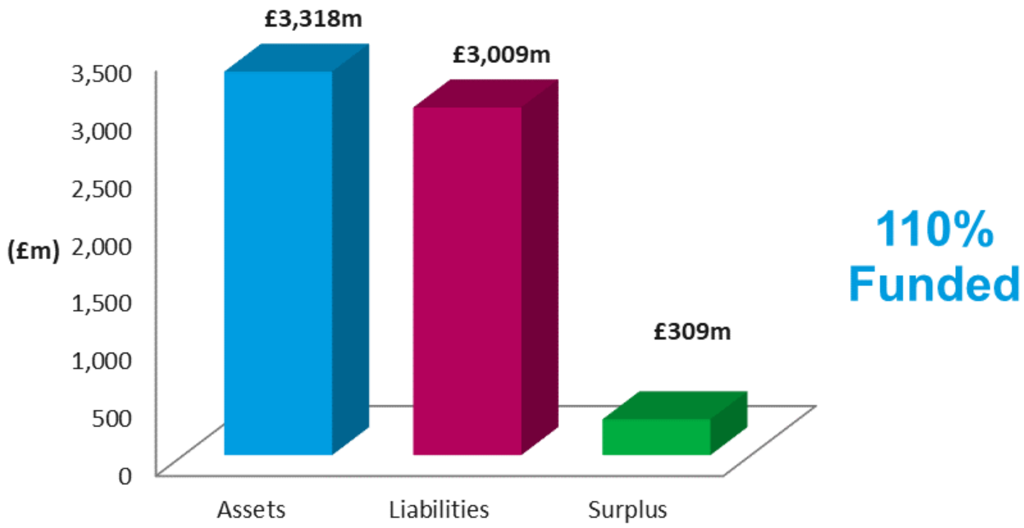
ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2023 - STATEMENT BY THE CONSULTING ACTUARY

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 2022 to determine the contribution rates with effect from 1 April 2023 to 31 March 2026.

On the basis of the assumptions adopted, the Fund's assets of £3,318 million represented 110% of the Fund's past service liabilities of £3,009 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £309 million.

Actuarial Valuation as at 31 March 2022



The valuation also showed that a Primary contribution rate of 18.9% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and 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. Equally, where there is a surplus, it may be

8. THE PENSION FUND ACCOUNTS

appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At the actuarial valuation the average recovery period adopted was 10 years, and the total initial recovery payment (the "Secondary rate" for 2023/26) was a surplus offset of approximately £2.1m 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 March 2023.

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

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

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:

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.35% per annum	5.10% per annum
Rate of pay increases (long term)	4.6% per annum	4.6% per annum
Rate of increases in pensions in payment (in excess of GMP)	3.1% per annum	3.1% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2025. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2026.

8. THE PENSION FUND ACCOUNTS

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 2023 (the 31 March 2022 assumptions are included for comparison):

	31 March 2022	31 March 2023
Rate of return on investments (discount rate)	2.8% per annum	4.8% per annum
Rate of CPI Inflation / CARE benefit revaluation	3.3% per annum	2.7% per annum
Rate of pay increases	4.8% per annum	4.2% per annum
Increases on pensions (in excess of GMP) / Deferred revaluation	3.4% per annum	2.8% per annum

The demographic assumptions are based on those used for funding purposes:

- the start of period assumptions are based on the 2019 actuarial valuation assumptions (but updated to the 2021 CMI future improvement tables)
- the end of period assumptions are based on the updated assumption adopted for the 2022 actuarial valuation, with a long-term rate of life expectancy improvement of 1.5% p.a.

Full details of the demographic assumptions are set out in the formal reports to the respective valuations.

The movement in the value of the Fund's promised retirement benefits for IAS 26 is as follows:

Start of period liabilities	£4,157m
Interest on liabilities	£115m
Net benefits accrued/paid over the period*	£62m
Actuarial (gains)/losses (see below)	(£1,421m)

8. THE PENSION FUND ACCOUNTS

Start of period liabilities	**£4,157m**
End of period liabilities	**£2,913m**

**this includes any increase in liabilities arising as a result of early retirements*

Key factors leading to actuarial gains above are:

- **Change in financial assumptions:** Corporate bond yields increased significantly over the year, with a corresponding increase in discount rate to 4.8% p.a. from 2.8% p.a. In addition, there has been a reduction in long-term assumed CPI to 2.7% p.a. from 3.3% p.a. In combination, these factors lead to a significant reduction in liabilities

- **Change in demographic assumptions:** As noted above, the assumptions have been updated to reflect the 2022 actuarial valuation assumptions. This acts to reduce the liabilities

- **Pension increases / high short-term inflation:** The figures allow for the impact of the April 2023 pension increase of 10.1%, along with the high levels of CPI since September 2022 (which will feed into the 2024 pension increase). As current inflation is higher than the long term assumption, this increases the liabilities

- **2022 actuarial valuation:** The year-end liabilities allow for the final 2022 valuation results, and so will allow for the difference between the assumptions and actual member experience over 2019/22. This will include factors such as the impact of actual pay increases awarded, actual rates of ill-health retirement, etc.

Leanne Johnston

Fellow of the Institute and and

Faculty of Actuaries

Mark Wilson

Fellow of the Institute

Faculty of Actuaries

Mercer Limited

May 2023

Appendix - additional considerations

8. THE PENSION FUND ACCOUNTS

The "McCloud judgment": The figures above allow for the impact of the judgment based on the proposed remedy.

GMP indexation: The above figures allow for the provision of full CPI pension increases on GMP benefits for members who reach State Pension Age after 6 April 2016.

Covid 19 / Ukraine: The financial assumptions allow for these factors to the degree that they are reflected in the market values on which the assumptions are based. The impact of COVID deaths over the period 2019/22 will be included in the actuarial gains / losses item above. The mortality assumption includes no specific adjustment for COVID as our view is that it is not possible at this point to draw any meaningful conclusions on the long-term impact.

Current high inflation: The period-end figures above allow for the impact of actual known CPI at the accounting date as noted above. The period-end assumptions then allow for expected (market implied) CPI from that point.

NOTE 24: ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

The Fund is required to disclose information relating to the impact of Accounting Standards that have been issued but have not yet been adopted.

There have been no accounting standards issued but not yet adopted that would materially impact on the 2022/23 financial statements.

NOTE 25: PARTICIPATING EMPLOYERS OF THE FUND

As at 31 March 2023 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 2023 (total 125)

Scheduled Scheme Employers (13)
- Cumbria County Council
- Allerdale Borough Council
- Barrow Borough Council
- Carlisle City Council
- Copeland Borough Council
- Eden District Council
- South Lakeland District Council
- Cumbria Chief Constable
- Cumbria Police & Crime Commissioner
- Furness College
- Kendal College
- Lake District National Park Authority
- Lakes College (West Cumbria)

Scheduled Resolution Bodies (16)
- Allerdale Waste Services
- Aspatria Town Council
- Cleator Moor Town Council
- Cockermouth Town Council
- Cumbria Waste Management
- Egremont Town Council
- Grange Town Council
- Kendal Town Council
- Keswick Town Council
- Maryport Town Council
- Orian Solutions
- Penrith Town Council
- Ulverston Town Council
- Whitehaven Town Council
- Wigton Town Council
- Workington Town Council

Scheduled Bodies - Academy Employers (37)
- Appleby Grammar Academy
- Arnside National CofE Academy
- Bassenthwaite Academy
- Burton Morewood Primary Academy
- Caldew Academy
- Cartmel Priory Academy
- Cockermouth Academy
- Crosby on Eden Academy
- Cumbria Academy for Autism
- Changing Lives Learning Trust (one employer)
  - Arlecdon Primary Academy
  - Dearham Academy
  - Flimby Primary Academy
  - Thornhill Primary Academy
  - West Lakes Academy
- Cumbria Education Trust (one employer)
  - Caldew Lea Academy
  - Castle Carrock Academy (merged)
  - Hensingham Primary
  - Longtown Academy
  - Newtown Primary Academy
  - Northside Primary Academy
  - Petteril Bank Academy (new)
  - Tebay Academy
  - The Workington Academy
  - Whitehaven Academy
  - William Howard Academy
  - Yanwath Academy
  - Yewdale Academy
- Eaglesfield Paddle Academy
- Energy Coast UTC

Scheduled Bodies - Academies (cont)
- Furness Education Trust (one employer)
  - Furness Academy
  - Newton Primary Academy (new)
  - Parkside GGI Academy
  - Victoria Primary Academy
  - Yarlside Primary Academy
- George Hastwell School Academy
- Ghyllside Academy
- Great Corby Academy
- James Rennie Academy
- Kendal MAT - Castle Park Academy
- Keswick Academy
- Kirkbie Kendal Academy
- Kirkby Stephen Academy
- Learning for Life Trust (one employer)
  - Broughton Primary Academy (merged)
  - Fairfield Primary Academy
- Lunesdale MAT (one employer)
  - Queen Elizabeth Academy
  - Queen Elizabeth Studio School
- Mater Christi MAT (one employer)
  - Dean Gibson Catholic Primary Academy
  - Our Lady & St Patrick's Catholic Academy (new)
  - Our Lady of the Rosary Catholic Primary Academy (new)
  - Scared Heart Catholic Primary Academy
  - St Bernard's Catholic High Academy
  - St Cuthbert's Catholic Academy Carlisle
  - St Cuthbert's Catholic Academy Windermere
  - St Gregory's Catholic Primary Academy (new)
  - St Joseph's Catholic High Academy
  - St Margaret Mary's Catholic Academy
  - St Mary's Catholic Primary Academy ULV (new)
  - St Puis X Catholic Primary Academy (new)
- Queen Elizabeth Grammar Academy
- Richard Rose Academies
- Seaton Academy
- Settlebeck High Academy
- South Cumbria MAT (one employer)
  - Chetwynd School Academy
  - Ormsgill Nursery & Primary Academy (new)
  - Vickerstown Academy (new)
- South Westmorland MAT - Dallam Academy
- Stanwix School Academy
- Stramongate Academy
- The Good Shepherd MAT (one employer)
  - Ambleside Primary Academy
  - Braithwaite Primary Academy
  - Dean Academy
  - Ellenborough & Ewanrigg Academy
  - Gilsland Academy
  - Kirkland Academy
  - Lazonby Academy
  - Lorton Academy
  - Penny Bridge Academy (merged)
  - Threlkeld Academy
  - Whitfield Academy
  - Wreay School Academy
- The Queen Katherine School Academy
- Trinity Academy
- Walney Academy

Scheduled Bodies No Actives (12)
- Brampton Parish Council

Scheduled Bodies No Actives (cont)
- Charlotte Mason College
- Cumbria Institute of the Arts
- Cumbria Primary Teacher Training
- Cumbria Sea Fisheries
- Dept Constit Affairs (Cumbria Magistrates)
- Health Authority
- Millom Town Council
- Port of Workington
- Practical Alternatives to Custody (Ltd)
- Seaton Parish Council
- Water Authority

Admitted Bodies Transferee (17)
- Bulloughs (Caldew Academy) (new)
- Carlisle Leisure Ltd
- Carlisle Leisure Allerdale
- Caterlink - Longtown (new)
- Caterlink - St Bernard's CHS
- Caterlink - Thornhill (new)
- Caterlink - W/Lakes
- Caterlink - WHT
- Cumbria Teacher Training (new)
- Greenwich Leisure (Copeland)
- Greenwich Leisure (South Lakes)
- Mellors Catering - Appleby
- Mellors Catering - Kirkby Stephen
- People First
- Priority Facilities (Ashfield Infs) (new)
- Priority Facilities (St Mary's, Work)
- Tullie House Trust

Admitted Bodies Community (13)
- Care Quality Commission
- Cumbria Cerebral Palsy
- Cumbria Deaf Vision
- Eden Housing Association
- Glenmore Trust
- Higham Hall
- Home Group (Copeland)
- Lakeland Arts Trust
- Longtown Memorial Hall Community Centre
- Morton Community Centre
- Oaklea Trust
- South Lakes Housing
- West House

Admitted Bodies No Actives (17)
- Carlisle Mencap - Huntley Ave
- Carlisle Mencap - Hart St
- Cumbria Training Partnership
- Direct Training Services
- Egremont & District Pool Trust
- Harraby Community Centre
- Henry Lonsdale Trust
- Kendal Citizens Advice
- Lake District Cheshire Homes
- Mellors Catering Services - Rockcliffe
- NRCS Ltd (Neighbourhood Revitalisation)
- Project Homeless
- Soundwave
- SLS (Cumbria) Ltd - QK
- SLS (Cumbria) Ltd - StH
- Troutbeck Bridge Swimming Pool
- Wigton Joint Burial Committee

APPENDIX A: FUND POLICY DOCUMENT

9 OTHER STATEMENTS

9.1 AUDITOR'S OPINION

Grant Thornton

Independent auditor's statement to the members of Westmorland and Furness Council on the pension scheme financial statements of Cumbria Local Government Pension Scheme, included within the pension scheme annual report

Opinion

We have examined the pension scheme financial statements of Cumbria Local Government Pension Scheme (the 'pension scheme') for the year ended 31 March 2023 included within the pension scheme annual report, which comprise the Pension Fund Account, the Net Assets Statement, and the notes to the financial statements, including the summary of significant accounting policies.

In our opinion, the pension scheme financial statements are consistent, in all material respects, with the audited financial statements of Cumbria County Council for the year ended 31 March 2023 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

Respective responsibilities of the Director of Resources and the auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Resources is responsible for the preparation of the pension scheme's financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

Our responsibility is to state to the members of Westmorland and Furness Council our opinion on the consistency of the pension scheme financial statements within the pension scheme annual report with the financial statements of Cumbria County Council.

We also read the other information contained in the pension scheme annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension scheme financial statements. The other information comprises the information included in the pension scheme annual report, other than the pension scheme financial statements and our auditor's statement thereon.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the financial statements of Cumbria County Council describes the basis of our opinion on those financial statements.

Use of this auditor's statement

This statement is made solely to the members of Westmorland and Furness Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of Westmorland and Furness Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Westmorland and Furness Council and the members of Westmorland and Furness Council, as a body, for our work, for this statement, or for the opinions we have formed.

John Farrar

John Farrar
for and on behalf of Grant Thornton UK LLP, Local Auditor

Liverpool

13 February 2024

APPENDIX A: FUND POLICY DOCUMENT

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

FUND POLICY DOCUMENT

CONTENTS

Approved March 2023

APPENDIX A - 1. INTRODUCTION

1 INTRODUCTION

INTRODUCTION

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

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

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

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

Governance

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

APPENDIX A - 1. INTRODUCTION

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

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

The purpose of each is summarised as follows:

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

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

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

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

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

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

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

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

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

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

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 14 March 2023.

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

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

Cumbria Pensions Committee

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

The committee has 11 members (8 Westmorland and Furness Councillors, 3 Cumberland Councillors and 2 employee representatives).

Advice is given by Westmorland and Furness Council's Director of Resources (S151 Officer), the Council's pensions finance team and by two independent advisors. The advisors are appointed for their knowledge of investments and of pension funds; one advisor being primarily an investment specialist, the other complementing these investment skills with actuarial knowledge of the liability profile of the Fund.

Services are also provided by the Fund actuary Mercer Limited, and by other consultants and lawyers for investment management services.

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

2.1 Terms of Reference of the Pensions Committee

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

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

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

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

Functions

The functions of the Committee are:

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

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

as nearly constant a primary contribution rate as possible and the requirement to secure the solvency of the Cumbria Pension Fund.

- Prior to the commencement of the financial year to approve an annual business plan and associated budget for that year to cover all matters of expenditure to be charged to the Cumbria Pension Fund. To review performance against this periodically during the year.
- To approve and annually review the Cumbria Pension Fund's training policy to ensure those charged with the management of the Cumbria Pension Fund are appropriately experienced and qualified.
- To update the Council periodically on the governance, risk monitoring and performance of the Cumbria Pension Fund following meetings of the Committee.
- To submit the Cumbria Pension Fund Statement of Accounts to the Audit Committee and to approve the Cumbria Pension Fund Annual Report.
- To receive and where necessary instruct corrective action, in response to both internal and external auditor reports.

Composition

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

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

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

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

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

Reserves

The Council will appoint (No) named substitute members.

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

Quorum

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

Other Matters relating to the operating structure of the Committee

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

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

The Committee is required to ensure all members have access to appropriate professional advice and representation prior to making any decisions concerning the general management of the Cumbria Pension Fund.

a) To assist in the above the Section 151 Officer will be required to appoint industry specific advisors to enable the Committee to fulfil its obligations e.g. fund actuary; tax specialists; regulated investment consultants when required.

b) The Committee will also appoint two independent advisors, their role being to assist and support members in their understanding and challenge of either service providers or officers of the Council.

Competency

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

Other relevant matters

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

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

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

<u>Role of Advisors</u>

- The independent Advisors will be appointed by a panel of Members of the Pensions Committee, and thereafter report directly to the Committee.
- All Members of the Committee have the right to access the support of Independent Advisors appointed to the Fund, however due regard has to be taken of securing value for money and as such whether in the first instance Officers could provide the assistance required.
- On appointment all Independent Advisors will be required to sign a declaration statement outlining any potential conflicts they may have. Once appointed they must immediately report any changes of circumstance directly to the Chair of the Committee for their consideration and further action should this be necessary.
- Should either of the advisors no longer be able to provide this service to the Committee; Officers of the Fund would seek to procure an alternative Independent Advisor with similar but complimentary levels of skill and

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

Cumbria Pensions Investment Sub Group

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

2.2 Terms of reference of the Investment Sub Group

Functions

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

- Carrying out investment asset class monitoring; i.e. monitoring investment performance and the progress of the implementation of the Cumbria Pension Fund's Investment Strategy.

- Providing an update report to Pensions Committee outlining investment performance during the preceding period, and escalating any matters of concern or for further consideration to the Pensions Committee.

- Where appropriate to giving initial consideration to investment opportunities prior to their being considered by Pensions Committee.

Membership

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

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

Meetings & other matters

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

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

Cumbria Pension Board

The Board is constituted under the Public Service Pension Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014. It has been required since 1st April 2015 and has been established to assist the Administering Authority to fulfil its functions in relation to all aspects of governance and administration of the Cumbria Pension Fund. The Board has no remit as a decision making body.

2.3 Terms of Reference of the Pension Board

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

Functions

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

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

And to

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

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

In its role in assisting the Administering Authority as described above, the Board shall report twice yearly to the Pensions Committee on matters reviewed and suggestions for their consideration.

Where the Board is concerned that due consideration has not been given to matters of non-compliance the Board may submit a report for consideration by the Audit and Assurance Committee as the body designated by the Administering Authority with the capacity to investigate such matters on its behalf.

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

Board Composition

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

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

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

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

Reserves

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

Quorum

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

Frequency of Meetings

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

Competency

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

Other relevant matters

The Board is constituted under the Public Service Pension Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014 and is therefore not subject to the requirements of s.101 of the Local

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

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

Appointment of Board members:

To ensure an open and transparent selection process and to ensure the Administering Authority meets its obligation to ensure appointed members have the capacity, the selection process will be through application, matching to a role profile and interview. The Appointment Panel will consist of the Section 151 Officer (or deputy), the Monitoring Officer (or deputy) and a member of the Board.

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

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

a. The selection process will be through application, matching to a role profile and interview. The interview panel will consist of the Section 151 Officer (or deputy), the Monitoring Officer (or deputy) and a member of the Board and the appointment will be agreed by that panel.

b. Appointments will be for four years and will be subject to a maximum of two terms (i.e. eight years).

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

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

Board Expenses:
Reimbursement of reasonable expenses for attendance by Board members and reserves (i.e. named substitute Board members) at meetings and training sessions will be per the Council's agreed policies and rates for Elected Members. All such costs will be met directly by the Pension Fund.

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

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

Codes of Conduct and Conflicts of Interest Policy:
Prior to appointment to the Board all members will be required to sign up to the Board's Code of Conduct and Conflicts of Interest Policy. As a body representing the public interest the Code of Conduct and Conflicts of Interest Policy of members of the Local Pension Board will be aligned to those applicable to Members of the Pensions Committee and is available on the Council's Website (see 2.7).

Special Meetings:
Where required, a minimum of 2 Board members (one from the Fund member representatives and one from the Fund employer representatives) or the Administering Authority can request a special meeting be convened. Notice of ten working days must be given.

Creation of Working Parties / Sub Groups: – as a non-decision-making body the Board have no authority to establish Working Parties / Sub Groups.

Commissioning of Service Providers and Advisors
All Board members have the right to access the support of the experienced Local Government Pension Scheme Independent Advisors, however due regard has to be taken of securing value for money and as such whether in the first instance Officers could provide the assistance required.
All such items of expenditure by the Board must have prior approval from the Director of Resources (S151 Officer).

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

Publication and Data Protection
As a general principle, meetings will be open to the public.

Paper or electronic versions (as requested) of all agendas and papers will be provided to all members of the Board prior to a meeting. The Chair can accept that items be tabled on the day should such a need arise.

As a matter of policy, the Pension Fund has adopted the principles of paperless working, therefore as a matter of course public access to all agendas, public papers and minutes etc. will be available on the Council's website. On request alternative media versions are available.

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

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

Substitution/Reserves
Each substitute will be appointed for a four year term (or, in the case of elected members for the remainder of their current term of office) and there is no limit on the number of times the substitute can seek to be reappointed.

Cumbria Pensions Forum

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

2.4 Terms of Reference of the Pensions Forum

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

Functions of the Pensions Forum

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

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

Quorum

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

Frequency of Meetings

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

Other matters relating to the Pensions Forum

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

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

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

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

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

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

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

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

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

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

2.6 Knowledge and Skills

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

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

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

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

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

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

This organisation has delegated the responsibility for the implementation of the CIPFA Code of Practice to the Director of Resources (S151 Officer), who will act in accordance with the organisation's policy statement, and where he/she is a CIPFA member, with CIPFA Standards of Professional Practice (where relevant).

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

2.7 Conflicts of Interest Policy and Codes of Conduct

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

- Code of Conduct for Councillors:
  https://www.westmorlandandfurness.gov.uk/

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

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

2.8 Governance Compliance Statement

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

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

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/Public Participation	**Not Compliant**	**Fully Compliant**
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: 1. employing authorities (including non-Fund employers, e.g. admitted bodies); 2. Fund members (including deferred and pensioner Fund members), 3. independent professional observers, and 4. expert advisors (on an ad-hoc basis).		✓
b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights. Details of the Public Participation Scheme that applies to the Pensions Committee is available in Part 9 of the Council's Constitution. **https://www.westmorlandandfurness.gov.uk/**		✓

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

Principle	**Compliance**	
Principle C: Selection and role of lay members	**Not Compliant**	**Fully Compliant**
a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. b) That at the start of any meeting, Committee Members are invited to declare any financial or pecuniary interest related to specific matters on the agenda		✓ ✓
Principle D: Voting	**Not Compliant**	**Fully Compliant**
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.		✓
Principle E: Training facility time expenses	**Not Compliant**	**Fully Compliant**
a) That in relation to the way in which statutory and related decisions are taken by the Administering Authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. c) That the Administering Authority considers the adoption of annual training plans for the Committee Members and maintains a log of all such training undertaken.		✓ ✓ ✓
Principle F: Meeting frequency forum	**Not Compliant**	**Fully Compliant**
a) That an Administering Authority's main committee or committees meet at least quarterly. b) That an Administering Authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.		✓ ✓ ✓

APPENDIX A - 2. GOVERNANCE POLICY STATEMENT

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

3 ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY

Part A: Background, Purpose and Review

1. Background

a. As stated in the Governance Policy Statement, it is the responsibility of the Cumbria Pensions Committee to exercise the Council's responsibility as 'Administering Authority' for the management of Cumbria Local Government Pension Scheme (Cumbria LGPS).

b. The Council delegates its functions in respect of the Fund to its Pensions Committee and discharges specific elements of the administration functions of the Fund to:
   i. The Director of Resources (S151 Officer); and
   ii. Lancashire County Council (LCC) who provide this service through Local Pensions Partnership Administration (LPPA).

c. The Administration Strategy (Parts B & C) is set out so as to illustrate the key roles and responsibilities of both the Administering Authority, LPPA, and the scheme employers in the administration of the scheme, highlighting the expected quality and performance standards required of all parties.

d. The Communication Policy (Part D) is the overarching policy for the Cumbria Pension Fund and sets out the Administering Authority's policy concerning communications with members, representatives of members, prospective members, and scheme employers.

e. The Complaints Process for the Cumbria LGPS is set out in part E of this policy.

2. Purpose

a. **Administration Strategy**: Regulation 59 of the Local Government Pension Scheme Regulations 2013 (the 2013 regulations) allows for the Administering Authority to prepare and publish, following consultation with Fund Employers, a 'Pension Administration Strategy' to facilitate best practices and efficient customer service in respect of the following:

- Procedures for liaison and communication with Fund employers;
- The establishment of performance levels which the Administering Authority and fund employers are expected to achieve;
- Procedures to ensure compliance with statutory requirements in connection with the administration of the LGPS;
- Procedures for improving the methods of passing information between the Administering Authority and fund employers;

- The circumstances when the Administering Authority may consider recovering additional costs that have been incurred due to the unsatisfactory performance of a Fund employer; and
- Any other matters that the Administering Authority consider suitable for inclusion in the 'Pension Administration Strategy.'

b. **Communications Policy**: Regulation 61 of the 2013 regulations states that an Administering Authority must prepare, maintain and publish a written statement setting out its policy concerning communications with:

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

In particular the statement must set out its policy on—

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

3. Compliance & review

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

Part B: Administering Authority (and Local Pensions Partnership Administration) Undertakings

1. Liaison and Communication

1.1. The Fund has staff dedicated to the provision of Pensions Administration within the core Pensions Team. Additionally, staff at Local Pensions Partnership Administration (LPPA) provide administration services for the Fund. LPPA will act as primary contact for employers in respect of all areas of pension administration. The team are responsible for core aspects of communication and employer liaison.

1.2. The Fund aims to use the most appropriate communication medium for the audiences receiving the information. This may involve using more than one method of communication. This table sets out our current methods of communication.

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

Activity	Main contact
1.3. Ensure that Employer Forums and Conferences are held on a regular basis and actively seek to promote the LGPS via attendance at the following events, in conjunction with the employer: • Pre-retirement courses • New starters induction courses	LPPA & core team
1.4. Provide a Helpdesk and online member contact form for enquiries for both members and employers. The Helpdesk contact phone number is 0300 323 0260.	LPPA
1.5. Develop and actively promote the use of electronic/online facilities for data sharing and communication purposes between employers, Fund members and the Service.	LPPA
1.6. Develop and actively promote the use of member and employer online self-service systems and provide day to day access and query support.	LPPA
1.7. Provide Scheme information, including: • New starter information and documentation; • Scheme guides and fact sheets for both members and employers; • Annual newsletters; and • Employer bulletins (as and when appropriate).	LPPA
1.8. Provide employer training (as appropriate), for example: • Pension basics and general employer administration functions;	LPPA & core team

Activity	Main contact
• Changes to the regulations; • New technological developments; and • Navigation of systems.	
1.9. Carry out annual employer visits for employers with more than 100 members.	LPPA
1.10. In conjunction with the pensions' team at Cumbria, arrange and facilitate one-off 'Road Shows' where there are material and/or extensive regulatory changes in respect of the Scheme.	LPPA & core team
1.11. Publish, on the Cumbria Pension Fund website, (**www.cumbriapensionfund.org**): ○ the Fund's Annual Report and Accounts; and ○ the Fund's triennial valuation report; and ○ the Fund's Policies, including the Funding Strategy Statement and Investment Strategy Statement.	Core team
1.12. Undertake appropriate consultation with Fund members and employers as required.	Core team

2. **Administration of the LGPS and Compliance**

Activity	Main contact
2.1. Maintain and update members' records regarding additional contributions.	LPPA
2.2. Calculate service credits, additional pensions or maximum cash on retirement where appropriate based on fund values received from the Additional Voluntary Contribution (AVC) providers.	LPPA
2.3. Maintain and keep up to date additional contracts for members' contributions and provide information to employers on request on members' contributions regarding breaks in service / maternity/paternity/adoption and leave of absence.	LPPA
2.4. Ensure that appropriate policies and procedures are in place and all relevant parties are aware of their responsibilities in relation to reporting / recording legal breaches.	Core team
2.5. Account to Her Majesty's Revenue and Customs (HMRC) in respect of income tax on pensions, refunds of AVCs and commutation of pensions where appropriate.	LPPA

3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY – PART B: ADMINISTERING AUTHORITY / LPPA UNDERTAKINGS

Activity		Main contact
2.6.	Provide information as required to Core team in relation to quarterly and annual HMRC event reporting.	LPPA
2.7.	Complete quarterly and annual event reporting and payment of tax in accordance with HMRC requirements.	Core team
2.8.	Process pensioner payroll year end routines and comply with HMRC PAYE legislation.	LPPA
2.9.	Update systems and member records each year.	LPPA
2.10.	At each Actuarial Valuation period, provide the required data in respect of each member and provide statistical information on member movements over the valuation period in order that the Fund Actuaries can determine the assets and liabilities of the Fund.	LPPA & core team
2.11.	Reconcile contributions and update fund member personal and financial data received from employers in the LPPA Pensions Data Return every pay period.	LPPA & core team
2.12.	Create member records for all new starters admitted to the LGPS. Send a welcome letter to all members, by email if possible.	LPPA
2.13.	Apply any retrospective adjustments to career average pay and accrual rates as informed by employers.	LPPA
2.14.	Update and maintain a member's record for any changes received in their circumstances.	LPPA
2.15.	Update member records in line with absence notifications, and set up APC arrangements to cover lost benefits as appropriate.	LPPA
2.16.	Provide every active, deferred and pension credit member a benefit statement each year.	LPPA
2.17.	Provide all members earning £100,000 or more per annum, or on member requests, with annual pension saving statements and information regarding Annual Allowance tax implications.	LPPA
2.18.	Implement Mandatory and Voluntary Scheme Pays at a member's request in accordance with the approved policy.	LPPA
2.19.	Process early leavers (deferred benefits / refunds) within 15 working days of the receipt of form LPPA Employer – Leaver form. Pensions Increase Order will be applied to all deferred benefits each year in line with the annual Pensions Increase (Review) Order.	LPPA

3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY –
PART B: ADMINISTERING AUTHORITY / LPPA UNDERTAKINGS

Activity	Main contact
2.20. Arrange payment of retirement benefits and create a new record for ongoing pension scheme membership if applicable.	LPPA
2.21. Calculate and pay benefits within 5 working days of receipt of notification or date of entitlement, whichever is the latter.	LPPA
2.22. Arrange to make pension payments on the last banking day of each month.	LPPA
2.23. Make payment of compensatory added years pensions as agreed on behalf of the employer in connection with redundancy retirements.	LPPA
2.24. Apply Pensions Increases to pensions on the due date.	LPPA
2.25. Implement changes in pensioner's circumstances within 10 working days of the receipt of the information.	LPPA
2.26. Implement changes in spouse / dependant's circumstances.	LPPA
2.27. Make payments to the member's estate / nominated beneficiary within one month of receipt of the required documentation.	LPPA
2.28. Produce and distribute P60s to pensioners by the 31st May each year.	LPPA
2.29. Produce monthly reports and invoices for Pension strain costs to be recovered from employers.	LPPA & core team
2.30. Raise invoices on at least a quarterly basis to employers to recover payments of compensatory added years pensions arising from redundancy retirements.	Core team
2.31. Comply with the principal regulations (as amended from time to time) relevant to this Pension Administration Strategy Statement.	Core team
2.32. Prepare the Annual Report and Accounts of the Cumbria Pension Fund.	Core team
2.33. Ensure the appropriate policies, including the Funding Strategy Statement and the Investment Strategy Statement, and Administering Authority discretions are formulated, reviewed and publicised in accordance with the scheme regulations.	Core team

3. Performance

3.1. In accordance with good practice and as recommended by The Pensions

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

[3] Paragraph 42 of Code of Practice no.14: 'Governance and administration of public service pension schemes'
[4] **https://westmorlandandfurness.moderngov.co.uk/mgCommitteeDetails.aspx?ID=277**

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 Local Pensions Partnership Administration (LPPA) or the core team.

1.2. The employer will facilitate an annual visit by LPPA with the appropriate primary contact.

1.3. The employer shall nominate an authorised signatory/signatories in respect of all documents and instructions received by LPPA or the core team.

1.4. The employer shall endeavour to ensure representation at Employer Forums and Practitioner Conferences as specified in Section 1.1.

1.5. The employer shall undertake to ensure that all personnel dealing with the Local Government Pension Scheme as part of their day to day role undergo appropriate training.

1.6. Where an employer contracts a third party HR or payroll provider the employer must authorise LPPA or the core team if they wish LPPA or the core team to deal directly with the payroll provider in matters of pensions administration or finance. However, this in no way enables an employer to delegate responsibility for the performance of any required actions (either regulatory responsibilities or requirements set by the Fund Administering Authority).

1.7. The employer shall inform the Fund of any outsourcings of services which involve or may potentially involve TUPE transfers of members of the LGPS as soon as possible to ensure that appropriate pensions information can be included in the tender documentation.

2. Performance Levels

2.1. Performance achieved by the Employer in relation to the following will be monitored by LPPA and the core pensions team (as appropriate):

- Payment of contributions collected, completion and submission of remittance advice to the core team;
- Submission of annual returns as required to the core team;
- Uploading of LPPA Pensions Data Return every pay period; and
- Notification of leavers.

2.2. The Fund will regularly report to employers on their individual performance and how this compares to other employers within the Fund. This will identify any areas for improvement including outstanding information and / or payments due to the Fund.

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

3. Administration of the LGPS and Compliance

3.1. Contributions

3.1.1. The employer will ensure that both employee and employer contributions are deducted at the correct rate (plus any additional contributions as LPPA may request the employer to collect). The employer must record the scheme section (50/50 or Main) in accordance with any election made by the scheme member; and deduct contributions as appropriate. The employer must maintain a policy to review employee tiered contribution rates and notify LPPA of any changes (see **3.6.3**).

3.1.2. All contributions, but not Prudential, Standard Life, Scottish Widows or Utmost Life AVCs, must be paid to the Cumbria Pension Fund on a monthly basis and in any case before the 19th of the month following that in which they were deducted. Non-compliance may result in a financial penalty against the employer and may result in a breach report to The Pensions Regulator.

3.1.3. A remittance advice must be completed and returned to the core team by 19th of the calendar month following the month in which the contributions were deducted.

3.1.4. The employer will ensure that employee's Utmost Life, Scottish Widows, Standard Life and Prudential AVCs are paid direct to the provider as soon as possible after deduction; but in any event before the 19th of the month following that in which they were deducted as stated above.

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

3.3. **Pension Strain** - Each month LPPA will arrange for the core team to issue an invoice to the employer reflecting the cost of any non-ill health early retirements processed in the previous quarter. The employer must pay the amount within one month of the date of the invoice.

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

3.4. Rechargeable Pensions - Where amounts of discretionary pension are paid by LPPA on the employer's behalf, the quarterly amounts will be recharged to the employer and payment must be made within 30 days of invoice date.

This also applies in respect of other rechargeable pension e.g. where the employer has liability to pay for pre 1.4.1974 pensions increase payments and other unfunded pensions.

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

3.6. Processing

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

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

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

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

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

Employers must upload the LPPA Pensions Data Return promptly every pay period, from which LPPA will arrange for scheme membership for any new starters.

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

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

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

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

3.6.4. Changes in circumstance - Employers must submit the LPPA Pensions Data Return promptly every pay period, from which LPPA will arrange for the update of scheme member records in the following circumstances -

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

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

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

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

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

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

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

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

Where a fund member or employer requires an early retirement estimate which requires the employer's consent, for example for flexible retirement or redundancy retirement, there may be a potential cost to the employer and the employer should ensure they obtain an estimate of this cost from LPPA prior to consenting to the retirement.

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

3.6.7. Early Leavers - The employer will commence the leaver process via the LPPA employer portal when an employee leaves employment (or 'opts out' of the scheme) with no entitlement to immediate payment of retirement benefits. The employer will send the form as soon as reasonably practicable and no later than 10 working days after the final payment of salary following termination from the scheme.

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

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

The employer will set up a new employment record with a new pay reference number to enable separate reporting of pension cumulative and membership from the retired post.

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

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

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

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

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

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

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

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

4. Online Communication and Information Sharing

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

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

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

4.4. **Access -** The Employing Authority can authorise that specified employees are granted access to all active fund member records for that employer using Altair Employer Services. The employer must be satisfied that the individuals that are authorised have received appropriate information security training, and that system access is used for pension administration purposes only. The employer must observe its obligations under the General Data Protection Regulations from May 2018 implemented under the Data Protection Act 2018 arising in connection with use of the account and must not do anything which might imply a breach by Local Pensions Partnership Administration of such Act. The employer shall comply with obligations equivalent to those imposed on a data controller by the seventh principle of the Data Protection Act.

5. Circumstances for recovery of Additional Costs

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

5.2. **Late Payment -** In addition the Authority will seek to recover interest on late payment of contributions under the terms of regulation 71 of the Local

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

Government Pension Scheme Regulations 2013 calculated at 1% above base rate on a day to day basis from the due date to the date of payment and compounded with 3 monthly rests.

5.3. **New Employers –** In addition to any actuarial or legal fees payable by new employers and admission bodies the Authority will charge a flat rate administration charge of £250 towards the costs involved. This also includes newly converted academies joining Multi Academy Trusts (MAT) or those leaving MATs and entering into alternative arrangements.

6. Other Matters

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

6.2. **Policies (Employer Discretions)** - Each employer is required to produce, publish, and maintain a statement of policy regarding the exercise of certain discretionary functions available to them within the LGPS regulations. New employers are required to provide the Fund with a copy of the policy statement within 3 months of their admission date. The policy statement must be kept under review and where revisions are made; the revised policy statement must be sent to the Fund and made readily available to all employees within the employing authority within one month of the effective date.

6.3. **Employer Terminations from the Fund** - Each employer is required to notify the Fund should they decide to cease the addition of new scheme members or if they are considering terminating membership of the Pension Fund. Notification should be made as soon as the decision has been taken, allowing the Pension Fund to instruct the actuary to carry out calculations if applicable.

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

Part D: COMMUNICATION POLICY

1. Cumbria Pension Fund recognises the government's objective to help people save for their retirement and will aim to: -
   - Actively encourage the provision of good pension information in plain English and the promotion of pensions in the workplace.
   - Increase transparency and build trust, confidence and engagement in pension saving as the norm.

2. To achieve its aim the Administering Authority will undertake to: -
   - Provide clear, accurate and timely communication about the Local Government Pension Scheme to all stakeholders.*
   - Actively promote the Scheme to prospective members and their employers.
   - Take a multimedia approach in recognition that different styles and methods of communication suit different stakeholders
   - Use and encourage the use of electronic/online communication and information sharing.
   - Support Fund employers, providing publicity and information toolkits, to enable employers to fulfil their responsibility to communicate and share information with members in relation to the Scheme.
   - Treat information security with the upmost importance.

3. Communication Programme

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

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

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

Information	Stakeholder*	Format	Frequency	Communication Channel
Employer Updates	Employer	Website, online	As required	Email/website
Pensioner payslips/P60s	Member	Online self-service, paper	Annually	Online portal/email/mail
Employer Guide	Employer	Website	As amended	Online/email
Employer training	Employer	Presentation /Webcast	In line with agreement/on request	Face to face/website/webinars
Factsheets	All members	Website / paper	As required / on request	Website/email
Individual member information	All Stakeholders	Self- service /paper	As required	Website/email
Employer information pack	Employers	Website/ paper	On admission	Website/email
Newsletters	Members	Website/ email/ paper	Annual	Website/email
Scheme change & legislative change	All Stakeholders	Presentation /webcast/ website	As required / on request	Face to face/website
Fund report & accounts	All Stakeholders	Website**	Annually	Website
Performance standards	All Stakeholders	Website	As amended	Website
Query* **	All Stakeholders	Telephone/ email/ online/letter	Mon – Fri	Telephone/email/online contact form /letter

*Stakeholders are defined as members, representatives of members, prospective members and employers (members are defined as active, deferred or pensioner members).
** unless otherwise requested.
*** Investment Decision queries – will be responded to in line with the Fund's stated positions as detailed in the Investment Strategy Statement (ISS) (in particular sections **4.7** Responsible Investing, Stewardship and Corporate Governance and **Annex A** Investment Beliefs). Such queries will be responded to in accordance with the Administering Authority's Freedom of Information procedures.

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

Scheme Regulations and Overriding Legislation

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

Local Government Pension Scheme Regulations 2013 [2013/2356]
Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [2014/525]
Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 [2000/1410]
Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 [2013/2734]

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

Finance Act 2004 [c.12]
Pension Schemes Act 1993 [c.48]
Pensions Act 1995 [c.26]
Pensions Act 2004 [c.35]
Pensions Act 2008 [c.30]
Public Service Pensions Act 2013 [c.25]
Welfare Reform and Pensions Act 1999 [c.30]
Pensions (Increase) Act 1971 [c.56]
Data Protection Act 2018
General Data Protection Regulations 2018
Income Tax (Earning and Pensions) Act 2003 [c.1]

Part E: Complaints Policy for Cumbria LGPS

1. Definition of a complaint

1.1. Cumbria LGPS puts the satisfaction of its Scheme Members at the heart of its business and we always strive to provide a high quality service. However, we are aware that sometimes things can go wrong, and if you are unhappy with the services provided by the Fund you have the right to make a complaint.

1.2. Cumbria LGPS defines a complaint against the Fund as an expression of dissatisfaction about the standards of service; non-compliance with LGPS Regulations; actions or lack of action by the Fund or LPPA acting on behalf of the Fund.

1.3. Any complaint against an employer of the Fund should be made directly to the respective employer and addressed through their complaints process.

2. Who can make a complaint?

2.1. Any scheme member or individual receiving a service from the Fund may make a complaint against the Fund.

2.2. Third parties acting on behalf of scheme members may make a complaint against the Fund, however checks will be undertaken to ensure the authenticity of the third party and that they have the consent of the scheme member to act on their behalf.

2.3. Where a person who is the subject of the complaint does not have capacity to give consent, as defined by the Mental Capacity Act, then a best interest decision will be made about accepting or rejecting the complaint. Any such decisions will be communicated to the complainant.

3. How to make a complaint?

3.1. All complaints associated with the Fund will initially be considered by LPPA. Complaints should be submitted in writing by:

- E-mail to LPPA.Complaints@localpensionspartnership.org.uk; or
- In writing to: LPPA
PO Box 1382
Preston
PR2 0WQ

3.2. When submitting a complaint, please provide sufficient information to enable LPPA to identify:

APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY – Part E: Complaints Policy for Cumbria LGPS

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

4. What will happen to my complaint?

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

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

4.2. In dealing with your complaint LPPA will:

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

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

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

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

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

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

APPENDIX A - 3. ADMINISTRATION STRATEGY & COMMUNICATIONS POLICY – Part E: Complaints Policy for Cumbria LGPS

6. Other sources of help.

6.1. The Money and Pensions Service (MaPS)

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

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

6.2. The Pensions Regulator

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

www.thepensionsregulator.gov.uk/

6.3. The Pension Tracing Service

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

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

6.4. The Pensions Ombudsman

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

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

www.pensions-ombudsman.org.uk/

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) the strategy, including a new target asset allocation, was approved by the Pensions Committee on 13th December 2019. This was revisited in light of the COVID-19 pandemic during the summer of 2020 and early 2021, to review and consider further changes in response to the impact of the pandemic on investment market conditions and expected returns. The Investment Strategy Statement was updated to reflect the current strategy, approved by Pensions Committee on 14th March 2023.

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

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

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

The Authority will invest in accordance with its investment strategy, any Fund money that is not needed immediately to make payments from the Fund. Any deviations from the agreed strategy will be reported to the Pensions Committee, the Pension Board and the Director of Resources (S151 Officer) so that appropriate corrective actions can be undertaken.

The ISS covers the following:

- Background (4.2)

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

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

4.2 Background

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

4.2.1 Cumbria Pensions Investment Sub Group (ISG)

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

- Carrying out investment asset class monitoring; i.e. monitoring investment performance and the progress of the implementation of the Cumbria Pension Fund's Investment Strategy.

- Providing an update report to Pensions Committee outlining investment performance during the preceding period, and escalating any matters of concern or for further consideration to the Pensions Committee.

- Where appropriate to giving initial consideration to investment opportunities prior to their being considered by Pensions Committee.

4.2.2 The investment objectives of the Fund

- The long-term objective is for the Fund to achieve and maintain a funding level of 100% over an average recovery period of 10 years from April 2023. This target will be reviewed following each triennial actuarial valuation and consultation with Fund employers.

- The investment objective is to achieve an investment return to match the actuary's long term assumptions for future service of CPI+2.00% per annum and past service of CPI+1.25% per annum over a twelve year period from April 2020. This gives a combined minimum required return of CPI +1.75% per annum.

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

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

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

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

4.3.1 Strategy Review

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

4.3.2 The Strategic Benchmark

The Fund will operate a fund-specific benchmark for the investment portfolio, with long-term allocations to the various investment asset classes, which reflect

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

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 the Pensions Committee, full professional advice will be sought. If there are any instances where advice received is not to be acted upon, full reporting to both the Committee and the Pension Board will occur.

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

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

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

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Strategic Cash	1%	0 – 4%	10%
	100%		

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

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

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

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

4.5 <u>Approach to Risk</u>

4.5.1 Risk Management and reporting

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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, which is reviewed at every Pensions Committee and Pension Board meeting. It incorporates details of the major risks facing the Fund and includes a traffic light scoring system to categorise the anticipated likelihood and impact of each risk. Members are charged with actively monitoring progress in relation to controls and actions taken to mitigate risk. Between meetings should any major risk emerge, this will be escalated by Fund Officers immediately to the Chair, Vice Chair and Director of Resources (S151 Officer).

4.5.2 Appetite for Risk

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

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

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

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risk of stranded assets and the financial impact of regulatory change; and
- Setting manager performance targets to avoid undue exposure to risk.

- **Changing demographics**: The risk that longevity improves, and other demographic factors change, increasing the cost of Fund benefits. The key mitigation in relation to this risk is detailed consideration of long-term demographic trends (at both local and national level) as part of the Actuarial Valuation process which is currently conducted at least triennially.

- **Concentration risk**: The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives. The Fund seeks to mitigate this through investing in a diversified portfolio of assets. This risk is managed through the review of the Fund's Investment Strategy which is undertaken in full every three to five years with interim reviews undertaken as required.

- **Liquidity risk** (not having monies available to make pension payments to members as they fall due): The Committee recognises that the Fund is long term in nature and can therefore afford to lock up capital for longer in return for the premium it offers. However, it is also recognised that, as the Fund membership matures, there is a risk that the Fund will turn cashflow negative after investment income. To mitigate this risk the Fund undertakes cashflow planning, monitoring and management throughout the year and works closely with the Fund's investment advisors and actuary to consider the options to address any potential cashflow implications.

- **Foreign exchange risk**: (the risk of loss arising from exchange rate movements of foreign currencies) – The Fund seeks to mitigate this through investing in a diversified portfolio of assets, using active management, maintaining an unhedged listed equity exposure (to provide diversification during extreme markets movement) and to hedge other assets where practical and possible.

- **Governance:** members of the Committee and Local Pension Board participate in regular training delivered through a formally agreed training plan. Both the Committee and Local Pension Board are aware that poor governance and in particular high turnover of members may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise turnover where possible. The Local Pension Board and external and internal audit assist the Pensions Committee in the governance process.

- **Counterparty risk**: Counterparty risk exists in all external transactions undertaken by the Fund. The Fund seeks to mitigate this risk through the use of reputable service providers who operate effective controls. Key tools in this process are the involvement of Independent Advisors, robust procurement and ongoing contract monitoring and management.

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

BCPP is a partnership of the following funds:

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

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

4.6.2 The Fund's approach to pooling

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

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

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

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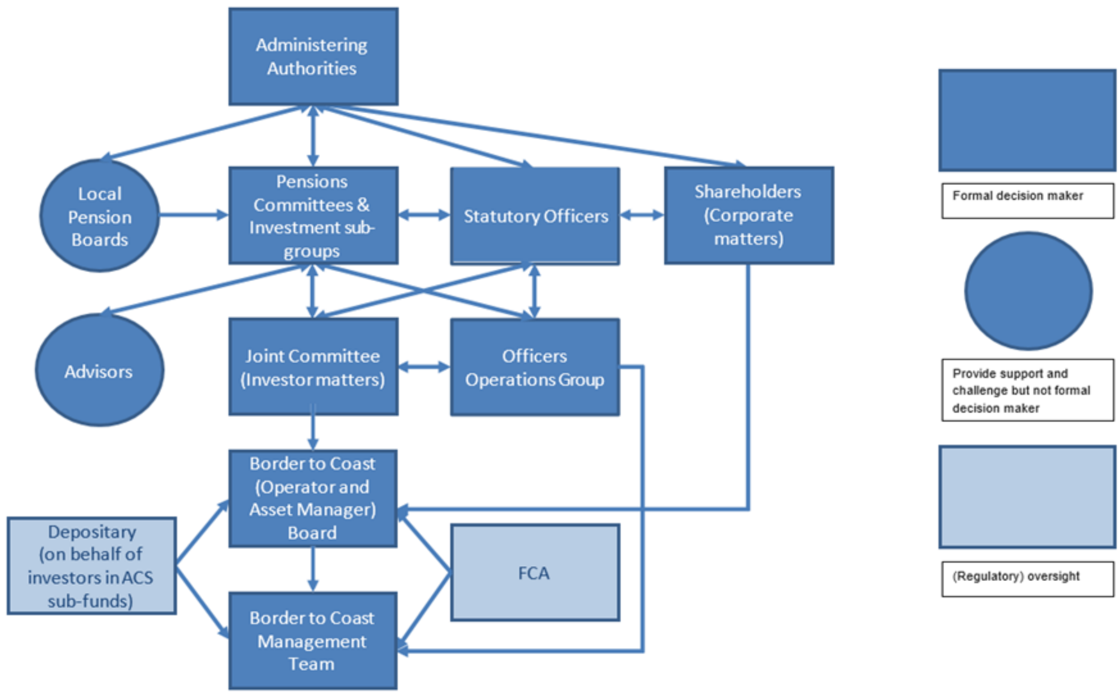
There is clear segregation between duties undertaken by the Fund and duties undertaken by the BCPP. The Fund retains the decision-making powers regarding investment strategy and asset allocation, and delegates the investment management function to BCPP. This ensures that the fiduciary duty and democratic 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:



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.

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- The Fund will monitor and regularly review the investment performance of the assets under BCPP's management, seeking explanation and attendance of BCPP personnel at meetings where necessary.

Further details of the Governance of BCPP can be found in the BCPP Governance Charter:
https://www.bordertocoast.org.uk/app/uploads/2021/09/Governance-Charter-2021.pdf.

4.6.3 Assets to be invested with the Pool

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

- That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund; and

- That there is financial benefit to the Fund in investing in the solution offered by the Pool.

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

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

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

- Passive investments with Legal and General. These are currently held through life policies and these will remain assets of the Fund. However, the Fund benefits from joint procurement arrangements with other partner funds and BCPP for these services. Monitoring of the manager continues to be carried out by the Fund.

- The Fund has investments in a number of closed end funds which invest in private markets. These include private equity, infrastructure and private debt investments. Each of the individual funds has a fixed life with all assets being returned to investors within a specified period. There is a risk that sales of these investments would only be possible at material discounts to net asset value. Therefore, the Committee believes that it is in the best interests of the Fund to retain these investments. It is anticipated that once

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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 it continues to demonstrate value for money. This position was reviewed as part of the 2019 investment strategy review; and will be again in 2023.

4.7 Policy on Responsible Investing, Stewardship and Corporate Governance

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

The overriding objective of the Fund is to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. To do this it must deliver its stated risk adjusted performance targets. The Fund recognises that good stewardship, corporate governance and responsible investing are fundamental drivers in achieving these objectives.

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

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

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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 86 local authority pension funds from across the UK with combined assets of approximately £350 billion, in addition six of the LGPS Pools have joined the forum. LAPFF seeks to protect the investments of its members by promoting the highest standards of corporate governance and corporate social responsibility (i.e. responsible action by the companies in which its members invest) on environmental, social and governance (ESG) issues (including climate change).

The Fund's commitment to responsible investment, corporate governance and stewardship is communicated by the Fund's Stewardship Report 2021/22, which focuses on activities and outcomes, it is available as part of the Annual Report and Accounts 2021/22 on the Fund's website at:
https://www.cumbriapensionfund.org/media/4tuiqfwl/cumbria-lgps-2021-22-annual-report-final.pdf
The report was submitted to the FRC in October 2022 and has been assessed as meeting the requirements of the FRC's UK Stewardship Code 2020[5] and Cumbria Local Government Pension Scheme is listed as a signatory to 'the Code' and can now utilise the following logo.

UK STEWARDSHIP CODE

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

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The Fund's 2022/23 Stewardship Report is included as **Appendix B** to this document and is also published as a standalone document on the Fund's website at:
https://www.cumbriapensionfund.org/media/bf4ljmq1/clgps-stewardship-report-2022-23-final.pdf
BCPP (the pooling company jointly owned by the Fund and 10 other Partner Funds which manages all of the Fund's actively managed listed equities in addition to some multi asset credit and alternative assets) also published a Responsible Investments and Stewardship report 2022/23:
https://www.bordertocoast.org.uk/wp-content/uploads/2023/07/Border-to-Coast-Responsible-Investment-Stewardship-Report-22_23.pdf.
BCPP also submitted their 2021/22 report in October 2022 and the report was assessed as meeting the requirements of the FRC's UK Stewardship Code 2020. All other investment managers are also required to adhere to the UK Stewardship Code (or equivalent code in their regional jurisdiction).

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

All Funds, including Cumbria, have agreed that their individual Responsible Investment policies will be broadly aligned to that of BCPP; this 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 partner fund's existing policies. The annual review of the BCPP policy is timed to allow the partner funds to both input into the review process and then allow for continued alignment to the individual Fund's policy. Further details of the BCPP Responsible Investment Policy can be found at:
https://www.bordertocoast.org.uk/wp-content/uploads/2023/01/Responsible-Investment-Policy-2023-1.pdf

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

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

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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 10 other Partner Funds). Details of the BCPP Corporate Governance and Voting Guidelines can be found at: **https://www.bordertocoast.org.uk/wp-content/uploads/2023/01/Corporate-Governance-Voting-Guidelines-2023.pdf**

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

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

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

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

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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 Pensions Committee or delegated to the Director of Resources (S151 Officer) in consultation with the Investment Sub Group; governance oversight of these processes is provided by the Local Pension Board. The Members of the Pensions Committee perform duties similar to private trustees and are elected councillors of Westmorland and Furness and Cumberland Councils, together with employee representatives. The Members' Allowance Scheme operates for the remuneration of the elected councillors on the Pensions Committee. Two independent Investment Advisors normally attend Pensions Committee meetings. The dedicated Investment Sub Group has an advisory role, it's purpose is to assist the Committee by carrying out investment asset class monitoring, reporting investment matters to the Committee and where appropriate giving initial consideration to investment opportunities prior to their consideration by Committee. The Group comprises four Members of the Pensions Committee (nominated by the Committee), the two independent advisors to the Pensions Committee and the Chief Finance Officer (S151 Officer) or (deputy in their absence). The Pensions Committee have their skills and experience developed through training events, external seminars and fund manager presentations on a regular basis. The Fund has a team of professional investment and support staff, made up of Officers of the Council, who provide advice on a day-to-day basis. The Pensions Committee Chair and Members can contact officers and independent advisors on an ad hoc basis as and when required. 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 has the required knowledge and skills to make appropriate decisions and offer challenge;		

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• members of the Board have the relevant knowledge and capacity to assist the Administering Authority of the Fund secure compliance with relevant regulations and legislation and the requirements of The Pensions Regulator; and • Officers are adequately trained and experienced to undertake the day to day operation and management of the Fund. There is a forward-looking business plan and progress is regularly evaluated. This includes a three-yearly strategic investment review, following the Actuarial Valuation.		
Principle 2: Clear Objectives	**Not Compliant**	**Fully Compliant**
• An overall investment objective(s) should be set out for the Fund that takes account of the Fund’s liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and fund employers, and these should be clearly communicated to advisors and investment managers.		✓
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. All fund managers have clear written mandates, governed by the Fund’s strategic objectives and Pension Investment Regulations, and are reviewed regularly by officers and the Pensions Committee.		
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.		✓ ✓

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• These include the implications for local taxpayers, 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 March 2021. The Actuarial Valuation considers longevity risk and the affordability of contribution rates for the two unitary councils and the other employers of the Fund, taking a prudent longer-term view of funding the liabilities. This process includes consideration of the strength of employer covenants (which is also kept under less formal review in between valuations).		
Principle 4: Performance Assessment	**Not Compliant**	**Fully Compliant**
• 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 Pensions Committee each quarter, and as a minimum there is an Annual Performance Review with the Fund's external performance monitoring service provider. 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 4% of the total Fund investments including future commitments i.e. £124m at December 2022) formally at least annually and report their findings from these meetings to the ISG. The ISG is responsible for carrying out investment asset class monitoring; i.e. monitoring investment performance and the progress of the implementation of the Cumbria Pension Fund's Investment Strategy monitoring; providing an update report to Pensions Committee outlining investment performance during the preceding period and escalating any matters of concern for further consideration to the Pensions		

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Committee and where appropriate giving initial consideration to investment opportunities prior to their being considered by Pensions Committee. The ISG receives a quarterly report covering every manager, which sets out performance results and a broad range of metrics. Should there be any items of concern, the ISG escalates such matters to the full Committee.

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

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

Effectiveness of Pensions Committee decisions, such as strategy and manager selection, are discussed in the Annual Report and Accounts.

Principle 5: Responsible Ownership	Not Compliant	Fully Compliant
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, including climate change in the Investment Strategy Statement; and		✓
• report periodically to Fund members on the discharge of such responsibilities.		✓

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

The Financial Reporting Council's (FRC), UK Stewardship Code 2020, sets high expectations on those investing pension fund monies. It seeks to set a clear benchmark for stewardship as the responsible allocation, management and oversight of assets to create long term value and lead to sustainable benefits for the economy, the environment and society. The Fund's commitment to responsible investment, corporate governance and stewardship is communicated by the Fund's Stewardship Report 2021/22, which focuses on activities and outcomes, and it is as part of the Annual Report and Accounts 2021/22 on the Fund's website at:

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

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The report was submitted to the FRC in October 2022 and has been assessed as meeting the requirements of the FRC's UK Stewardship Code 2020 and Cumbria Local Government Pension Scheme is listed as a signatory to 'the Code'.

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

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

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

BCPP also submitted their 2021/22 report in October 2022 and the report was assessed as meeting the requirements of the FRC's UK Stewardship Code 2020.

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

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

Principle 6: Transparency and Reporting	Not Compliant	Fully Compliant
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 Fund's website. **https://www.cumbriapensionfund.org/forms-publications/**

Investment performance is included in the Annual Report.

The Cumbria LGPS Pension Board is given full access to all Pensions Committee papers and are provided with briefing sessions and training presentations appropriate

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to their ongoing business. In addition, 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 Pensions Committee papers.

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

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

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

The Administration Strategy (including Communications Policy) sets out the Fund member and pensioner administration operations, with the policy for communication with members and access to information, in full detail. This is also be included in the Annual Report and published on the Council's 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
- Obtain and maintain the appropriate knowledge and skills to understand the investments and risks undertaken within the Fund; and
- Treat all employers and members of the fund equitably

INVESTMENT BELIEFS

1. **Our investment strategy should be determined by reference to the Fund's assets, liabilities and our risk tolerances**
    - Our long-term primary goal is to generate returns required to fund our members' current and future pensions.

2. **Asset allocation has the greatest impact on the overall risk and return of the Fund**
    - Diversification of investments reduces the volatility of asset returns and limits non market specific risk.
    - Investment managers should be responsible for stock selection.
    - Over the long-term equities are expected to deliver a higher return than bonds.

3. **It is important to take a long-term perspective when considering the investment strategy, but recognise the implications of shorter-term market volatility**
    - The greatest risk to the fund is not short-term market volatility but the permanent loss of value.
    - Benchmarks should be used to measure performance, and not drive or dictate behaviour.

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

- 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.
- However, it is recognised that volatility can impact on employers in the Fund (through its impact on employer contributions) and, therefore, ultimately on the Fund (as unsustainable employer contributions can have implications for the solvency of the Fund).

4. Good governance improves the quality of decision making

- Officers, Pensions Committee and Pension Board members should have the appropriate knowledge and skills to understand the investments and risks undertaken within the Fund.
- The team supporting the Pension Fund needs to be appropriately resourced, including having access to external advice, to ensure successful management of the Fund.
- Good returns, net of fees and costs, come from well-resourced and well governed Funds.

5. All investments have a degree of financial risk, but we should only accept financial risk where we have a strong belief that we will be rewarded for it.

- Active management can deliver superior risk adjusted returns over time on a net of fees basis in certain markets.
- Passive management provides the most cost effective means of gaining exposure where it is believed that active management is not expected to add value.
- Costs matter and need to be managed and controlled however cost alone should not drive decision-making – the key consideration is return net of fees and costs.

6. There are multiple risks to which the fund is exposed and those risks that are not sufficiently compensated should be mitigated, managed or avoided if possible.

- Investors should be rewarded for giving up liquidity.
- Investment risks are multi-faceted and will change over time.
- Investors should be wary of investments where the promised return is out of proportion to the apparent risk.
- Investors should be aware of potential misalignment of interests especially when coupled with superior access to information on the part of the investment managers and advisors.

APPENDIX A - 4. INVESTMENT STRATEGY STATEMENT (ISS)

7. **As long-term investors, we believe that integrating environmental, social and corporate governance considerations into the investment management process improves risk adjusted returns.**
   - ESG factors, such as climate change, can have a material impact on the value of financial assets in the long term. Being a responsible investor and incorporating ESG factors into investment decisions can help to improve the long-term value for investors.
   - We believe that the best way to be a responsible investor and to influence policy change is not through divestment but through active engagement.
   - We expect management teams and board of directors to be responsive to their shareholders.
   - We will lead by example by ensuring we are an active shareholder and, where appropriate, utilising the scale of collaboration with other LGPS Funds.

Approved 14 March 2023 by the Pensions Committee

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 14 March 2023. The Policy has been constructed and will be maintained by the Administering Authority with regard to the applicable regulations and guidance.

5.2 Management of Pension Fund Cash

The Administering Authority will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and accordingly will not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with the Administering Authority will comply with the requirements of the Regulations (SI 2016 No 946).

5.3 Cash Investment Priorities

The Cumbria Pension Fund's cash investment priorities are: -

a) the security of capital,
b) the availability of cash to meet payroll, investment commitments, and other payments, and
c) the liquidity of its investments.

The Investment Strategy Statement sets the **maximum** level i.e. percentage of the Fund's total allocation that can be held in cash and/or cash-like investments (current maximum 10%). Where strategic cash is included in the Fund's benchmark as an asset (currently 0–4%), the Administering Authority will use investment managers' pooled funds where it is most efficient to do so. The Administering Authority should aim to keep the working cash balance held (for day to day cash requirements) to a minimum, recognising that cash must be available when required to fund commitments to certain of the Fund's investments, such as infrastructure and alternative investments.

The Fund will also aim to achieve a modest return on its cash investments commensurate with proper levels of security and liquidity. The risk appetite of this Fund is low in respect of the cash elements in order to give priority to security of its cash investments.

5.4 Investment and Counterparty Choice

The Cumbria LGPS will seek advice on its Investment Policy from the officers and advisors of Westmorland and Furness Council. Investment instruments identified for pension cash must be allowable within the Council's own Investment Strategy from the 'Specified Investment' category. Counterparty

APPENDIX A - 5. CASH INVESTMENT POLICY

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 2022 2.5% was £77 million.

It is recognised that on occasion, due to specific circumstances, an extension could be necessary to this cash balance limit, for example due to asset or manager restructuring. However, any such instances would require prior approval, in consultation with the Chair and Vice Chair, from the Director of Resources (S151 Officer). Additionally, every reasonable action should be taken to ensure the period of the extension is kept to a minimum and at most would be no greater than ten days (this being the timing of weekly unit fund dealing dates). Members are to be formally notified of any such limit extensions at the next Committee date after such an extension has occurred.

5.6 Role of the Section 151 Officer

The treasury management role of the Director of Resources (S151 Officer) with respect to pension fund cash will be -

- recommending the Cash Investment Policy for approval, reviewing the policy regularly, and monitoring compliance;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function, and reporting activities to the Pensions Committee as appropriate;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.

5.7 Review of Policy

The Cash Investment Policy will be kept under regular review to accommodate any necessary changes due to regulations, changes in the UK banking support package, to bank creditworthiness, and any other necessary amendments, to

APPENDIX A - 5. CASH INVESTMENT POLICY

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

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

PRIMARY RATE

The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

The Primary rate for the whole Fund is the weighted average (by payroll) of the individual employers' Primary rates.

SECONDARY RATE

The "Secondary rate" is an adjustment to the Primary rate to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

Secondary rates for the whole Fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole Fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

6.2 Purpose of the FSS in policy terms

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

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.
The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency";
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible. This is the context of the Fund's aim to maintain as stable a rate of overall employer contributions (i.e. both primary

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

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

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

6.3 Aims and purpose of the Fund

The aims of the Fund are to:

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

The purpose of the Fund is to:

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

6.4 Responsibilities of the key parties

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pension Board created under the Public Service Pensions Act 2013.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension scheme as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and a Fund employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and The Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date as detailed in the Fund's Administration Strategy & Communication Policy
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- have regard to The Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc.
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

6.5 Solvency Funding Target

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% (with a buffer to protect against adverse experience where appropriate) of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the LGPS so far as relating to the Fund.

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

Underlying these assumptions are the following two tenets:

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

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Fund Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful taking into account any potential changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2023 at the latest.

As part of each valuation, separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2022 actuarial valuation:

- Subject to consideration of affordability, as a general rule the deficit recovery period for employers will reduce by a period of 3 years subject to a minimum deficit recovery period of 10 years. This is to target full solvency over a similar (or shorter) time horizon, whilst aiming to avoid significant volatility in employer contribution rates that a short recovery period may potentially lead to, particularly for those employers with relatively low funding levels.

- The exception to this is for employers who are closed for new members. The deficit repayment period for these closed employers will reduce by three years, consider the expected length of their participation in the Fund and have no minimum deficit recovery period to minimise risk to the Fund.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

- Employers in deficit will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan and Surplus Recovery in Appendix B).

- Where an employer is assessed as having a surplus of assets against forecast liabilities in excess of 110% as at the valuation date of 31 March 2022, these excess surpluses will be returned over an average period of at least 10 years (see Deficit Recovery and Surplus Repayment Plans in Appendix 2)

- Individual employer contributions will be expressed and certified as two separate elements:
  - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
  - the **Secondary rate**: a schedule of lump sum monetary amounts over 2023/26 in respect of an employer's surplus or deficit.

- For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2026 based on the results of the 2025 actuarial valuation. Where deemed appropriate, an interim review of contribution rates may be undertaken between valuation dates.

- Where increases (or decreases) in employer contributions are required from 1st April 2023, following completion of the 2022 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2023/24 may be implemented in steps, over a maximum period of 3 years.

- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer. The termination policy is summarised in the Fund's Admission and Termination Policy document (Section 7 of this Fund Policy Document).

- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Such cases will be determined by the Director of Resources (S151 Officer) and notified to the Pensions Committee. The employer will also be notified.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Employers are required to meet all costs of early retirement strain by:

- immediate capital payments into the Fund, or
- with the agreement of the Administering Authority, by making provision for them at the time of the actuarial valuation and including the costs within its funding plan.

6.6 Link to investment policy set out in the Investment Strategy Statement (ISS)

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

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

"Minimum Risk" portfolio versus a "Diverse" portfolio including growth assets:

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. It is, however, possible to construct a portfolio based on a "minimum risk" investment position designed to deliver real returns in line with or just above CPI inflation.

Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possibly swaps. However, due to supply/demand distortions in the bond markets, it would not be appropriate to make any allowance in the valuation process for such a portfolio in respect of growth assets out-performance or any adjustment to market implied inflation assumption.

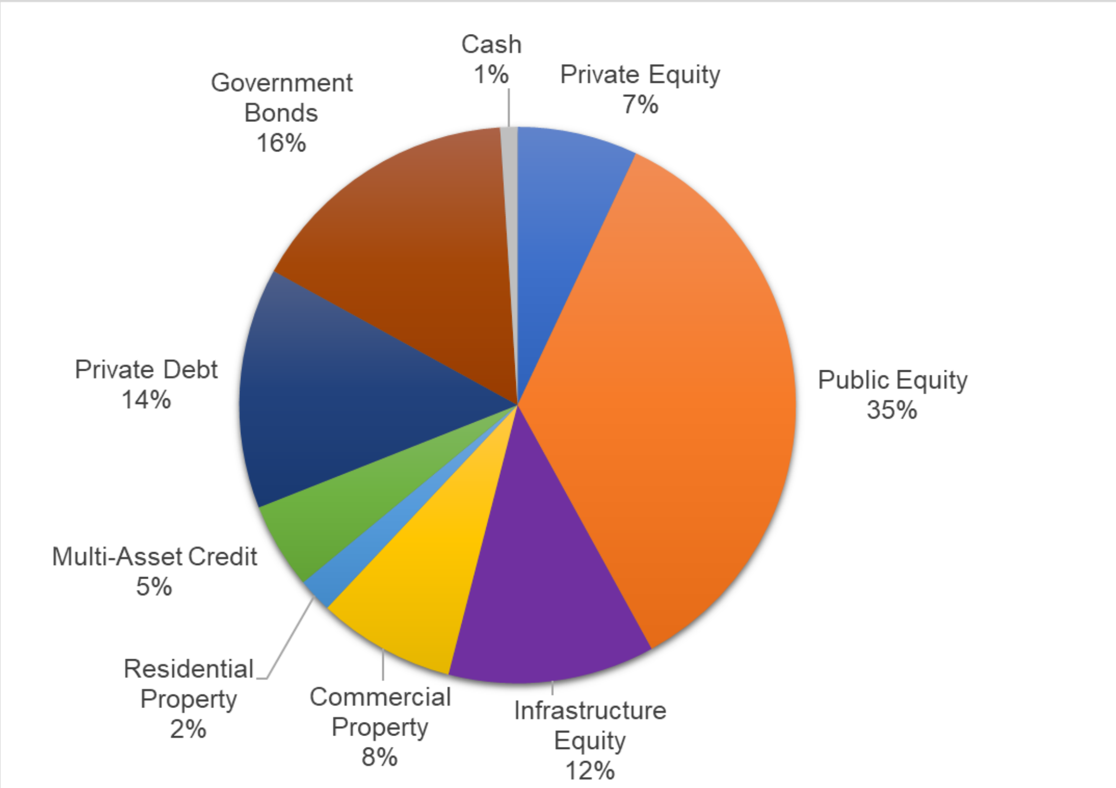
This would result in real return versus CPI inflation of below nil (i.e. negative) per annum at the valuation date as the return on index-linked gilts would be less than assumed CPI inflation. On this basis of assessment, the value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a much lower funding level, which in turn would have caused a significant increase in employer contribution rates payable for the period 2023/26.

Taking a "minimum risk" approach to portfolio construction is considered more appropriate for "closed" funds (i.e. where a fund is no longer accepting new members and therefore has a limited investment horizon). The Cumbria Fund is an "open" fund and therefore, has a longer investment horizon (i.e. it is able to invest over a longer timeframe). As such the Fund has an investment strategy based on a diverse portfolio including growth assets as well as more "defensive" assets such as index-linked gilts.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and thus reduce employer contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The long-term investment strategy (as approved by Pensions Committee in March 2021) is:



As documented in the ISS, the investment strategy and return expectations set out above equate to an overall best estimate average expected return of 2.6% per annum in excess of CPI inflation. For the purposes of setting the funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

6.7 Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

FINANCIAL

The financial risks are as follows:

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation is significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

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

DEMOGRAPHIC

The demographic risks are as follows:

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cash flows and shortening of liability durations
- The level of take-up of the 50:50 option at a higher level than built into the actuarial assumptions.

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill health retirements are properly controlled, employing bodies should be doing everything in their power to minimise the number of ill health retirements. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cash flow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

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

REGULATORY

The key regulatory risks are as follows:

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund,
- Changes to national pension requirements and/or HMRC Rules

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Local Pension Board) to make their views known to the Fund and to participate in the decision-making process.

Governance risks are as follows:

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond or guarantee. Where there is a guarantor body in place, any outstanding funding deficit that is not recovered from the outgoing employer / bond will need to be paid by the guarantor (or the assets and liabilities for the outgoing employer will need to be subsumed by the guarantor). For cases where there is no guarantor or bond in place, any outstanding funding deficit that is not recovered from the outgoing employer will need to be subsumed by the Fund as a whole and spread across all employers.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

- Changes in the Committee and Local Pension Board membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk. Nevertheless, where an employer defaults on its liabilities the risk in some cases may be borne by the whole Fund, so to that extent all Fund employers have joint and several liability to the Fund.

Further details concerning the governance of the Fund including risk management is available within the Fund's Governance Policy Statement, in the Fund Policy Document.

6.8 Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement and has consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Fund membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations, but it is unlikely that this power will be invoked other than in exceptional circumstances.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

APPENDIX A – ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the Rates and Adjustments Certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets base on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 1.25% per annum above CPI inflation i.e. a real return of 1.25% per annum equating to a total discount rate of 4.35% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole.

Inflation (Consumer Price Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to the following two adjustments:

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

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

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

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

Salary increases
In relation to benefits earned prior to 1 April 2014, the assumption for long term real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.

Pension increases/Indexation of CARE benefits
Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation for certain members depending on their retirement date).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy
The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the Fund. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI projections with a long-term improvement trend of 1.75% per annum.

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

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

Commutation
It has been assumed that, on average, the total lump sum taken by members (including scheme lump sum on pre 2008 benefits and commuted lump sum) is 75% of the maximum tax-free cash available at retirement. The option which members can commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

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Other Demographics
Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions of married/civil partnership assumption have been reviewed and where appropriate modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses
Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.8% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits
The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the “Primary Rate” (which is the future service rate (FSR)) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the FSR should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real discount rate of 2.0% per annum above the long term average assumption for consumer price inflation of 3.1% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation.

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This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

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

Long-term yields	
Market implied RPI inflation	3.9% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	4.35% p.a.
CPI price inflation	3.1% p.a.
Long Term Salary increases	4.6% p.a.
Pension increases/indexation of CARE benefits	3.1% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	5.1% p.a.
CPI price inflation	3.1% p.a.
Long Term Salary increases	4.6% p.a.
Pension increases/indexation of CARE benefits	3.1% p.a.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

	Base Table (M / F)	Improvements	Adjustment (M / F)
Current pensioners:			
Normal health	S3PMA / S3PFA_M	CMI_2021 [1.75%]	107% / 100%
Ill-health	S3IA	CMI_2021 [1.75%]	129% / 158%

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

For all tables, sk=7.5, A=0, w2020 = 0, w2021 = 0

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

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APPENDIX B – EMPLOYER DEFICIT RECOVERY & SURPLUS REPAYMENT PLANS

As previously noted, each employer's contributions are set at such a level to achieve and maintain full solvency[6] in a reasonable timeframe and to achieve long term cost efficiency.

Per CIPFA Guidance[7] "*The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long-term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.*"

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

1. Deficit Recovery

1.1. Where a scheme employer's assets in the Fund are less than its liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

1.2. The Recovery Period for each employer is set by the Fund, in consultation with the Fund Actuary. The Fund will consider any representations received from the employer and any guarantor, with a view to balancing the various funding requirements against the risks arising from the financial strength of the employer and the nature of its participation in the Fund (please see section 1.10 below for further details). Whilst willing to consider representations, the Fund retains its discretion in setting the recovery periods for employers.

1.3. Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

1.4. Following the 2019 valuation, the Fund's average deficit recovery period was 12 years, and a target date for full funding of 2032. As part of the 2022 valuation, the Fund is seeking to reduce open employers' deficit recovery periods by three years subject to a minimum deficit recovery period of 10 years. The minimum is to a) avoid unnecessary contribution instability for long-term Fund employers, as very short recovery periods

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

[7] CIPFA "Preparing and Maintaining a Funding Strategy Statement in the LGPS".

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

1.5. The principal exception to this is for employers who are closed to new members. The deficit repayment period for these employers will reduce by three years, but with no minimum and a maximum of the expected future working lifetime of the members to minimise risk to the Fund by targeting full funding in advance of their exit from the Fund.

1.6. Additionally, the Fund will may also consider any contractual periods where appropriate when setting the recovery period.

1.7. Subject to the above, recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement.

1.8. Employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

1.9. The determination of the target recovery periods is summarised in the table below:

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

1.10. Other factors affecting Employer Deficit Recovery Plans

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

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1.10.2. This introduces an element of risk to both the Fund and the employer as, by extending the period over which its deficit is recovered, an employer may end up in a worse position at the next valuation than if it had sought to restore full funding more quickly. This would be contrary to the objective of setting employer contributions so as to secure the solvency and long term cost efficiency of the Scheme.

1.10.3. As such the Fund, in determining deficit recovery periods at an individual employer level, will consider the risks arising from the financial strength ("covenant") of the employer and the nature of its participation in the Fund. Factors that will influence this decision may include (but are not limited to):

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams; and
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

1.10.4. In considering a request to extend deficit recovery periods, the the Administering Authority, in consultation with the actuary, will either:

- consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. This could result in a longer recovery period being acceptable to the Administering Authority, (in accordance with section 1.10.1) although employers will still be expected to at least cover expected interest costs on the deficit; or

- for those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

2. Surplus Repayments

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

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

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

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

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

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

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

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APPENDIX C – COVENANT ASSESSMENT AND MONITORING POLICY

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

RISK CRITERIA

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cash flow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cash flow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

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

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APPENDIX D: CONTRIBUTION REVIEW POLICY

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

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

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

1. BACKGROUND

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

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

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

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

2. POLICY STATEMENT

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

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

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

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

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2.1.4. Where a review takes place, the result may be no change and so a continuation of the contributions already certified.

2.1.5. A rate review would generally only be undertaken within 6 months leading up to the next actuarial valuation Rates and Adjustments Certificate in exceptional circumstances. An example of this would be where there has been a material change in covenant and membership, meaning a material change in risk to the Fund. A material change in membership alone would not result in a review in this period.

2.1.6. The employer would be required to pay the costs related to any potential review conducted at their request (including where the Administering Authority ultimately decides a review is not appropriate). A maximum of 2 requests between actuarial valuation dates is permitted (except in exceptional circumstances and at the sole discretion of the Administering Authority). Where circumstances warrant, the Fund may also seek to recover costs in cases where the review is instigated by the Fund.

2.2. Scenarios where contributions may be reviewed

2.2.1. Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case. Employers may also request a review if they believe either of these scenarios apply.

2.2.2. The Administering Authority will also consider the impact potential on other employers and the Fund as a whole when deciding whether to proceed.

2.2.3. **Significant changes in the employer's membership**

This includes but is not limited to the following scenarios:

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

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

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

2.2.4. **Significant changes in the employer's covenant**

This includes but is not limited to the following scenarios:

d) Provision of, or any change to, any security, bond, guarantee or other form of indemnity by an employer to the Fund. Specifically, this includes provision of security to any other pension arrangement which reduces in any way the security provided to the Fund

e) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer may cease to operate or become insolvent

f) Any behavior that suggests a change in an employer's their ability and/or willingness to pay contributions to the Fund

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

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

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

2.3. Process and potential outcome of a contribution review

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

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

2.3.2. For any potential review, the employer will be required provide any required supporting information (and to outline the rationale and case for the review where they have requested it). Where suitable information is not provided, the Administering Authority may decide not to proceed, or proceed on the basis of prudent assumptions in order to protect the Fund from potential risk.

2.3.3. The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material effect on the outcome).

2.3.4. As part of the review, it is possible that other parts of the funding strategy will also be reviewed in addition to the contributions. Potential outcomes of the review include:

- A change in primary and/or secondary contributions. Note that the result of the review may also be no change in contributions;
- Implementing security to improve the covenant to the Fund;
- A change in the investment strategy;
- A change in funding strategy;
- A change in the length of the recovery period.

2.3.5. The review of contributions may take up to 3 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

2.3.6. Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustments Certificate at the last valuation will be updated for any contribution changes.

2.3.7. As part of the process the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund, then the guarantor would be consulted on as part of the contribution review process.

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

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APPENDIX E - GLOSSARY

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the Administering Authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies: a specific type of employer under the Local Government Pension Scheme (the “LGPS”) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Price Index) over the period to retirement.

Covenant: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

CPI: acronym standing for “Consumer Price Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Deficit: the extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets. This relates to assets and liabilities

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

built up to date and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employing bodies: any organisation that participates in the LGPS, including admission bodies and Fund employers.

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Equities: shares in a company which are bought and sold on a stock exchange.

Funding or solvency Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: this is a key governance document that outlines how the Administering Authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Fund's objectives and attitude to risk.

Letting employer: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

Liabilities: the actuarially calculated present value of all benefit entitlements i.e. Fund cash flows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

Maturity: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members: the individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (currently employed by a Fund employer and contributing into the Fund), deferreds (former active members who have not yet retired) and pensioners (former active members who have now retired, and dependents of deceased members).

Minimum risk Basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

Orphan liabilities: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions: when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Primary rate: the contribution rate required to meet the cost of future accrual of benefits, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

Profile: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Real Return or Real Discount Rate: a rate of return or discount rate net of (CPI) inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

Scheduled bodies: a type of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc., other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Scheme Employers: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Scheme Employers.

Secondary rate: the adjustment to the Primary rate to arrive at the total contribution each employer is required to pay. It is essentially the additional contribution (or reduction in contributions) resulting from any deficit (or surplus) attributable to the employer within the Fund.

APPENDIX A - 6. FUNDING STRATEGY STATEMENT (FSS)

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Ministry of Housing, Communities and Local Government (MHCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Valuation funding basis: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME ("Scheme")

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

This document details the Scheme's policy on:

- Admissions into the Fund;
- The methodology for assessment of a termination payment on the cessation of a Participating Employer's participation in the Fund;
- Use of repayment plans and Deferred Debt Agreements; and
- Considerations for current employers.

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

Where this document refers to Westmorland and Furness Council (**"the Council"**), then this shall mean Westmorland and Furness in carrying out its function as the Administering Authority of the Scheme.

Where this document refers to a Participating Employer, it shall mean a Fund Employer under either Part 1 or Part 2 of Schedule 2 of the Local Government Pension Scheme Regulations 2013 (**"Regulations"**), or an Admission Body (formerly defined as a transferee admission body or a community admission body) under Part 3 of Schedule 2 of the Regulations.

A – ADMISSIONS POLICY

7.2 BACKGROUND

7.2.1 Admission Bodies

Admission Bodies are a specific type of Participating Employer under the Regulations that govern the Scheme. They do not automatically qualify for admission and must instead satisfy certain criteria as set out in the Regulations. They also need a written Admission Agreement to be admitted and participate in the Scheme.

The Council may enter into an Admission Agreement with any Admission Body that satisfies the criteria under the Regulations. An Admission Agreement will enable all (or any specified class) of the Admission Body's employees to be members of the Fund and participate in the Scheme.

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

Any application for Admission Body status must be submitted to the Council in good time to enable actuarial information to be obtained and the legalities associated with admission to be dealt with. Applications should preferably be submitted at least six months before the proposed transfer or admission date.

There are two broad types of Admission Body – those providing a commercial service to a Fund Employer (formerly transferee admission bodies) and those providing other services with sufficient links to a Fund Employer (formerly community admission bodies).

7.2.2 Fund Employers

Fund Employers can be divided into two types under the Regulations:

(a) those employers listed in Part 1 of Schedule 2 of the Regulations; and
(b) those employers listed in Part 2 of Schedule 2 of the Regulations.

Fund Employers listed under Part 1 of Schedule 2 of the Regulations include (but are not limited to)

- county councils;
- district councils;
- London borough councils;
- a fire and rescue authority within the meaning of the Fire and Rescue Services Act 2004;
- a Police and Crime Commissioner;
- a Chief Constable within the meaning of Section 2 of the Police Reform and Social Responsibility Act 2011;
- the Environment Agency;
- a National Park Authority established under Part 3 of the Environment Act 1995;
- a proprietor of an academy within the meaning of section 579 (general interpretation) of the Education Act 1996 who has entered into academy arrangements within the meaning of section 1 (academy arrangements) of the Academies Act 2010;
- a further education corporation, a sixth form college corporation or higher education corporation within the meaning of section 90 of the Further and Higher Education Act 1992;
- a body set up by a local housing authority as a housing management company to exercise management functions of the authority under an agreement approved by the appropriate Minister under section 27 of the Housing Act 1985.

Employees of the above Fund employers will automatically be admitted into the Scheme, provided that they are not prevented from eligibility by virtue of Regulation 4.

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Fund employers listed under Part 2 of Schedule 2 of the Regulations include (but are not limited to):

- a passenger transport executive;
- a precepting authority within the meaning of section 69 of the Local Government Finance Act 1992 (which would include a Parish or Community Council);
- a company “connected with” / "under the control" of a body listed in Part 1 of Schedule 2 (which would include a subsidiary); and
- an urban development corporation.

Employees of the above Fund Employers will only be admitted to the Scheme if they, or a class of employee to which they belong, is designated by the body as being eligible for membership of the Scheme.

7.3 POLICY STATEMENT

7.3.1 Admission Bodies

In addition to the requirements under the Regulations, the following principles will be adopted in relation to Admission Bodies:

(a) applications will be approved if:
- (i) all the conditions of participation set out in the appendix are met; and
- (ii) the body falls into the category of “Admission Body” highlighted in section 7.2 and does not have any of the disqualifying criteria set out below; and
- (iii) the body has a guarantee/indemnity from another Fund Employer (note that for commercial agreements (i.e. former transferee admission bodies) the transferring Fund Employer will be expected to act as guarantor); and
- (iv) for non-commercial agreements (i.e. former community admission bodies) the body exists as a result of being specifically set up by a local authority(s).

(b) applications will not be approved if:
- (i) the application falls into the “Admission Body” category; and
- (ii) the body has one or more of the following disqualifying criteria attached to it:
  - ➢ the body does not meet the conditions of participation detailed at the appendix; or
  - ➢ the provisions in respect of risk assessments as set out later in this document have not been complied with; or
  - ➢ the transferring Fund Employer is a Participating Employer within another LGPS Fund; or
  - ➢ the body does not have a guarantee/indemnity from another Fund Employer.

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

(iii) for non-commercial agreements (i.e. former community admission bodies) there is a known limited lifespan or fixed contract term of admission to the Fund.

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

Notwithstanding the above, the Council reserves the right to approve or reject any application, should it deem this appropriate in the particular circumstances, provided such a decision is in accordance with the Regulations.

7.3.2 Risk Assessments

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

The Admission Body must secure a guarantee which is acceptable to the Council from either:

(a) a person who funds the Admission Body in whole or part;
(b) a person who owns or controls the exercise of the functions of the Admission Body; or
(c) the Secretary of State in the case of an Admission Body which is established under any enactment providing that enactment enables the Secretary of State to make financial provision for that Admission Body.

The factors the Council may use to establish whether a guarantee would be an acceptable alternative are:

(a) the likelihood of premature termination occurring in respect of that Admission Body;
(b) the accountability of any Fund employer in respect of that Admission Body;
(c) whether if premature termination did occur the liabilities of the Admission Body would be assumed by other participating employers in the Fund, or would be contained by other employers in that Admission Body's group;
(d) any assessment commissioned by the Admission Body on which the Council can rely to determine whether the guarantor is suitable; and
(e) advice from its solicitors as to whether the wording of the guarantee is acceptable.

In determining the acceptability as to the level of risk, the Council will be mindful of its core principle which is that each Admission Body is accountable for its own costs on premature termination and any costs associated with that should not become the liability of third party bodies who participate in the Fund.

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

In certain circumstances the Council may be willing to enter into an indemnity or bond in place of a body acting as guarantor, however the Council may determine when this is the appropriate option, taking into account the risk assessment.

7.3.3 Decisions Regarding Admissions

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

7.4 Fund Employers

The principle that the Council wishes to pursue is that of responsibility by each employer under the Fund for the liabilities of its employees or former employees who have liabilities under the Fund.

In this regard, the Council may:

- make an initial assessment of the financial standing of the new Fund employer, to determine its ability to support the funding requirements under the Fund;
- taking into account any such assessment, the Council may seek any one or more of the following terms of agreement with the new Fund employer, including:
  - a guarantee/indemnity from another Fund employer;
  - agreement that another Fund employer will assume the orphan liabilities relating to the new Fund employer, either in whole or in part;
  - further information on the employees transferring to them, financial standing/plans and relationship with previous Fund employer;
  - a revised Rates and Adjustments certificate for the new Fund employer to take into account the financial risk of failure.

There should be flexibility to consider all relevant circumstances but the Council s objective is to seek appropriate funding from all Fund employers, so that on exit all orphaned liabilities will be funded, or subsumed by another Fund employer.

B – TERMINATION POLICY, including FLEXIBILITIES FOR EXIT PAYMENTS AND DEFERRED DEBT AGREEMENTS

7.5 BACKGROUND

When an Admission Agreement comes to its end (including where the participating employer ceases to have any active members), or is prematurely terminated for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees, the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members.

In the event that unfunded liabilities arise that cannot be recovered from the Admission Body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a bond/indemnity, guarantor or successor body within the Fund.

7.6 POLICY STATEMENT

7.6.1 Admission Bodies

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

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

As such, the treatment of assets and liabilities at termination will be as follows:

(a) Admission Bodies without a Fund guarantor

Where an Admission Body does not have a guarantee/indemnity from another Fund Employer, and no successor body exists to take responsibility for the liabilities (including those in respect of former members) then:

- Any surplus on termination would be refunded to the Participating Employer via payment of an exit credit.
- Any deficit will be recovered from the outgoing Participating Employer or bond where appropriate;

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

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(b) Admission Bodies with a Fund guarantor

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

- The Fund will write to the Admission Body and guarantor requesting written evidence of any risk sharing agreements within 14 days of notification.

- Where evidence is provided, the Fund will follow the risk sharing protocols set out within the agreement between the two parties. Where there is no clarity within the risk sharing agreement as to the treatment of deficits or exit credits on termination, the Fund will determine the amount of any deficit due or exit credit payment due and to which party, having regard to any relevant considerations and taking account of the employers' exposure to risk.

- Where no evidence is provided, the Fund will pursue the Admission Body for any deficit or pay any exit credits to the Admission Body. Where the Admission Body defaults on any liabilities due to the Fund, the guarantee will be called in from the guarantor.

- If the outgoing Admission Body disputes the treatment, then the two parties will be expected to reach an agreement amongst themselves, and if they cannot then the Fund's 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)

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

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 any such longer period that may be agreed with the outgoing Participating Employer.

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

(d) Notification of Termination

In many cases, termination of the admission is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued. In this case admission bodies are requested to open a dialogue with the Fund to commence planning for the termination as early as possible.

Where termination is disclosed in advance the Fund will liaise with the actuary to introduce procedures to reduce the volatility risks to the debt amount in the run up to actual termination of the admission.

Further, the Fund may hold more frequent reviews of employer contribution rates in order to manage the gradual reduction of any pension deficit or surplus. This will enable the Fund to gradually manage the termination process, rather than call for one cessation payment.

(e) Funding basis for termination calculations

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

- protecting the other employers in the Fund. At termination, the Admission Body's liabilities may become "orphan liabilities" within the Fund, and there will be no recourse to the Admission Body if a shortfall emerges in the future (after the admission has terminated). A more cautious funding basis provides some protection against this;
- Providing fair value to the outgoing Admission Body and preventing Admission Bodies being trapped in the Scheme by an unaffordable deficit.

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

The more cautious basis will be selected with the aim of achieving the above. Generally, this will be a least risk set of assumptions based on gilt yields, but should market conditions or other factors warrant then an alternative approach (including potentially with reference to corporate bonds) may be adopted based on advice from the Fund's actuary.

This approach will be applied unless the Admission Body has a guarantor within the Fund, or a successor body exists to take over the Admission Body's liabilities (including those of former employees). In this case the valuation funding basis (as defined in 7.5.1 (f) below) will be used.

(f) Valuation Funding, Corporate Bond and Least Risk Termination Bases

The valuation funding, corporate bond and least risk financial assumptions that applied at the most recent actuarial valuation date (31 March 2022) are set out below for illustration. However, these will be updated for each termination on a case-by-case basis to reflect:

- the prevailing market conditions at the relevant employing body's termination date;
- any changes made to the methodology used to derive these bases (the Fund will decide at what point any such changes take effect).

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

**The actual assumptions applied will be based on the profile of the individual employer – the above assumptions broadly reflect the profile of the Fund as a whole*
***For corporate bond and lower risk terminations, the "inflation Risk Premium" of 0.5% is removed from the derivation of the CPI assumption*

All demographic assumptions will be the same as those adopted for the most recent actuarial valuation (the Fund will decide at what point any post-valuation changes to the demographic assumptions take effect), except for the corporate bond and least risk basis in relation to the life expectancy assumption. Given these financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption. Currently, the assumed rate of long-term longevity improvement will be 2% p.a. rather than the 1.75% p.a. used for funding purposes, but this may be reviewed as necessary based on actuarial advice.

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

(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 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) Alternatives to immediate exit payment on termination

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

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

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

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

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

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

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

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

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

1. The Administering Authority will firstly consider whether this is in the Fund's best interest. This decision will be based on a covenant review of the employer, to determine whether the exit debt is affordable at that time (based on advice from the Actuary, covenant and legal advisor as considered appropriate by the Administering Authority).

2. For this, the Administering Authority will request any information it deems necessary. This may include updated financial information, including management accounts, financial projections, and any other relevant information. If this is not provided, then spreading of the exit payment will not be permitted.

3. Depending on the length of the spread period, the size of the deficit, and the employer's covenant, the Fund may request security or other measures to support the payment plan. This may include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period.

4. If the Administering Authority's assessment confirms that the exit payment is not immediately affordable, it will engage in discussions about the potential spreading of the exit payment. As part of this, the following will be considered and agreed:

    a. The spreading period (this is subject to a 5 year maximum);
    b. The initial and annual payments due and how these will change over the period;
    c. The interest rates applicable (all late payments will have interest added), and how the costs associated with implementing the payment plan will be recovered;

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

d. The level and form of any security required (e.g. bond, escrow account, etc);
e. The Participating Employer's responsibilities over the period (e.g. supply of updated covenant information);
f. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances); and
g. The views of the Actuary, covenant, legal and any other specialists necessary.

5. The Administering Authority will then make a final decision on whether spreading is appropriate. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.

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

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

1. The Administering Authority will firstly consider whether this is in the Fund's best interest. This decision will be based on a covenant review of the employer, to determine whether the exit debt is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).

2. For this, the Administering Authority will request any information it deems necessary. This may include updated financial information, including management accounts, financial projections, and any other relevant information. If this is not provided, then a DDA will not be entered into by the Administering Authority.

3. The Fund may request security to protect the Fund before entering into such an arrangement. This could include a lump sum up front to reduce the size of the termination deficit.

4. If the Administering Authority's assessment confirms that the exit payment is not immediately affordable, it will engage in discussions with the employer about the potential format of a Deferred Debt Agreement using the template Fund agreement that will be based on the principles set out in the Scheme Advisory Board's separate guide (available on the SAB's website at **www.lgpsboard.org/index.php/empflexm**). As part of this, the following will be considered and agreed:

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a. What security the Participating Employer can offer (generally a DDA will only be allowed where the Fund are confident the employer can support the arrangement on an ongoing basis, but in certain cases security may still be required). Provision of security may also result in a review of the recovery period and other funding arrangements;
b. The funding assumptions and investment strategy that would be applied to the employer;
c. The initial payment due (if any) and the updated secondary rate of contributions;
d. The financial information that will be required on a regular basis for covenant monitoring, and any other monitoring that will be required;
e. The responsibilities that would apply to the employer while they remain in the Fund;
f. What conditions would trigger changes to the recovery plan and also contributions (e.g. cash payment, provision of security)
g. What conditions would trigger changes to the DDA, including a cessation of the arrangement and an exit payment (or credit) becoming payable (e.g. removal of any security, a significant change in covenant, etc); and
h. The advice of the Actuary, covenant, legal and any other specialists necessary as determined by the Administering Authority.

5. The Administering Authority will then make a final decision on whether a DDA is appropriate and confirm the terms that are required.

6. Where a DDA is implemented, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the DDA in the interim if any of the agreed triggers are met.

(i) Fund discretion

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

- alter the basis and approach to the termination assessment;
- allow the guarantor, successor body or the Fund as a whole to subsume the funding deficit or surplus on closure, in place of a termination payment being required of the/to the Admission Body itself.

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

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 the Council wishes to pursue is that of responsibility by each employer under the Fund for the liabilities of its employees or former employees who have liabilities under the Fund.

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

The Council recognises that on admission a guarantee and/or indemnity may not have been provided and therefore different approaches will be needed depending on this issue.

Where contractual comfort has been obtained on entry into the Fund, the Council can adopt a more relaxed approach in that:

- if a previous Fund employer has agreed to subsume any orphan liabilities in relation to the outgoing Fund employer, arrangements can be agreed in relation to the Rates and Adjustments Certificate applicable to the Fund employer and/or any deficit on termination; or
- if a previous Fund employer has agreed to pay any deficit payment on exit, this will be taken into account in determining the terms upon which the deficit is calculated.

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

- monitor carefully the financial standing of the Fund employer and seek where considered necessary an alteration to the Rates and Adjustments Certificate to take this assessment into account; and
- seek recovery of any deficit calculated on exit from the Fund, and if unsuccessful apply pressure to former Fund employers.

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 the Council for credit to the Scheme such contributions and payments as are due under the Regulations in respect of those employees who are eligible to participate in the Scheme.

1.2. The Admission Body shall pay to the Council for credit to the Scheme the employee and employer pension contributions on a monthly basis in arrears. The payment must be paid to the Council within 19 calendar days of the end of each month in which the pension contributions have been deducted.

1.3. The employer contribution rate required to be paid by the Admission Body will be assessed by an actuary appointed by the Council.

1.4. The Admission Body shall pay to the Council for credit to the Scheme any deficit contribution or offset any surplus against employer contributions as assessed by the Actuary during each financial year the payments fall due.

1.5. The Admission Body shall pay to the Council for credit to the Scheme any additional or revised contributions due as result of additional membership or pension being awarded or as a result of outstanding liabilities due should the admission agreement terminate. Payment will be due within 30 calendar days of receipt of a written request from the Council.

1.6. Any employees' Additional Voluntary Contributions ("**AVCs**") or Shared Cost Additional Voluntary Contributions ("**SCAVCs**") are to be paid direct to such AVC body and/or AVC insurance company selected by the Council Contributions shall be paid within 19 calendar days of the end of each month in which the contributions have been deducted.

1.7. Where the Admission Body certifies that:

1.7.1. an eligible employee is retiring by reason of redundancy or in the interests of efficiency; or

1.7.2. an eligible employee is voluntarily retiring with the Admission Body's consent before age 60; or

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

1.7.3. the deferred benefit of an eligible employee is brought into payment with the Admission Body's consent either (i) on or after age 55 and before age 60 where they were a member of the LGPS on or before 31st March 2008; or (ii) on or after age 55 and before age 65 where they became a member on or after 1st April 2008; and immediate benefits are payable under the Regulations the Admission Body shall pay to the Council for credit to the Scheme the sum notified to them in writing by the Council as representing the actuarial strain on the Scheme resulting from the immediate payment of benefits. Such sum to be paid within 30 calendar days of receipt of the written notification.

1.8. The Admission Body shall indemnify the Council against any financial penalty and associated costs and expenses incurred by the Council or by the Scheme arising from any failure by the Admission Body to comply with the terms of the Admission Agreement entered into by it, the Regulations or any overriding legislation. Such payment is to be paid within 30 calendar days of receipt of a written request from the Council.

1.9. If any sum payable under this Agreement or the Regulations by the Admission Body to the Council or to the Scheme has not been paid (in whole or in part) within the payment period specified (or otherwise in accordance with the Regulations) the Council may require the Admission Body to pay interest calculated in accordance with Regulations on the amount remaining unpaid.

2. ADMISSION BODY'S UNDERTAKINGS

2.1. The Admission Body undertakes:

2.1.1. to provide or procure to be provided such information as is reasonably required by the Council relating to the Admission Body's participation in the Fund including (but not limited to) details of the pay and final pay of each eligible employee;

2.1.2. to comply with the reasonable requests of the Council to enable it to comply with the requirements of the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (as amended);

2.1.3. to adopt the practices and procedures relating to the operation of the Fund as set out in the Regulations, the Council's Administration and Communications Policy and in any employer's guide or employer information published or held on the Council's pension administrator website;

2.1.4. to formulate and publish within 3 calendar months of commencement a statement concerning the Admission Body's policy on the exercise of its functions or discretions in accordance

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

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

2.1.5. to notify the Council of each occasion on which it exercises a discretion under the Regulations and the manner in which it exercises that discretion;

2.1.6. to notify promptly the Council in writing of any material change in the terms and conditions of employment of any of the eligible employees which affects entitlement to benefits under the LGPS and of any termination of employment;

2.1.7. to immediately notify the Council and the Fund employer in writing of any matter which may affect or is likely to affect its participation in the LGPS and of any actual or proposed change in its status which may give rise to a termination of the admission agreement or in the case of a transferee admission body which may give rise to a termination of the Contract between the Admission Body and the Fund employer including but not limited to take-over, reconstruction, amalgamation, liquidation, receivership or a change in the nature of its business or constitution;

2.1.8. not to do anything which would prejudice the LGPS' status as a registered pension scheme; and

2.1.9. to make available for public inspection at the Council and the Fund employer's office a copy of the Admission Agreement.

3. ACTUARIAL VALUATIONS

3.1. The Council may periodically and shall at least on a triennial basis obtain from an actuary a certificate specifying in the case of the Admission Body the percentage or amount by which in the actuary's opinion the employer’s contribution rate should be increased or reduced. This is with a view to ensuring that as far as is reasonably possible the value of assets of the Fund in respect of current and former eligible employees is neither materially more nor materially less than the anticipated liabilities of the Fund.

3.2. Upon termination of this Agreement the Council must obtain:

3.2.1. an actuarial valuation of the liabilities of the Fund in respect of current and former Eligible Employees as at the date of termination; and

3.2.2. a revision of any Rates and Adjustments Certificate within the meaning of the Regulations showing the revised contributions due from the Admission Body.

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

3.3. The costs of obtaining the actuarial valuation and certificates (or revisions to them) as required by the Council in respect of current and former eligible employees (other than the triennial valuation) shall be paid by the Admission Body within 30 calendar days of receipt of written notification of such costs from the Council.

4. RISK ASSESSMENT

4.1. The Admission Body shall carry out to the satisfaction of the Council, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of services or assets by reason of insolvency, winding up or liquidation of the Admission Body.

4.2. The Admission Agreement shall provide that the Admission Body secures a guarantee in a form satisfactory to the Council from:

4.2.1. a person who funds the Admission Body in whole or part;

4.2.2. a person who owns or controls the exercise of the functions of the Admission Body; or

4.2.3. the Secretary of State in the case of an Admission Body which is established under any enactment, and whether that enactment enables the Secretary of State to make financial provision for that Admission Body.

5. TERMINATION

5.1 The Agreement shall terminate at the end of the notice period upon the Council or the Admission Body giving a minimum of three calendar months' notice in writing to terminate this Agreement to the other party or parties to this Agreement.

5.2 The Agreement shall terminate automatically on the earlier of:

5.2.1 the date of the expiry or earlier termination of the Contract (if the admission is of a fixed term); or

5.2.2 the date the Admission Body ceases to be an Admission Body for the purposes of the Regulations; or

5.3 The Agreement may be terminated by the Council by notice in writing to the Admission Body taking immediate effect in the event of:

5.3.1 the insolvency winding up or liquidation of the Admission Body;

APPENDIX A - 7. ADMISSION & TERMINATION POLICY STATEMENT

5.3.2 any breach by the Admission Body of any of its obligations under this Agreement provided that the Council shall if the breach is capable of remedy first afford to the Admission Body the opportunity of remedying that breach within such reasonable period as the Council may specify;

5.3.3 the failure by the Admission Body to pay any sums due to the Council or to the Fund within the periods specified in this Agreement or in the Regulations or in any other case within 30 calendar days of receipt of a written notice from the Council requiring the Admission Body to do so; or

5.3.4 the failure by the Admission Body to renew or adjust the level of any bond/indemnity which is required to be in place.

APPENDIX A - 8. DISCRETIONS POLICY

8 DISCRETIONS POLICY

Introduction:

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

Regulatory references

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

- The Local Government Pension Scheme Regulations 2013 [prefix R]
- The Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 [prefix TP]
- The Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]
- The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]
- The Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]
- The Local Government Pension Scheme Regulations 1995 (as amended) [prefix G]

APPENDIX A - 8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
R3(5) & RSch 2, Part 3, para 1	**Active membership** Whether to agree to an admission agreement with a body applying to be an admission body.	Depending on circumstances, and only in accordance with the published Fund Admissions Policy. This will be subject to the relevant body meeting the criteria set out in R3(5) & RSch 2, Part 3. Where an admission body of the description in paragraph 1(d) of RSch 2, Part 3 undertakes to meet the requirements of the Regulations, the Administering Authority must admit the eligible employees of that body to the Fund.
R4(2)(b)	**Restriction on eligibility for active membership** Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or Care Quality Commission.	Depending on circumstances, and only in accordance with the published Fund Admissions Policy. This will be subject to the relevant authority meeting the criteria set out in R4(2) & RSch 2, Part 3, para 1.
RSch2, Part 3, para 14	**Admission bodies** Whether to agree that an admission agreement may take effect on a date before the date on which it is executed.	To exercise this discretion where there have been delays in finalising an admission agreement.
RSch 2, Part 3, para 9(d)	Whether to terminate a transferee admission agreement in the event of:	In the first instance, the terms of the relevant Admission Agreement will apply.

APPENDIX A - 8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
	- 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.	If the terms of the Admission Agreement are breached the Administering Authority will first try to resolve the breach where possible through reasonable means. Where the terms of the relevant Admission Agreement leave the decision open to the Administering Authority, the Administering Authority will terminate the admission agreement in accordance with the Termination Policy. However, in exceptional circumstances this may be varied.
RSch 2, Part 3, para 12(a)	Define what is meant by "employed in connection with".	After taking guidance from the transferor scheme employer, and in accordance with the Fund Admission Policy. However, in normal circumstances a member should spend at least 50% of their time on the relevant contract to remain eligible to be an active member in the LGPS.
R16(1)	**Additional pension contributions** Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be	The Administering Authority will turn down a request where the monthly payment is below £20, or in the absence of a satisfactory medical report.

APPENDIX A - 8. DISCRETIONS POLICY

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

APPENDIX A - 8. DISCRETIONS POLICY

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

APPENDIX A - 8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
	before normal pension age or upon flexible retirement.	
R34(1)(a) B39 T14(3) L49, L50, L156, L157	**Commutation and small pensions** 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).	Do this at the member's request where the capital value of their LGPS and all other scheme's/fund's do not exceed HMRC's limits and all benefits from these funds are commuted within a period of 12 months. Members are required to provide information on all their pension rights held in a HMRC tax-approved pension arrangement in order for the Fund to determine whether the benefits can be commuted. Members are required to declare that all information provided is correct and accurate and that if they are making a false statement, they will be liable for any tax charged by HMRC.
R34(1)(b)	Decide whether to trivially commute a survivor's pension under section 168 of the Finance Act 2004.	The Fund will exercise this discretion at the survivor's request.
R34(1)(c)	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.	To commute payment where requested by the member and in accordance with the guidance of the Government Actuary.

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Regulation Reference	Brief Description	The Fund's Discretion
R36(3) A56(2) L97(10)	**Role of the Independent Registered Medical Practitioner (IRMP)** Approve medical advisors used by employers (for ill health benefits).	This decision is delegated to the scheme employer. The Administering Authority requires each employer to provide details of the IRMPs they wish to use for ill health purposes and evidence of their medical qualifications.
R38(3)	**Early payment of retirement pension on ill health grounds: deferred and deferred pensioner members** Where the former Scheme employer has ceased to be a Scheme employer – Administering Authority to decide whether deferred beneficiary meets criteria of being permanently incapable of former job because of ill health and is unlikely to be capable of undertaking gainful employment before normal pension age or for at least three years, whichever is the sooner.	The Administering Authority will take the advice of the Fund IRMP before any decision is made.
R38(6)	Where the former Scheme employer has ceased to be a Scheme employer – Administering Authority to decide whether a suspended ill health tier 3 member is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health.	The Administering Authority will take the advice of the Fund IRMP before any decision is made.

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Regulation Reference	Brief Description	The Fund's Discretion
R40(2),R43(2) & R46(2) TP17(5) to (8) B23(2) & B32(2) & B35(2) & TSch1 L155(4) & L38(1) & L155(4) & E8	**Death Grants** Decide to whom death grant is paid.	To generally pay in accordance with expression of wish or will but to retain absolute discretion in all cases where there are exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the S151 Officer in consultation with the Chair and Vice Chair of the Pensions Committee.
R49(1)(c) B42(1)(c)	**No double entitlement** 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.	The Fund will always pay the highest available benefit to a member of the Fund.
R54(1)	**Admission agreement funds** Whether to set up a separate Admission agreement fund.	The Administering Authority will not set up a separate admission agreement fund unless there were exceptional circumstances requiring this.
R55*	**Governance compliance statement**	The Governance Policy Statement for the Fund is included as Part 2 of the Fund Policy Document.

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Regulation Reference	Brief Description	The Fund's Discretion
	Administering Authority must have in place a written Governance Compliance Statement (including the terms, structure and operational procedures appertaining to the Local Pensions Board.	
R58*	**Funding strategy statement** Decide on funding strategy for inclusion in Funding Strategy Statement.	The Funding Strategy Statement is included as Part 6 of the Fund Policy Document.
R59(1) & (2)	**Pensions administration strategy** Whether to have a written Pensions Administration Strategy Statement.	The Administration & Communications Policy is included as Part 3 of the Fund Policy Document.
R61*	**Communication policy statement** Communication policy must set out policy on communicating with members, representatives of members, prospective members and employing authorities and format, frequency and method of communications.	The Administration & Communications Policy is included as Part 3 of the Fund Policy Document.
R64(2A)	**Special circumstances where revised actuarial valuations and certificates must be obtained**	The Administering Authority will consider applications for a suspension notice on a case by case basis. Decision to issue a suspension notice to be granted

APPENDIX A - 8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
	Whether to suspend, for up to 3 years, an employer's obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.	by the S151 Officer having taken advice from the Fund Actuary.
R64(2ZAB)	Whether to extend the period beyond 6 months from the exit date of the Scheme employer, by which to pay an exit credit.	The Administering Authority will consider applications to extend the timeframe for paying an exit credit on a case by case basis. The decision to provide a payment extension will be granted by the S151 Officer having taken advice from the Fund Actuary.
R64(4)	Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer.	The Administering Authority will consider revisions of an employer's contribution rate if: - there has been a significant change to the employer's membership which will have a material impact on their liabilities; or - there has been a significant change in the employer's covenant
R64(7A)	Decision to enter into a Deferred Debt Agreement.	The Administering Authority will consider applications to enter into a deferred debt agreement on a case by case basis. The decision to enter into a Deferred Debt Agreement will be granted by the S151 Officer having taken advice from the Fund Actuary.

APPENDIX A - 8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
R64A	**Revision of Rates and Adjustments Certificate: Scheme employer contributions** Whether to obtain revision of employer's contribution rate in other circumstances.	The Administering Authority will consider revisions of an employer's contribution rate if: - there has been a significant change to the employer's membership which will have a material impact on their liabilities; or - there has been a significant change in the employer's covenant
R64B	**Revision of actuarial certificates: exit payments** Whether to agree to spreading of an exit payment and obtain a revision to the Rates and Adjustments Certificate. Under Regulation 62 (actuarial valuations of pension funds) to show the proportion of the exit payment to be paid by the exiting Scheme employer in each year after the exit date over such period as the Administering Authority considers reasonable.	The Administering Authority will consider applications to spread exit payments on a case by case basis. The decision to permit the spreading of exit payments and the duration over which the exit payment should be paid to the Fund will be granted by the S151 Officer having taken advice from the Fund Actuary.
R68(2) L80(5)	**Employer's further payments** Whether to require any strain on Fund costs to be paid "up front" by the employing authority following redundancy, flexible retirement, or the waiver (in	The strain on Fund costs to be paid up front following redundancy, flexible retirement, or waiver of any actuarial reduction on flexible retirement or otherwise unless the Fund Actuary advises otherwise.

APPENDIX A - 8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
	whole or in part) of any actuarial reduction on flexible retirement or any actuarial reduction that would otherwise have been applied to benefits when a member voluntarily draws before normal pension age.	
R69(1) L12(5) L81(1)	**Payment by Scheme employers to Administering authorities** Decide frequency of payments to be made over to the Fund by employers and whether to make an admin charge.	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.
R69(4) L81(5)	Decide form and frequency of information to accompany payments to the Fund.	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. This must be provided on a monthly basis and in appropriate electronic format as agreed by the Administering Authority.

APPENDIX A - 8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
R70 TP22(2)	**Additional costs arising from Scheme employer's level of performance** Whether to issue employers with notice to recover additional costs incurred as a result of the employer's level of performance.	The Administering Authority will issue such a notice when an employer's level of performance gives rise to additional costs.
R71(1) L82(1)	**Interest on late payments by Scheme employers** Whether to charge interest on payments by employers overdue by more than 1 month.	The interest charge will be calculated in accordance with statutory requirements at 1% above base rate compounded quarterly.
R76(4) A60(8) L99	**Reference of adjudications to Administering Authority** 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.	The Administering Authority's IDRP procedure is separately documented.
R79(2) A63(2) L105(1)	**Appeals by Administering Authorities** Whether the Administering Authority should appeal against employer decision (or lack of a decision).	The Administering Authority will decide this depending on the particular circumstances of a complaint.

APPENDIX A - 8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
R80(1)(b) TP22(1) A64(1)(b)	**Exchange of information** Specify information to be supplied by employers to enable Administering Authority to discharge its functions.	Employers to supply information in accordance with the approved Administration Policy.
R82(2) A52(2) L95	**Payments due in respect of deceased persons** Can make payments due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate/letters of administration where the grant amount does not exceed the amount specified in any order for the time being in force under section 6 of the Administration of Estates (Small Payments) Act 1965 and applying in relation to that person's death (currently £5,000).	To generally pay to the personal representatives but to retain absolute discretion to make a payment to a person or persons appearing to the Administering Authority to be beneficially entitled to the estate in any cases where there are exceptional circumstances. Cases under £500 are determined by the Senior Manager – Pension & Financial Services with cases over £500 determined by the S151 officer in consultation with the Chair and Vice Chair of the Pension Committee. This discretion is only in relation to amounts payable to the personal representatives – death grants are outside of the estate.
R83 A52A	**Payments for persons incapable of managing their affairs**	In the case of an adult incapable of managing their affairs the Administering Authority would normally require power of attorney, but where this is not provided each case will be individually determined.

APPENDIX A - 8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
	Whether, where a person is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit or to apply the benefits in such manner as the Administering Authority may determine, for the benefit of the person entitled, or any beneficiaries of the person entitled.	In cases relating to children incapable of managing their affairs the Administering Authority would ordinarily pay child pension benefits into a child's own bank account or to a joint account with the nominees being the child and another appointed person. Where payment is proposed to be made solely to another person for the benefit of that child, then each case will be individually determined. In both situations described determinations will be made by the S151 officer in consultation with the Chair and Vice Chair of the Pensions Committee.
R87	**Tax** The Administering Authority may deduct from any payment of benefits under the LGPS any tax to which they may become chargeable under the Finance Act 2004.	The Administering Authority will deduct tax and pay this to HMRC.
R98(1)(b)	**Bulk transfers** Agree to bulk transfer payment	The Administering Authority will agree to bulk transfer payments on the advice of the Fund actuary and, where necessary, with employer consultation, where the Administering Authority believes the amount transferred represents a fair valuation of benefits.

APPENDIX A - 8. DISCRETIONS POLICY

Regulation Reference	Brief Description	The Fund's Discretion
R100(6)	**Inward transfers of pension rights** Extend normal time limit for acceptance of an inward transfer value beyond 12 months of becoming an active member of the LGPS.	The Administering Authority will not extend the normal time limit unless there are exceptional circumstances and the Scheme employer also agrees to the extension of the normal time limit.
R100(7)	Allow transfer of pension rights into The Fund.	The Administering Authority will accept all non-club transfers following advice from the Fund actuary unless it is agreed otherwise in the terms of an employer's admission agreement or in a separate, formal written agreement between the Administering Authority and employer (and its guarantor, if deemed necessary by the Administering Authority).
R105(2)	**Delegation** Decide to delegate any function under the 2013 Regulations, including this power to delegate.	Details are contained within the Administration Strategy set out in the Scheme policy document
R106(3)	**Local Pension Boards: Establishment** Where the administration and management of a Fund is wholly or mainly shared by two or more Administering authorities, decide whether to establish	Not applicable

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Regulation Reference	Brief Description	The Fund's Discretion
	a joint Local Pensions Board (if approval has been granted by the Secretary of State).	
R106(6)	Decide procedures applicable to the Local Pension Board including the establishment of sub-committees, formation of joint committees and payment of expenses.	The procedures are set out in the Terms of Reference for the Fund's Local Pension Board
R107(1)	**Local Pension Boards: Membership** Decide appointment procedures, terms of appointment and membership of the Local Pension Board.	The procedures are set out in the Terms of Reference for the Fund's Local Pension Board.
RSch 1 TP17(9)(b) B25	**Cohabiting partner definition** Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member.	Require evidence of cohabitation and financial interdependence in accordance with the criteria set. The evidence to determine financial dependence or interdependence will be assessed and agreed on a case by case basis and may include but not be restricted to items such as evidence of a joint bank account, shared utility bills, joint mortgage arrangements, insurance policies, joint loans etc.
RSch 1 TP17(9)	**Eligible child definition**	The Administering Authority will treat a child as being in continuous education or training in all cases where

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Regulation Reference	Brief Description	The Fund's Discretion
	Decide to treat a child (who has not reached the age of 23) as being in continuous education or vocational training despite a break.	the child is under age 18. Where the child is aged between 18 and 23, it ignores all breaks up to 6 months and will ignore longer breaks in exceptional circumstances.
TP10(9)	**Interfund adjustments** Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment).	In the absence of an election from the member, the Administering Authority will make the final decision.
TP18 & Sch 2, para 1(2)	**85 year rule** Where the former Scheme employer has ceased to be a Scheme employer, the Administering Authority has to decide whether to "switch on" the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60.	The Administering Authority will only exercise this discretion in exceptional circumstances and will refer requests to be considered by the S151 officer and assessed on their merits, taking into account such factors as cost.
TP3(1), TPSch 2 para 2(1) B30(5), B30A(5)	**Waiver of actuarial reduction** Where the former Scheme employer has ceased to be a Scheme employer, the Administering Authority to	The Administering Authority will only exercise this discretion in exceptional circumstances and will refer requests to be considered by S151 officer and

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Regulation Reference	Brief Description	The Fund's Discretion
	decide whether to waive any actuarial reduction for a member voluntarily drawing benefits before normal pension age other than on the grounds of flexible retirement (where the member has both pre and post 1 April 2014 membership): a) on compassionate grounds (pre 1 April 2014 membership) and in whole or in part on any grounds (post 31 March 2014 membership) if the member was not in the Scheme before 1 October 2006; or b) on compassionate grounds (pre 1 April 2014 membership) and in whole or in part on any grounds (post 31 March 2014 membership) if the member was in the Scheme before 1 October 2006 will not be 60 by 31 March 2016 and will not attain 60 between 1 April 2016 and 31 March 2020 inclusive; or c) on compassionate grounds (pre 1 April 2016 membership) and in whole or in part on any grounds (post 31 March 2016 membership) if the member was in the Scheme before 1 October 2006 and will be 60 by 31 March 2016; or	assessed on their merits, taking into account such factors as cost.

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Regulation Reference	Brief Description	The Fund's Discretion
	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.	
TPSch 2, para 2(3)	**Employer's further payments** Whether to require any strain on Fund costs to be paid "up front" by Scheme employer if the Scheme employer "switches on" the 85 year rule for a member voluntarily retiring (other than flexible retirement) prior to age 60, or waives an actuarial reduction under TPSch 2, para 2(1) or releases benefits before age 60 under B30(1) or B30A.	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.
TP15(1)(c), TSch1 & L83(5)	**Additional contributions** Extend the time period for capitalisation of added years contract.	The Administering Authority will not extend the time period.
TP3(13) A70(1) & 71(4)(c)	**Abatement**	The Administering Authority will not abate pensions following re-employment.

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Regulation Reference	Brief Description	The Fund's Discretion
T12 & 109 L110(4)(b)	Decide policy on abatement of pensions following re-employment.	
L12(5)	**Members' contributions** Frequency of payment of councillors' contributions.	Determined that councillors are not eligible for membership of the LGPS.
L47(2)	Pay child's pension to another person for the benefit of the child.	The Administering Authority would ordinarily pay child pension benefits into a child's own bank account or to a joint account with the nominees being the child and another appointed person. Where payment is proposed to be made solely to another person for the benefit of that child, then each case will be individually determined by the S151 officer in consultation with the Chair and Vice Chair of the Pensions Committee.
L147	**Discharge of liability for pension credit rights** Discharge Pension Credit liability (in respect of Pension Sharing Orders for councillors and pre 1/4/08 Pension Sharing Orders for non-councillor members).	The Administering Authority will discharge pension credit liabilities by conferring appropriate rights under the LGPS on the ex-spouse or ex-civil partner. Alternatively, the ex-spouse or ex-civil partner may request a transfer of those rights to a HMRC tax-approved pension arrangement.

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Regulation Reference	Brief Description	The Fund's Discretion
TSch 1 L23(9)	**Permanent reductions in pay** Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts /restrictions occurring pre 01/04/08).	Always pay the highest benefit to or on behalf of a member of the Fund.
G(F7)	**Remarriage and cohabitation** Whether to pay spouse's pensions for life for pre 1.4.98 retirees / pre 1.4.98 deferreds who die on or after 1.4.98 (rather than easing during any period of remarriage or cohabitation).	The Administering Authority will pay a spouse's pension for life.
A45(3) & L89(3)	**Recovery of outstanding contributions** Outstanding employee contributions can be recovered as a simple debt or by deduction from Benefits.	The Administering Authority will adopt this discretion.

9.0 TRAINING POLICY

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9.0 Cumbria LGPS Pension Fund Training Policy

9.1 Introduction

A major factor in the governance arrangements of the Cumbria LGPS Pension Fund ("the Fund" or "the Cumbria Pension Fund") is ensuring Committee Members, Local Pension Board members and Officers have the relevant skills and knowledge. The Public Service Pensions Act 2013 provides for the regulation of the LGPS by the Pensions Regulator and, accordingly, an increased emphasis on knowledge and understanding.

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

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

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

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

a) The Pensions Regulator Codes of Practice

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

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

b) CIPFA Knowledge and Skills Code of Practice and Framework

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

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

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

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

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

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

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

c) CIPFA Principles of Investment Decision Making and Disclosure

The CIPFA Principles of Investment Decision Making and Disclosure was published in response to the government's report updating the Myners Principles, this indicates Administering Authorities are required to prepare and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. Details of how the Fund complies with these principles please refer to the Fund's Investment Strategy Statement.

d) MiFID ii (Markets in Financial Instruments Directive)

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

9.2 Policy objectives

The Fund's objectives relating to knowledge and understanding are:

- The Pension Fund is managed, and its services delivered by people who have the appropriate knowledge and expertise, and that the knowledge and expertise is maintained in a changing environment
- Those persons responsible for governing the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage conflicts of interest
- To demonstrate the Fund's status as a profession client under the EU directive, MiFID ii (Markets in Financial Instruments Directive) to investment managers, hence accessing appropriate investment products
- The Pension Fund and its stakeholders are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
- To demonstrate compliance with relevant legislation and guidance.

To assist in achieving these objectives, the Fund will aim for compliance with the CIPFA Knowledge and Skills Framework and Code of Practice and the public service Code of Practice issued by The Pensions Regulator (as detailed above).

9.3 Application of Training Policy

The Training Policy will apply to all Members of the Pensions Committee (including substitutes) and Local Pensions Board (including any independent chair and substitutes) and appropriate Officers who advise the Committee and Board (including but not limited to the Section 151 Officer and the Deputy Section 151 Officer – Pensions), regardless of experience.

9.4 Purpose of training

Investment in training harnesses an individual's potential, focuses on what is to be achieved and provides personal development. As such the purpose of training to both Members and Officers of the Cumbria Pension Fund is to:

- equip those charged with the oversight and management of the Fund with the necessary skills, knowledge and training, and
- meet the required needs in relation to the Fund's objectives.

9.5 Review and maintenance

This Training Policy is expected to be appropriate for the long-term but to ensure good governance it will be formally reviewed at least annually by the Committee to ensure it remains accurate and relevant.

9.6 Resources

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

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

Members are provided with access to an online 'Pensions Knowledge Library' which as well as containing reference documents, also contains background reading on a range of areas.
The Annual Learning Programme (as detailed at item 9.10) may include various resources or methods of training delivery including:

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

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

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

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

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

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

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

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

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

9.7 Induction

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

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

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

9.8 Maintenance of knowledge and understanding

A 'Knowledge Assessment' exercise will be undertaken on an annual basis (usually in late Autumn) to identify both group and individual knowledge gaps. This will inform a Learning Programme plan (the current plan is set out below at 9.10). The Learning Programme will be developed taking into account current knowledge and understanding and also forthcoming workloads, including LGPS national changes or Fund-specific issues. The Learning Programme will be flexible, allowing members to update areas of learning and to acquire new knowledge.

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

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

9.9 Compliance and reporting

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

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

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

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

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

9.10 2023/24 Learning Programme

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

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

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

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

Finally (and importantly), it is designed to provide sufficient training for Officers and Members to ensure they continue to meet the high level of knowledge required to ensure the Fund continues to be well governed and managed and remain compliant with the MiFID ii regulations.

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

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

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

10. POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

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10. POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

10.1 Introduction

10.1.1 This document sets out the procedures to be followed by persons involved with the Cumbria LGPS ('the Fund'), the Local Government Pension Scheme managed and administered by Westmorland and Furness Council (also known as the 'Scheme Manager' or 'Administering Authority'), in relation to reporting breaches of the law.

10.1.2 Under the Pensions Act 2004 certain persons have a duty to report breaches of the law when there is reasonable cause to believe that:

- A legal duty relevant to the administration of the scheme has not been, or is not being, complied with; and
- The failure to comply is likely to be of material significance to the regulator.

10.1.3 Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.

10.1.4 The duty to report overrides any other duties however it does not override 'legal privilege'. This means that, generally, communications between a professional legal advisor and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

10.1.5 This document applies, in the main, to:

- all Members of the Cumbria Local Pension Board;
- all Members of the Cumbria Pensions Committee;
- all officers involved in the management of the Fund;
- personnel of the shared service pensions administrator providing day to day administration services to the Fund;
- any professional advisors including independent advisors, auditors, actuaries, legal advisors and fund investment managers of the Fund;
- officers of employers participating in the Fund who are responsible for pension matters; and
- any other person involved in the administration of the Fund and/or in advising the Administering Authority in relation to the Fund

10.2 Requirements

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

10.2.2 Pensions Act 2004

Section 70 of the Pensions Act 2004 requires that certain people must report breaches of the law in writing to The Pensions Regulator as soon as reasonably practicable and where they have reasonable cause to believe that:

a. a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with: this could relate for instance to keeping records, internal controls, calculating benefits and investment governance and administration matters; and
b. the failure to comply is likely to be of material significance to The Pensions Regulator (TPR).

The Act states that a person can be subject to a civil penalty, imposed by The Pensions Regulator, if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However, the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal advisor and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

The requirement applies to the following persons:

- a trustee or manager of an occupational or personal pension scheme;
- a member of the pension board of a public service pension scheme;
- a person who is otherwise involved in the administration of such a scheme an occupational or personal pension scheme;
- the employer in relation to an occupational pension scheme;
- a professional advisor in relation to such a scheme; and
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme.

10.2.3 The Pensions Regulator's Code of Practice

Practical guidance in relation to this legal requirement is included in The Pensions Regulator's Code of Practice[8] 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.

[8] **www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx#s16855**

10.2.4 Application to Cumbria LGPS ('the Fund')

This policy and procedure has been developed to reflect the guidance contained in The Pensions Regulator's Code of Practice in relation to the Fund and this document sets out how the Fund will strive to achieve best practice through use of a formal reporting breaches procedure.

10.3 The Fund Reporting Breaches Procedure

10.3.1 Introduction

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the Fund. It aims to ensure individuals responsible are able to meet their legal obligations, avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

10.3.2 Clarification of the law

Individuals may need to refer to regulations and guidance when considering whether or not to report a possible breach. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004: **www.legislation.gov.uk/ukpga/2004/35/contents**
- Employment Rights Act 1996: **www.legislation.gov.uk/ukpga/1996/18/contents**
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations): **www.legislation.gov.uk/uksi/2013/2734/contents/made**
- Public Service Pension Schemes Act 2013: **www.legislation.gov.uk/ukpga/2013/25/contents**
- Local Government Pension Scheme Regulations (various): **http://www.lgpsregs.org/timelineregs/Default.html** (pre 2014 schemes)
  http://www.lgpsregs.org/index.php/regs-legislation (2014 scheme)
- The Pensions Regulator's Code of Practice: **http://www.thepensionsregulator.gov.uk/doc-library/codes.aspx**
  In particular, individuals should refer to the section on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the code on 'Maintaining contributions'.

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

10.3.3 Clarification when a breach is suspected

Individuals need to have reasonable cause to believe that a breach has occurred, not just a suspicion. Having 'reasonable cause' to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated. In establishing whether there is reasonable cause to believe that a breach has occurred, it is not necessary for a reporter to gather all the evidence which the Administering Authority or The Pensions Regulator may require before taking legal action.

It is also important that a reporter is aware that any delay in reporting any potential breach may exacerbate or increase the risk of the breach causing further and more significant issues.

Subject to paragraph 10.3.5 where a breach is suspected it will usually be appropriate for the individual to report reasonable suspicions to one of the following who will undertake appropriate checks to determine whether a breach has occurred:

- Director of Resources (S151 Officer);
- Senior Manager: Pensions & Financial Services (Deputy S151 Officer LGPS);
- Chief Legal Officer (Monitoring Officer);
- Senior Manager – Legal & Democratic Services;
- a member of the Pensions Committee or Pension Board (details of the members of the Committee and Board can be found at **https://www.westmorlandandfurness.gov.uk/** & respectively); or
- a member of the Pensions Team (**pensions@cumbria.gov.uk**).

There are some instances where it would not be appropriate to report reasonable suspicions to the above individuals or to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases, The Pensions Regulator should be contacted without delay.

10.3.4 Determining whether the breach is likely to be of material significance

To decide whether a breach is likely to be of material significance an individual should consider the following, both separately and collectively:

- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

Further details on the above four considerations are provided in Annex A to this procedure.

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The individual should use the traffic light framework described in Annex B to help assess the material significance of each breach and to formally support and document their decision.

10.3.5 Referral to a level of seniority for a decision to be made on whether to report

Subject to paragraph 10.3.3 before you submit a report to The Pensions Regulator you should refer the suspected breach to the appropriate level of authority to assist in determining whether a report needs to be made. Cumbria County Council has determined that the appropriate persons are the Director of Resources (S151 Officer) (or in their absence the Senior Manager – Pensions & Financial Services (Deputy S151 Officer LGPS)) and/or the Chief Legal Officer (Monitoring Officer) (their deputy) and/or External Audit. They are considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to TPR, where appropriate.

Information may also be available from national resources such as the Scheme Advisory Board or the Local Government Pensions Committee (LGPC) Secretariat (part of the LG Group - **http://www.lgpsregs.org/**). If timescales allow, legal advice or other professional advice can be sought.

The matter should not be referred to any of these officers if doing so will alert any person responsible for a possible serious offence to the investigation. If that is the case, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to the Regulator before the submission may be appropriate, particularly in more serious breaches. Before referring to The Pensions Regulator the individual may prefer to approach External Audit for their opinion.

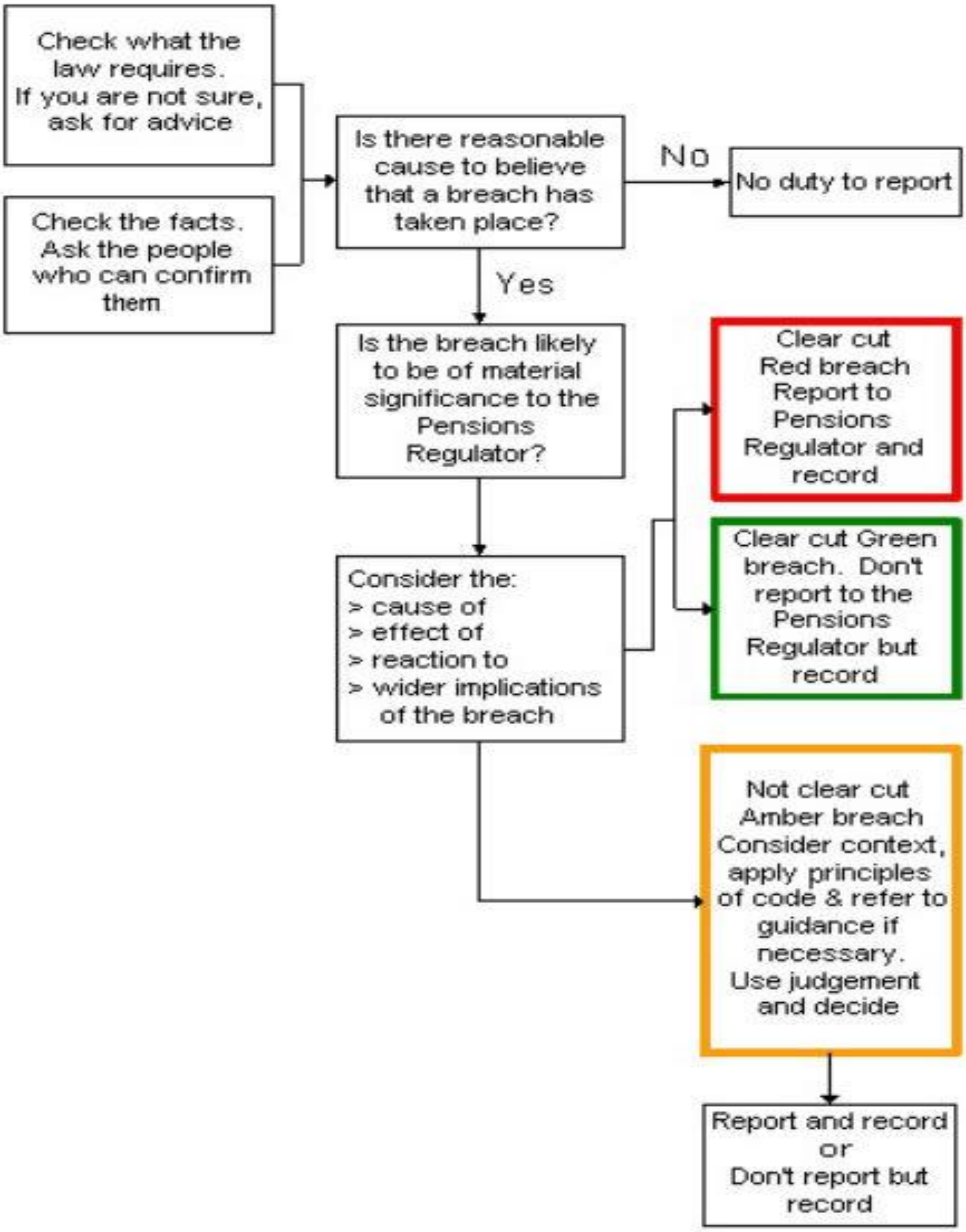
Individuals must bear in mind that the involvement of the Senior Manager – Pensions & Financial Services (Deputy S151 Officer LGPS) and/or the Monitoring Officer is to help clarify the potential reporter's thought process and to ensure this procedure is followed. The reporter remains responsible for the final decision as to whether a matter should be reported to TPR.

10.3.6 Decision Tree: deciding whether or not to report:

A decision tree is provided below to show the process for deciding whether or not a breach has taken place and whether it is materially significant and therefore requires to be reported.

10. POLICY AND PROCEDURE ON REPORTING BREACHES OF THE LAW

Decision-tree: deciding whether to report



10.3.7 Timescales for reporting

The Pensions Act and The Pensions Regulator's Code require that if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not rely on waiting for others to report and nor is it necessary for a reporter to gather all the evidence which TPR may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on "reasonable cause to believe" and on "material significance" should be consistent with the speed implied by 'as soon as reasonably practicable'. In particular, the time taken should reflect the seriousness of the suspected breach.

Early identification of very serious breaches: In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, TPR does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty, the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert TPR to the breach.

10.3.8 Recording all breaches even if they are not reported

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). Westmorland and Furness Council will maintain a record of all breaches identified by individuals and reporters should therefore provide copies of reports to the Senior Manager: Pensions & Financial Services (Deputy S151 Officer LGPS) or the Monitoring Officer. Records of unreported breaches should also be provided as soon as reasonably practicable and certainly no later than within 20 working days of the decision made not to report. These will be recorded alongside all reported breaches. The record of all breaches (reported or otherwise) will be included in the quarterly Monitoring Report at each Pensions Committee, and this will also be shared with the Local Pension Board.

10.3.9 Reporting a breach

Reports must be submitted in writing via TPR's online system at **www.tpr.gov.uk/exchange** and should be marked urgent if appropriate. If necessary, a written report can be preceded by a telephone call. Reporters should ensure they receive an acknowledgement for any report they send to TPR. TPR will acknowledge receipt of all reports within five working days and may contact reporters to request further information. Reporters will not usually be informed of any actions taken by TPR due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full fund name (Cumbria Local Government Pension Scheme);
- description of breach(es);
- any relevant dates;

- name, position and contact details;
- role in connection to the fund; and
- employer name or name of Administering Authority (the latter is Westmorland and Furness Council).

If possible, reporters should also indicate:

- the reason why the breach is thought to be of material significance to TPR;
- fund address (provided at the end of this procedures document);
- Administering Authority contact details (provided at the end of this procedures document);
- pension scheme registry number (PSR – 10079082); and
- whether the breach has been reported before.

The reporter should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

10.3.10 Confidentiality

If requested, TPR will do its best to protect a reporter's identity and will not disclose information except where it is lawfully required to do so. If an individual's employer decides not to report and the individual employed by them disagrees with this and decides to report a breach themselves, they may have protection under the Employment Rights Act 1996 if they make an individual report in good faith.

10.3.11 Reporting to Pensions Committee and Pension Board

The monitoring report presented to the Pensions Committee and available to the Local Pension Board on a quarterly basis will include details of:

- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates;
- in relation to each breach, details of what action was taken and the result of any action (where not confidential);
- any future actions for the prevention of the breach in question being repeated; and
- highlighting new breaches which have arisen in the last year/since the previous meeting.

This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings). An example of the information to be included in the quarterly report is provided in Annex C to this procedure.

10.4 Review and maintenance of the policy:

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.

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 Pensions Regulator.

3. The cause of the breach

3.1. Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:

- dishonesty;
- poor governance or poor administration, i.e. failure to implement adequate administration procedures;
- slow or inappropriate decision-making practices;
- incomplete or inaccurate advice; or
- acting, or failing to act, in deliberate contravention of the law.

3.2. When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake.
- whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant N.B. historical information should be considered with care, particularly if changes have been made to address previously identified problems.

4. The effect of the breach

4.1. Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having the appropriate degree of knowledge and understanding, which may result in them not fulfilling their roles, the Fund

Annex A

not being properly governed and administered and/or the Administering Authority breaching other legal requirements;
- Conflicts of interest of Committee or Board members, which may result in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the Fund and/or the Administering Authority breaching legal requirements;
- Inadequate internal controls, which may lead to the Fund not being run in accordance with scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the Fund at the right time;
- Inaccurate or incomplete information about benefits and scheme information provided to members, which may result in members not being able to effectively plan or make decisions about their retirement;
- Appropriate records not being maintained, which may result in member benefits being calculated incorrectly and/or not being paid to the right person at the right time;
- Misappropriation of assets, resulting in scheme assets not being safeguarded; and
- Any other breaches which may result in the scheme being poorly governed, managed or administered.

5. The reaction to the breach

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

5.2. A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence;
- are not pursuing corrective action to a proper conclusion; or
- fail to notify affected scheme members where it would have been appropriate to do so.

6. The wider implications of the breach

6.1. Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

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.

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 framework is provided by The Pensions Regulator at the following link:

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

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**

11 INTERNAL CONTROL & RISK MANAGEMENT POLICY

11.1. Background

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

11.1.2. Internal controls are systems, arrangements and procedures that are put in place to ensure that the Fund is being run in accordance with Local Government Pension Scheme regulations and other law. They cover:
- scheme administration and management,
- monitoring that administration and management, and
- the safe custody and security of Fund assets.

11.1.3. They should include a clear separation of duties, processes for escalation and decision making and documented procedures for assessing and managing risk, reviewing breaches of law and managing contributions to the scheme.

11.1.4. It is not possible to eliminate all risks. Accepting and actively managing risk is therefore a key part of the risk management strategy.

11.1.5. Internal controls should address significant risks which are likely to have a material impact on the Fund. A risk-based approach should be taken to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

11.1.6. A key determinant in selecting the actions to be taken in relation to a risk will be its potential impact on the Fund's objectives in the light of the Administering Authority's risk appetite. Equally important is striking a balance between the cost of risk control actions against the possible result of the risk occurring.

11.2. Regulatory requirements and Guidance

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

11.4. Pensions Act 2004:

11.4.1. Sections 249A (5) and 249B of the Pensions Act 2004 require that the scheme manager of a public service pension scheme such as the Cumbria Local Government Pension Scheme must establish and operate internal controls. These must be adequate for the purpose of securing that the Fund is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.

11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY

11.5. The Pensions Regulator:

11.5.1. In accordance with Section 90(2)(k) of the Pensions Act 2004, The Pensions Regulator has issued a Code of Practice (09) on internal controls (the Code). This requires Scheme Managers (i.e. administering authorities) such as Westmorland and Furness Council to establish and operate adequate internal controls and that these should address significant risks which are likely to have a material impact on the Fund.

11.5.2. The Code states that, before implementing an internal controls framework, Funds should carry out a risk assessment and produce a risk register which should be reviewed regularly. The impact of a risk on Fund operations and members and the likelihood of it materialising should be considered and Funds should focus on those areas where the impact and likelihood of a risk materialising is high.

11.5.3. Following this consideration of risk, the Code states that Funds should consider what internal controls are appropriate to mitigate the main risks identified and how best to monitor them. This should be a continual process and should take account of a changing environment and new and emerging risks.

11.5.4. Under section 13 of the Pensions Act 2004, The Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to internal controls are not being adhered to.

11.6. Other relevant guidance:

11.6.1. CIPFA's publication 'Managing Risk in the Local Government Pension Scheme' (2018 edition)

11.6.2. CIPFA's publication 'Delivering Good Governance in Local Government: Framework' (2016 Edition)

11.6.3. CIPFA's 'Preparing and Maintaining a Funding Strategy Statement in the LGPS' (2016 Edition)

11.6.4. CIPFA's guidance on Investment Pooling and Governance Principles, (published in 2016)

11.7. Review of policy

11.7.1. The undertakings set out within this Internal Control and Risk Management policy will be reviewed and published annually.

11.7.2. This Internal Control and Risk Management Policy was approved at the Cumbria Pensions Committee on 14 March 2023.

11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY

11.8. Application to the Fund

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

11.9. Responsibility

11.9.1. The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Director of Resources (S151 Officer) is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pensions Committee and Local Pension Board.

11.9.2. The Pensions Committee is charged with actively monitoring, on a quarterly basis, progress in relation to controls and actions taken to mitigate risk. Should any major risk emerge between meetings, this will be escalated by Fund Officers to the Chair and Director of Resources (S151 Officer).

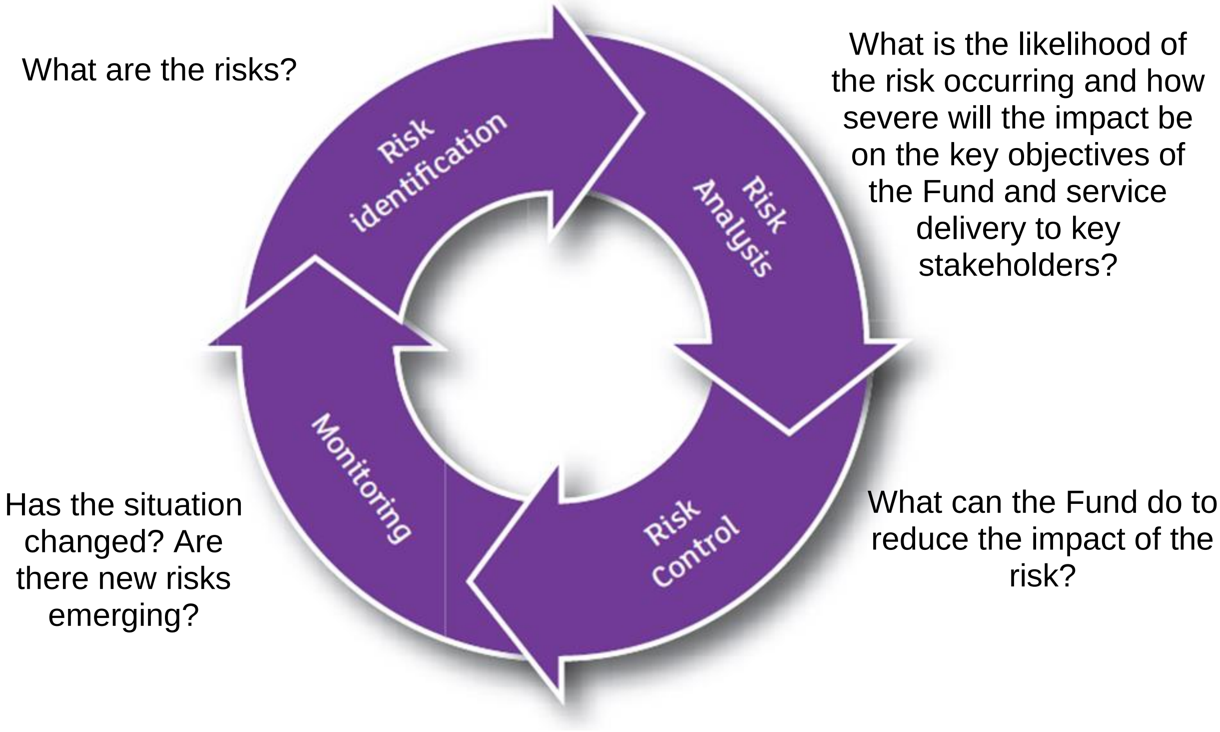
11.9.3. The Local Pension Board, in its role in assisting the Administering Authority of the Fund to comply with relevant legislative requirements and ensuring the effective governance of the scheme, provides comment on and inputs into the management of risks.

11.9.4. It is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

11.10. Process

11.10.1. The Fund's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections:

11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY



11.11. Risk <u>Identification</u>:

11.11.1. Risk identification involves assessing risks in the context of the objectives and targets of the Fund. The risk identification process is both a proactive and reactive one: looking forward i.e. horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the Fund.

11.11.2. Risks to the Fund are identified by a number of means including, but not limited to:

- Formal risk assessment exercises,
- Informal meetings of senior officers or other staff involved in the management of the Fund,
- Findings of External or Internal audit work,
- Performance monitoring (e.g. administrative KPIs),
- Monitoring against the Fund’s Business Plan,
- Feedback from Local Pension Board and / or Pensions Committee meetings or directly from members,
- Liaison with other administering authorities and regional and national groups, including the Scheme Advisory Board, CIPFA, Border to Coast Pensions Partnership Ltd (BCPP) etc.,
- Legal determinations including those of the Pensions Ombudsman, The Pensions Regulator and court cases, and
- Business or service continuity plans developed by the Administering Authority.

11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY

11.11.3. Once identified, risks are documented on the Fund's risk register, which is the primary control document for the subsequent analysis and classification, control and monitoring of those risks.

11.12. Risk Analysis:

11.12.1. Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the table below.

Impact / Likelihood	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Most severe
5 Very Likely	5	10	15	20	25
4 Likely	4	8	12	16	20
3 Possible	3	6	9	12	15
2 Unlikely	2	4	6	8	10
1 Very unlikely	1	2	3	4	5

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

11.13. Risk Control:

11.13.1. The objective of risk management is not to completely eliminate all possible risks but to recognise risks and deal with them appropriately. Everyone connected to the Fund should understand the nature of risk and how the Fund systemically identifies, analyses, treats, monitors and reviews those risks.

11.13.2. Fund officers will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pensions Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls of the Fund could result in any of the following:

- *Risk elimination:* e.g., ceasing an activity or course of action that would give rise to the risk;
- *Risk reduction*: e.g. choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises;

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- *Risk toleration*: e.g. where risk is unavoidable or more tolerable than alternatives, or where impact is assessed to be minimal. This is partially driven by the Fund's risk 'appetite'.
- *Risk transfer*: e.g. transferring risk to another party either by insurance or through a contractual arrangement.

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

11.13.4. Risk appetite: this is the level of risk the Fund chooses to take (or 'accepts') in pursuit of its strategic objectives. The Fund's overarching appetite for risk is conservative and focused on complying with its fiduciary duty and ensuring reliable delivery of quality services to stakeholders. The Fund recognises that it is not possible to completely eliminate all possible risks but seeks to recognise risks and deal with them appropriately. Further details on how this is taken into account in relation to the Fund's Investments can be found in the Investment Strategy Statement (section 4.5.2)

11.14. Risk Monitoring:

11.14.1. Risk monitoring is an ongoing part of the risk management cycle and is the responsibility of the Pensions Committee. In monitoring risk management activity, the Pensions Committee will consider whether:

- The risk controls taken achieve the desired outcomes;
- The procedures adopted and information gathered for undertaking the risk assessment were appropriate;
- Greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk; and
- There are any lessons to be learned for the future assessment and management of risks.

11.14.2. Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to internal controls, will be provided to the Pensions Committee and Local Pension Board on a quarterly basis. An example of the summary page of the risk register (as at March 2023) is shown below, indicating the matrix of risk profiles that are considered.

11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY

	PENSION FUND RISKS	Q1	Q2	Q3	Q4	Target	DOT
1	1.1. Information security arrangements	15	15	15	15	15	→
2	1.2. Pensions administration processes	6	6	6	9	6	↑
3	1.3. Scheme member communication	4	4	4	4	4	→
4	1.4. Data quality	6	6	6	6	3	→
5	1.5. Payment of contributions	8	8	8	8	8	→
6	1.6. McCloud Judgement	12	12	12	12	9	→
7	1.7 Scam Detection & Prevention	4	4	4	4	4	→
8	2.1. Risk of significant regulatory breach	5	5	5	5	5	→
9	2.2. Regulatory changes	8	8	8	8	8	→
10	2.3. Financial irregularity	6	6	6	6	6	→
11	2.4 Loss of key personnel	4	4	8	8	4	→
12	2.5. Conflicts of Interest	4	4	4	4	4	→
13	2.6 Operational interruption	4	4	4	4	4	→
14	2.7 Local Government Reorganisation	6	6	6	6	6	→
15	3.1 Investment performance	8	8	8	8	8	→
16	3.2 Availability of investment opportunities	6	6	6	6	6	→
17	3.3 Russian invasion of Ukraine	9	9	9	9	9	→
18	3.4 Inflation	9	9	9	9	9	→
19	3.5 Climate Change	n/a	n/a	12	12	12	→

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		2.4	1.6		
3 Possible		2.3	1.2; 3.3; 3.4	3.5	1.1
2 Unlikely		1.3; 1.7; 2.5	1.4; 3.2; 2.7	1.5; 2.2; 3.1;	
1 Very unlikely				2.6	2.1

Summary of risk changes since last report to Pensions Committee

New risks added in Q4:

- No new risks have been added to the risk register in Q4.

Risks removed in Q4:

- No risks have been removed from the register in Q4.

Risk Score Changes in Q4:

- The risk score associated with Pensions Administration Processes (Risk 1.2) has been increased to reflect the performance of LPPA. Whilst the service improved in Q3 (see section 5.1 of the report) Officers will continue with enhanced monitoring and challenge of LPPA until improvements are sustained. Consequently the likelihood score has been increased from 2 "unlikely" to 3 "possible".

Emerging Risks

- **<u>Biodiversity loss:</u>** refers to the decline or disappearance of biological diversity, understood as the variety of living things that inhabit the planet and it can have direct human health impacts, affecting livelihoods, income and local migration. Biodiversity loss is considered to be caused by five primary drivers: habitat loss, invasive species, overexploitation (hunting/fishing), pollution and climate change associated with global warming. Although the scale and extent is not yet clear and could be influenced by many factors including future regulatory changes, the Cumbria Pension Fund recognise that biodiversity loss should be acknowledged as a key emerging risk.

APPENDIX A - 11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY

11.14.3. The Pensions Committee and Local Pension Board will be provided with updates on a quarterly basis in relation to any changes to risks and newly identified risks. Should any major risk emerge or significant control failure takes place between meetings, this will be escalated by Fund Officers to the Chair of the Committee and Director of Resources (S151 Officer). Where changes to a risk, a new risk or control failures arise as a result of a breach of the law or indicate a potential breach of the law, the Fund's policy and procedure on reporting breaches of the law must be followed.

11.14.4. Where a risk is identified that could be of significance to the Council it will be recorded in the Corporate Risk Register. Where appropriate the Fund will adhere to the Council's broader risk reporting framework and escalation process.

11.14.5. The risk register of the Cumbria Pension Fund identifies the highest risk to the Fund is the risk associated with information security arrangements. In recognition of this risk and the potential severity of outcomes in the event that such an incident materialises, a review of cyber security arrangements was undertaken to assess the readiness of the Fund for such an incident.

11.14.6. Following this review a Cyber Governance Strategy has been drafted to set out the Fund's approach to effectively manage cyber risks. Whilst this will be a formal policy of the Fund, it will not be published within the Fund Policy Document or on the Fund's website due its confidential content.

11.15. Key risks to the effective delivery of this Policy

11.15.1. The key risks to the delivery of this Policy are outlined below. The Pensions Committee will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pensions Committee and/or Local Pension Board membership, the two Independent Advisors and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources are available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk exposure without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified
- Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately.

APPENDIX A - 11. INTERNAL CONTROL AND RISK MANAGEMENT POLICY

11.16. Costs

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

Cumbria Local Government Pension Scheme

Stewardship Report 2022/23

UK STEWARDSHIP CODE

This report meets the requirements of the Financial Reporting Council (FRC's) – UK Stewardship Code 2020 and Cumbria Local Government Pension Scheme is listed as a signatory to the UK Stewardship Code ('the Code')

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME
STEWARDSHIP REPORT 2022/23

Key documents referenced in this report and their location:

The Fund's *approach to Responsible Investment (RI)*:
https://www.cumbriapensionfund.org/media/vswbapfg/2023-08-08-responsible-investment-statement.pdf
The Fund's *Investment Strategy Statement (ISS):* Section 4 starting on page 39:
https://www.cumbriapensionfund.org/media/dtcbfdih/clgps-fund-policy-document-april23.pdf
The Fund's *Funding Strategy Statement (FSS)*: Section 6 starting on page 64:
https://www.cumbriapensionfund.org/media/dtcbfdih/clgps-fund-policy-document-april23.pdf
Border to Coast Pensions Partnership Ltd (BCPP) Responsible Investment Policy:
https://www.bordertocoast.org.uk/wp-content/uploads/2022/03/RI-Policy-2022.pdf
BCPP Corporate Voting Guidelines: **https://www.bordertocoast.org.uk/wp-content/uploads/2022/03/Corporate-Governance-Voting-Guidelines-2022.pdf**
Local Authority Pension Fund Forum (LAPFF) Annual Report: **https://www.bordertocoast.org.uk/wp-content/uploads/2022/03/RI-Policy-2022.pdf**

PRINCIPLE 1: Purpose, investment beliefs, strategy & culture enable stewardship that creates long-term value for employers & beneficiaries leading to sustainable benefits for the economy, the environment and society.

1.1. **Background & Purpose**:

1.1.1. 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). It is a contributory defined benefit scheme to provide pensions and other related benefits for all eligible employees of local government and other participating employers.

1.1.2. Whilst the regulations are set on a national basis, individual Funds are managed by designated administering authorities at a local level. The LGPS, unlike private pension schemes, does not have Trustees but elected Members that perform similar duties to Trustees. Cumbria County Council is the Administering Authority for the Cumbria LGPS (the Fund) and as such is responsible for the investments and 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 (the Committee). The Fund is being administered by Westmorland and Furness Council from 1 April 2023.

1.1.3. The LGPS, and therefore the Fund, is a multi-employer scheme which is open to new membership. The purpose of the Fund is to pay Cumbria LGPS members' pensions securely, affordably and sustainably over the short, medium and long term. The LGPS operates on a 'funded' basis, this means that contributions from employees and employers are paid into a fund which is invested, and from which pensions are paid. To do this, the Fund seeks to achieve sustainable, risk-adjusted performance of its investments over the long-term.

1.2. **Culture, strategy and investment beliefs**:

1.2.1. The Fund has a fiduciary duty to its employers and members, and it recognises the vital role of being a responsible asset owner – including the clear articulation of investment beliefs and strategy, values and organisational culture - in delivering this. This is articulated in the Fund's Investment Strategy Statement (ISS) which sets out its core behaviours (as per **1.2.3** below) and its investment beliefs (as summarised at **1.2.4** below).

1.2.2. The Fund considers that having a clearly defined culture, strategy and investment beliefs assists it to choose managers and other service providers whose approach is most closely aligned to that of the Fund.

1.2.3. The Fund's <u>behaviours and culture</u> revolve around the following core principles:

- Communicate in a clear and constructive way;
- Act with honesty and respect for others;
- Demonstrate a positive flexible attitude;
- Take responsibility for our actions;
- Obtain and maintain the appropriate knowledge and skills to understand the investments and risks undertaken within the Fund; and
- Treat all employers and members of the fund equitably.

1.2.4. Our investment beliefs are detailed in our ISS and are reviewed annually to ensure they remain appropriate for the Fund and in summary are:

A. Our investment strategy should be determined by reference to the Fund's assets, liabilities and our risk tolerances. As previously noted, our long-term primary goal is to generate returns required to fund our members' current and future pensions. As a long-term investor, Environmental, Social and Governance (ESG) considerations are a fundamental element of the investment process (both in terms of risk and reward) to the Fund (see **G** below).

B. Asset allocation has the greatest impact on the overall risk and return of the Fund. Investment managers should be responsible for stock selection however the Fund recognises that it cannot delegate its responsibility and is accountable for effective stewardship.

C. It is important to take a long-term perspective when considering the investment strategy, but also recognise the implications of shorter-term market volatility.

D. Good governance improves the quality of decision-making.

E. 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 – financial risk includes ESG considerations (see **G** below).

F. 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.

G. As long-term investors, we believe that integrating ESG considerations into the Investment management process improves risk adjusted returns:
   i. ESG factors, such as climate change, can have a material impact on the value of financial assets in the long term. Being a *responsible investor* and incorporating ESG factors into investment decisions can help to improve the long-term value for investors.
   ii. We believe that the best way to be a responsible investor and to influence policy change is not through divestment but through active engagement.

iii. We expect management teams and board of directors to be responsive to their shareholders.

iv. We will lead by example by ensuring we are an active shareholder and, where appropriate, utilising the scale of collaboration with other LGPS Funds e.g. through Border to Coast Pensions Partnership Ltd (BCPP) and the Local Authority Pension Partnership Forum[9] (LAPFF).

1.3. **Activity and outcomes during 2022/23:**

1.3.1. To ensure that the Fund's investment beliefs, strategy and culture enable effective stewardship, Cumbria LGPS has undertaken a number of actions during the year. The key actions undertaken, and outcomes thereof are covered within the relevant sections of this report as summarised below:

1.3.2. **Reviewing and applying our policies**: This is considered in detail in **Principle 5** at **5.2**.

1.3.3. **Training**: This is considered in detail in **Principle 2** at **2.2.8** and **2.5.3.**

1.3.4. **Setting and reviewing the Fund's business plan and budget:** This is a core activity in the Fund's calendar. The plan and budget are designed to translate the Fund's beliefs, strategy and culture into clear, tangible actions and outcomes. They are considered and set by Committee annually in March, and the Committee receives and considers a formal mid-year review of progress and forecast outturn each December.

1.3.5. Monitoring of progress against the plan and budget is undertaken by officers informally throughout the year and any significant matters reported on an ad hoc basis to the Committee as appropriate. The Local Pension Board (LPB) also has oversight of the Fund's business plan and budget which ensures it remains appropriate to meet the underlying interests of clients & beneficiaries.

1.3.6. The Business Plan and Budget for 2022/23 were agreed at the meeting of the Committee on 18 March 2022[10] and progress against the plan was reviewed at the 13 December 2022 meeting of the Committee[11]. The provisional budget outturn – including a summary of business plan achievements - was reported to the Committee at its meeting in June 2023[12].

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[9] For further information about LAPFF please see **https://lapfforum.org/about/**

[10] Plan setting: **https://westmorlandandfurness.moderngov.co.uk/CeListDocuments.aspx?CommitteeId=440&MeetingId=2479&DF=18%2f03%2f2022&Ver=2**

[11] Plan review: **https://westmorlandandfurness.moderngov.co.uk/CeListDocuments.aspx?CommitteeId=440&MeetingId=2483&DF=13%2f12%2f2022&Ver=2**

[12] Provisional Outturn and Business Plan 2022/23: **https://westmorlandandfurness.moderngov.co.uk/ieListDocuments.aspx?CId=277&MId=542&Ver=4**

1.3.7. Key elements of the business plan for the year which relate to investment beliefs, strategy and culture and which enable effective stewardship were:

A. INVESTMENT MANAGEMENT – Investment Strategy
Planned activity
Investigating and implementing suitable investment options to implement the Investment Strategy (the Strategy) approved by the Committee in December 2019 and revised in March 2021. **Monitor progress in moving towards the final target Investment Strategy and keep its ongoing suitability under review.**
Actions taken
Work in 2022/23 included the Fund's Officers and Advisors undertaking a strategy "sense check" of the Investment Strategy. The aim was to assess whether any changes would be required to the Fund's Investment Strategy in light of the inflationary environment and its impact on both the Fund's liabilities and the Actuary's assumptions in relation to the Fund's future investment returns. The conclusion was that no changes to the Fund's long-term asset allocations were required. Progress towards the final target Investment Strategy is reviewed at ISG and reported quarterly to the Pensions Committee. The continuation of capital drawdowns to previously agreed commitments to infrastructure, private equity and private debt funds achieved the movement of the asset allocation to the revised Interim Strategy. In line with the Fund's core principle that it should obtain and maintain the appropriate knowledge and skills to understand the investments and risks undertaken within the Fund, this work was undertaken with the assistance of an external consultant and additional training was provided to the Investment Sub Group (ISG) and Officers. In recognition of the Fund's core belief that good governance improves the quality of decision-making the ISG and the Committee were regularly appraised of progress throughout the process. The Target Investment Strategy and Investment Strategy Statement (ISS) can be found at section 4 of the **Fund Policy Document**.
Outcomes
In order to serve the best interest of its beneficiaries, the strategy is designed to deliver long-term value. As such it is too early to assess whether this goal has been achieved, however monitoring of performance, including quarterly updates from the Fund's actuary providing an estimate of an updated Funding position**,** indicate that the Fund is on track to meet its objective despite the volatility in investment markets during the year. As at 31 March 2023 the estimated funding position was 106.1% (on the basis of a roll-forward from the last Valuation with an

update of the real discount rate) and performance over the 10 years to that date was 7.3% p.a. against a benchmark of 6.6% p.a.
Work on implementing the Strategy is ongoing and progress is reported to the Investment Sub Group quarterly, and is also reported annually in the Fund's annual Report and Accounts.

The next in-depth review of Investment Strategy is scheduled to commence in 2023/24 by Westmorland & Furness Council as the new administering authority.

B. INVESTMENT MANAGEMENT – Investment pooling

Planned activity

Liaising with the Fund's chosen pooling company - BCPP - to ensure that suitable opportunities exist within the pool for the Fund to transition to its amended Investment Strategy.

Actions taken

During the year the Fund has continued to work with BCPP and Partner Funds on the design and build of appropriate investment funds to meet the strategic investment needs of the Fund and Partner Funds in the pool. This work has been undertaken through numerous workshops and has included oversight and challenge of the pool through mechanisms such as:

- Quarterly meetings of the Joint Committee;
- Regular S151 Officer meetings;
- Regular Officer Operations Group (OOG) meetings; and
- Quarterly monitoring meetings for live investment funds.

Outcomes:

Through the pooling activity undertaken during the year the Fund has sought to deliver a number of objectives which will assist it in achieving our long-term primary goal of generating returns required to fund our members' current and future pensions. It is still relatively early days so it is not yet possible to fully quantify how pooling has contributed to our goal, but key areas of progress include:

a) Delivering cost savings through economies of scale. These will help manage scheme employer (key stakeholder) contribution rates thus achieve one of central government's (a key stakeholder) key aims.
b) The Fund has continued to be active in influencing the range of sub-funds that are provided by BCPP with the aim of ensuring the ability to implement as much of its Investment Strategy as possible through the pool, being mindful that it is one of eleven Partner Funds. Sub-funds currently under development of relevance to the Fund include UK Commercial Property (Real Estate), and further vintage funds in private markets; Infrastructure, Private Equity and Private Credit.
c) Continuing to improve our approach to responsible investment (of benefit to all stakeholders). BCPP and Partner Funds have continued to work together on three key areas of Responsible Investment:
    i. Embedding ESG into the investment process from conception through to launch and beyond: An example of this is – Rather than being used to preclude certain investments, ESG factors are used to provide additional context for stock selection.

       ESG data and research from specialist providers is used alongside general stock and sector research; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection.

ii. Aligning RI and ESG approaches where possible: this includes an annual review of the BCPP RI policy, corporate governance and voting guidelines and climate change policy by both the Joint Committee and individual Partner Funds. During 2022/23 BCPP published their Net Zero Implementation Plan and are working with Partner Funds to implement metrics and targets to work towards achieving net zero greenhouse gas (GHG) emissions across investments by 2050, or sooner.

iii. Improving engagement with other investment managers: as noted at **3.3.3** of **Principle 3** the Fund is working with BCPP and Partner Funds to improve how it engages with its other investment managers on their approach to stewardship. Work to date includes entering into an Investment Oversight Agreement with BCPP whereby the pool company provides Funds with an oversight service in relation to Legal & General's (LGIM) management of the passive funds.

C. OVERSIGHT AND GOVERNANCE – Training
Please see 2.5.3 in Principle 2.

D. OVERSIGHT AND GOVERNANCE – Response to financial, regulatory and structural change
Planned activity
Review of governance arrangements in response to financial, regulatory and structural changes.
Actions taken
2022/23 has seen the Fund responding to a consultation on the governance and reporting of climate change risks and continuing to prepare for the expected regulatory changes in relation to this and the Scheme Advisory Board's (SAB) 'Good Governance Review' and the McCloud Judgement. From an asset stewardship perspective, key developments include the approval by the FRC of the Fund's Stewardship report for 2021/22 in February 2023. Work has continued during the year with the task and finish group of Partner Funds (RI Working Group) – with input from BCPP. This was set up in 2020 to develop an approach to meeting the requirements of the 2020 Stewardship Code. Since then, the group has widened its remit to consider all aspects of RI and, during 2022/23 continued to focus on gaining a greater understanding of and progressing working towards developing a co-ordinated approach towards the setting of net zero metrics and targets ahead of the anticipated publication of the TCFD regulations. From a Fund perspective, the Fund has continued its membership of LAPFF, a collaborative shareholder engagement group for Local Authority Pension Funds. Further detail of this is set

out under **principle 9** at **9.4** but in summary during the year LAPFF has continued to use its collective presence in the market to progress matters of corporate governance in the companies owned by its member Funds, and thereby enable the Fund to indirectly influence these companies. Furthermore, additional workshops and training sessions have been held for Members of the Committee to consider key matters.
Outcomes
Key outcomes include: • The approval by the FRC of the Fund's Stewardship Report for 2021/22 in February 2023; • BCPP published their updated Climate Change Policy, which was developed in collaboration with Partner Funds; and • Further progress on evolving the Fund's approach to RI and reflecting this in the Fund's policy document. Again, the Fund recognises that this is an iterative process and work is ongoing but a summary of the Fund's current approach to RI can be found at: **The Cumbria Local Government Pension Scheme and its approach to Responsible Investment**

E. OVERSIGHT AND GOVERNANCE – Policies & strategies
Planned activity
Reviewing and updating the Fund's risks, policies and strategies
Actions taken & Outcome
These are summarised in **Principle 5** of this report at: **5.2** and **5.5**.

SUMMARY OUTCOME: The Fund considers that in terms of the work undertaken in the year they have been effective in serving the best interests of clients and beneficiaries.

1.4. **Future improvements**: As noted in section 2.5.3, officers and members of the Fund have attended a number of workshops and events on Responsible Investment (RI). Climate and investment reporting has been a key focus of much of these sessions and the Fund is looking to build on the knowledge gained from them to assist it in developing its own reporting. The Fund responded to the DLUHC consultation on Governance and Climate Risk Reporting in November 2022, ahead of the release of regulations relating to increased levels of disclosure on Climate Related risks and opportunities. The scope and content of reporting will be informed by these regulations.

PRINCIPLE 2: Signatories' governance, resources and incentives that support stewardship.

2.1. **Governance structure:**

2.1.1. The Fund believes that effective internal governance arrangements are fundamental to effective stewardship. Also, the Administering Authority, as a Local Authority, must adhere to applicable regulations such as the Local Government Act 2000 and LGPS specific regulations such as the Local Government Pension Scheme Regulations 2013. As such, the governance structures and processes for the Fund are designed to comply with relevant regulatory requirements whilst also seeking to deliver effective oversight and accountability and, ultimately, effective stewardship.

2.1.2. Details of the governance arrangements for the Fund are set out in its Annual Report[13] and were in the Constitution of Cumbria County Council but in summary the core governance arrangements of the Fund consist of the elements shown in the diagram overleaf. From 1 April 2023, the governance arrangements for the Fund are set out in the **Constitution** of Westmorland and Furness Council.

2.1.3. Details of how these are resourced, including the workforce structure and information about qualifications, experience and training are set out in section **2.2** below. To support the core governance arrangements summarised in the diagram, the Fund also accesses a number of specialist service providers. Further details of these are set out in sections **2.2.11 and 2.3** below.

[13] 2021/22 Annual Report (the 2022/23 Annual Report will be published either on or before 1 December 2023). Details of the Funds governance arrangements are set out in section 7 on pages 75-79 and Appendix A-2 on pages 169-183.
https://www.cumbriapensionfund.org/media/4tuiqfwl/cumbria-lgps-2021-22-annual-report-final.pdf

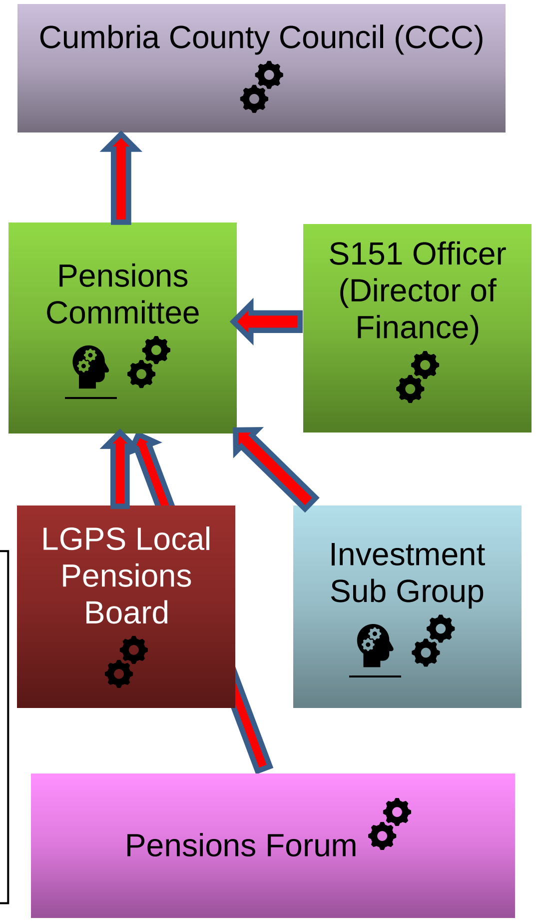
PURPOSE & GOVERNANCE

PRINCIPLE 2 – Governance, resources and incentives supporting stewardship

Cumbria County Council (CCC): CCC is the Administering Authority for the management of the Cumbria Local Government Pension Scheme. As such it **has the ultimate responsibility for stewardship.** Under section 101 of the Local Government Act 1972. CCC has delegated a number of its functions as the Administering Authority to the Cumbria Pensions Committee ('the Committee') and to the S151 Officer (Director of Finance).

Cumbria Pensions Committee (see also **2.2.1** below) - The LGPS, unlike private pension schemes, does not have trustees but elected Members perform similar duties to Trustees. The core functions of the Administering Authority are delegated to the Committee, **as such the Committee has core accountability for the stewardship of the Fund**. Key activities relating to these are summarised at **2.5.2** below.

Cumbria LGPS Local Pension Board (**2.2.3**) - the Board's role is **to assist CCC to fulfil its functions in relation to all aspects of governance, administration and stewardship of the Pension Fund**. The Board is constituted under the Public Service Pension Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2014 and has no remit as a decision-making body. 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 bv CCC's Audit and Assurance Committee.



Section 151 Officer (Director of Finance) (see also **2.2.6** below) – The Section 151 Officer has the powers necessary to discharge the Council's functions in relation to pensions, including taking decisions which are not specified in the Constitution or in law as having to be taken by elected members or another officer, in relation to pensions. As such, the Section 151 Officer **has a significant role in the stewardship of the Fund and its assets**.

Investment Sub Group (ISG) (**2.2.2**) - The Group assists the S151 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 Committee to be focused on the issues that add most value to the Fund.

Cumbria Pensions Forum - the purpose of the Cumbria Pensions Forum is to seek the views of stakeholders within the Cumbria LGPS, provide information on performance across the management disciplines of the Fund and discuss items of common interest in relation to pensions.

Advisors (**2.2.5**) and Officers (**2.2.6**) - Advice is given by CCC's S151 Officer, the Council's Pensions Finance Team and by two independent advisors. The current advisors are appointed for their complementary knowledge and experience of investments, actuarial matters and wider pensions issues. Advice is also provided by the Fund Actuary, specialist legal advisors to the Fund, and by other experts where appropriate, e.g. for investment management services, specialist tax advice, etc. (also detailed at **2.2.9** and **2.2.12**)

KEY: Administering Authority; Decision-maker; Advisory body; Oversight body; Consultative body; Reports to; Supported by Officers; Supported by Independent Advisors

2.2. **Resourcing of stewardship activities:**

2.2.1. Cumbria Pensions Committee: In 2022/23 the membership of the Pensions Committee comprised 8 members of the County Council plus 1 co-opted district councillor representing the 6 district councils in Cumbria and 2 non-voting employee representatives. Equal weight is given to each member's vote with the Chair having the casting vote should the need arise.

2.2.2. The Investment Sub Group (ISG): In 2022/23 membership of the ISG consisted of (a) 3 members of the Pensions Committee (including the Chair of the Committee). Members, excluding the Chair, will be selected by the Pensions Committee; (b) the Independent Advisors (or investment consultants to the Pensions Fund at the invitation of the ISG if the independent advisors are unable to attend); and (c) 2 senior officers of the County Council with responsibilities for the management of the Pensions Fund including the Section 151 Officer and the officer with the responsibility of senior investment officer to the Pensions Fund.

2.2.3. Cumbria LGPS Local Pension Board (the LPB): Up to 31 March 2023, the LPB is composed of 3 employer representatives (allocated: 1 to Cumbria County Council, 1 to the District Councils, and 1 for all other employers within the Cumbria Fund); and 3 scheme member (current and former employees) representatives (selected to ensure all membership groups within the Fund are covered).

2.2.4. The membership of the Cumbria Pensions Committee, Investment Sub Group and Cumbria Local Pension Board has changed from 1 April 2023 in line with the **Constitution** of the new administering authority, Westmorland and Furness Council.

2.2.5. Independent Advisors: As noted above, the Independent 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.

Independent Advisor		Principle specialisms
Mrs C Scott	Giffordgate Limited	Qualified Actuary (with extensive LGPS governance and investment experience)
Dr B Swarup	Camdor Global Advisors Ltd	Investment Specialist – FCA Regulated

2.2.6. S151 Officer and LGPS Pensions Officers: the experience, qualifications and structure of the team of officers supporting the Council in carrying out its functions as Administering Authority for the Cumbria LGPS Fund is included below.

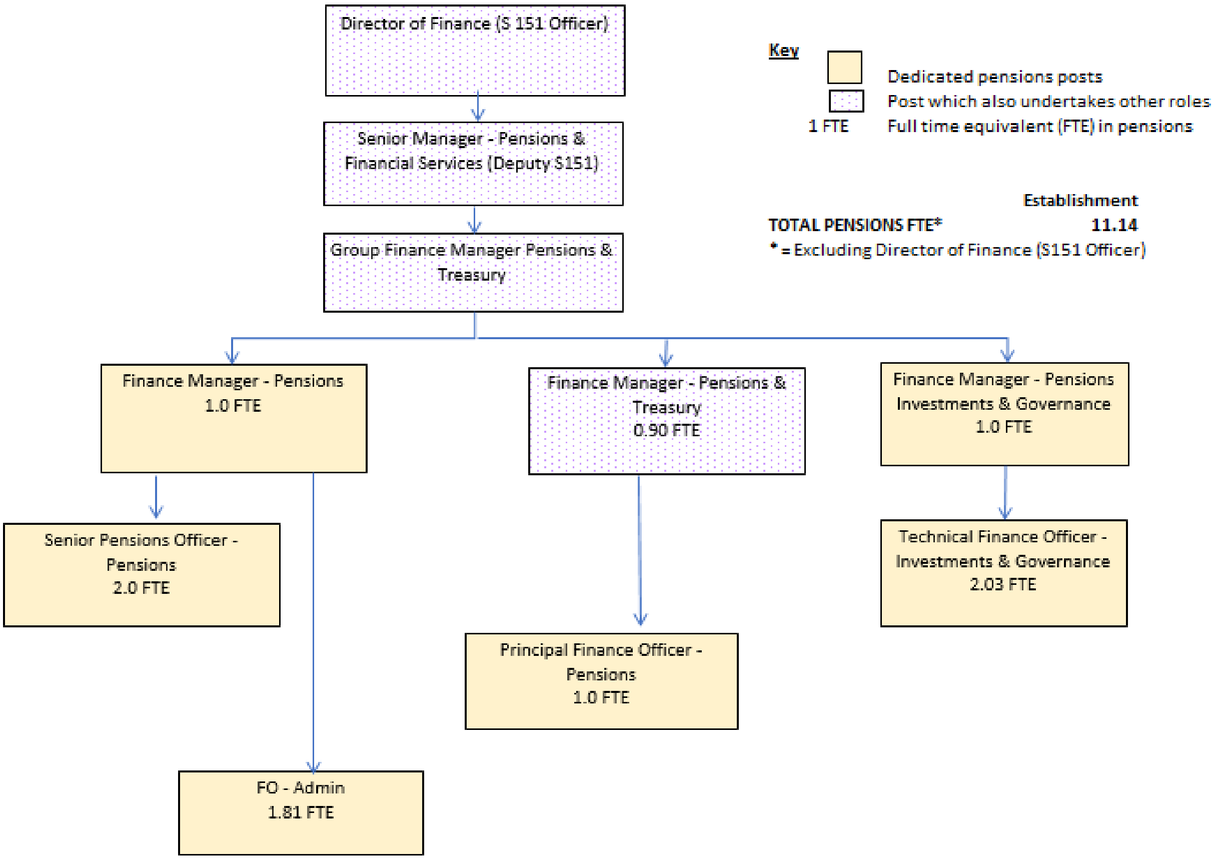
Experience

< 1 year experience	0%
1-5 years' experience	9%
6-10 years' experience	40%
11-15 years' experience	7%
> 15 years' experience	44%

Relevant formal qualifications

Formal qualification	64%
No formal qualification	36%

S151 Officer and LGPS Pensions Officers team structure (during 2022/23):



2.2.7. Diversity Neither the Fund nor the Council currently formally reports on workforce diversity although the Council does report on the Gender Pay Gap. The latest report on this can be found at: **Pay Gap Report 2023**. The council is committed to promoting equality and diversity - as an employer, in the services it provides, in partnerships, and in the decisions it makes. The council's approach to Equality and Diversity is set out online at: **Equality and Diversity**

2.2.8. Training: A core principle of the Fund and a major factor in its governance and stewardship arrangements is ensuring Committee Members and Officers have appropriate skills and knowledge. Training helps build and maintain a strong culture of good governance; assists in the identification and implementation of investment beliefs, strategy; and ultimately supports and enables effective stewardship. In recognition of this, the Fund has a training policy and plan in place.

2.2.9. The plan and policy are designed to ensure that Officers and Members meet the knowledge and skills obligations and expectations set out in regulation and as articulated by relevant bodies such as the Pensions Regulator and CIPFA. In line with good practice the policy is designed to be dynamic and aligned to the work programme, national policy and regulatory changes. The plan and policy are considered and set by Committee annually in March, and the Committee receives a formal mid-year review of progress against the plan each December. Monitoring of progress against the plan is undertaken by officers informally throughout the year and any significant matters reported on an ad hoc basis to the Committee as appropriate. Details of training undertaken during the year are set out below at **2.5.3**.

2.2.10. Systems, processes, research and analysis: The Fund does not undertake any investments directly - it engages external managers to invest on its behalf. As such it draws on specialist systems, processes, research, analysis and reporting from its external advisors and investment managers to support its stewardship activities. To ensure that these external systems, processes etc. are operating effectively, the Fund undertakes a review of internal control reports from its key managers as part of its year-end accounting processes. Work undertaken as part of the 2022/23 year-end has identified that controls and processes are operating in line with expectations.

2.2.11. Other Advisors: The Fund's principle professional advisors are summarised in the table below along with details of the key services they provided to the Fund during the year:

Specialism	Company	Key Services provided during the year
Actuary	Mercer Ltd	Work undertaken includes: IAS 19 valuations; preparation work for the triennial valuation; in addition to advice on bulk transfers, advice on admissions, input into the review of the Investment Strategy and provision of funding updates.
Pensions Administration (a delegated function from Cumbria County Council to Lancashire County Council)[14]	Local Pensions Partnership Administration (LPPA)	Work undertaken by LPPA includes the provision of core administration services such as the maintenance of member records, undertaking relevant pensions calculations and the provision of a

[14] Further information can be found in Appendix A-3 of the Fund's Annual Report.

Specialism	Company	Key Services provided during the year
		Helpdesk and email facility for enquiries for both members and employers.
Auditor	Grant Thornton UK LLP	Annual statutory audit of the Fund's Financial Statements.
Bank	National Westminster Bank PLC	Banking services.
Custodian & Performance Monitoring	Northern Trust Company	Record keeping/custody of the Pension Fund's pooled funds, passive funds and cash; settlement of subscriptions, redemptions, capital calls, distributions; investment accounting quarterly and annually to LGPS/IFRS regulations; ONS reporting; and performance reporting.
Legal - LGPS	Eversheds Sutherland	Provision of specialist advice on aspects of the laws and regulations of England relevant to LGPS funds and pools, Administering Authorities, and scheme employers (in respect of their participation in the LGPS) e.g. investment work, benefit administration, employer bodies & governance work.
Legal – General	Cumbria County Council Legal Services	Provision of general advice on laws and regulations relevant to the Council and the Fund.
Legal – Class Actions	Institutional Protection Services (IPS) / Labaton Sucharow (class actions)	To file claims in opt out and opt in shareholder/non-shareholder anti-trust class actions, group investor actions and Direct actions on behalf of the Fund.
Performance Monitoring	PIRC - Local Authority Pension Performance Analytics	Peer Group Analysis: participation in the Local Authority Universe and customised analysis. IFRS Sensitivity Analysis: provision of sensitivity template to calculate potential volatility for annual report and accounts.

2.2.12. Investment Managers: As previously noted the Fund does not undertake any investments directly, it engages external managers to invest on its behalf. The below table sets out the managers currently engaged by the Fund to manage its investment assets and the proportion of assets invested with each manager. This includes BCPP which, as detailed below at **2.3**, is the Fund's chosen approach to meet the Government's requirement to pool investment assets in the LGPS in England and Wales.

Manager	Core Asset Class	% of Fund at 31/03/23
Aberdeen Standard Investments	Direct & Indirect property, UK corporate bonds and cash	5.1
Apollo Management International	Multi Asset Credit	3.6
Aviva	Long lease property	1.2
Barings	Private Loan Funds	1.4
BlackRock Investment Management [15]	Alternatives	0.1
BCPP – see section 2.3 below	Active UK & Global equities, Private Equity, Multi Asset Credit, Private Credit, and Infrastructure	44.8
CQS	Multi Asset Credit	0.9
HealthCare Royalty Partners	Healthcare royalties	1.6
Hearthstone Investments (Langham Hall Fund Mngt)	Residential Property Fund	0.5
JP Morgan	Infrastructure	5.7
Legal & General Investment Management	Passive equities and gilts	19.6
M&G	Real estate debt & long lease property	1.0
Pantheon Ventures	Private Equity	2.2
Partners Group	Infrastructure & Private Market Credit	6.1
SL Capital Partners	Private Equity Secondaries, Infrastructure	2.6
Unigestion	Private Equity Secondaries	1.2
Various including Northern Trust	Cash	2.4

2.3. **Pool governance structure and resourcing**:

2.3.1. As noted above, BCPP[16] is the Fund's chosen approach to meet Government's requirement to pool investment assets in the LGPS in England and Wales[17]. It is the Fund's intention to invest its assets via BCPP as and when suitable sub-funds become available.

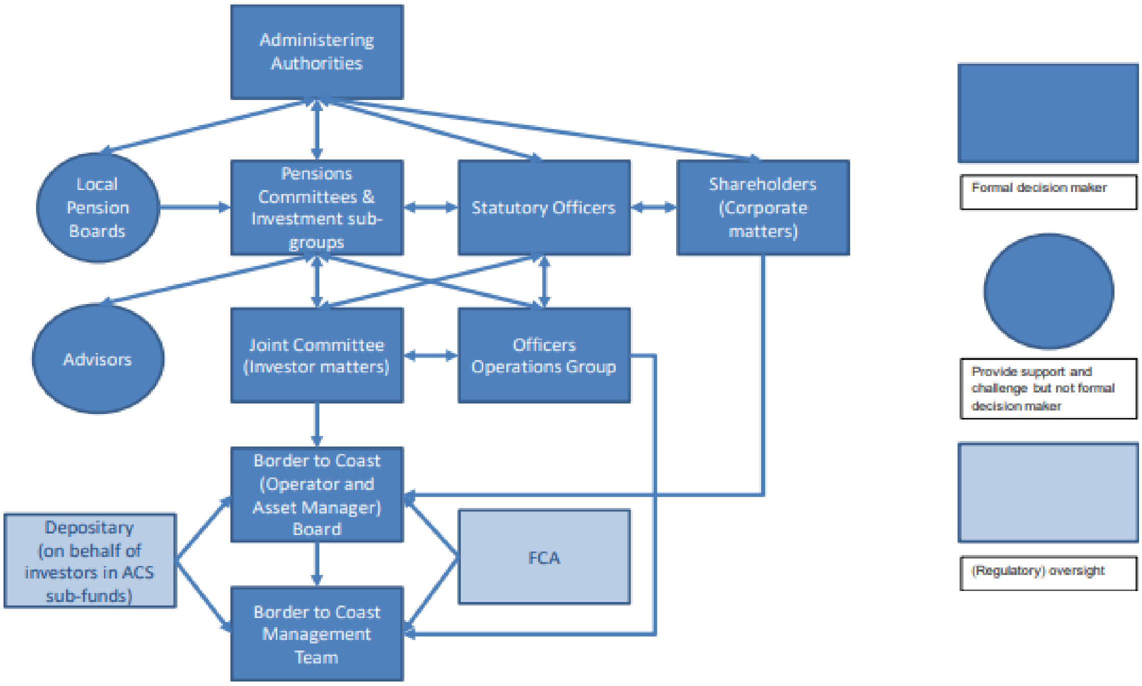
2.3.2. The Administering Authority is 1/11th equal shareholder in the company[18], with the other equal shareholders being 10 other LGPS funds. The diagram below shows the governance structure in place to ensure that appropriate oversight of BCPP is carried out both from a shareholder and an investor perspective:

[15] BlackRock: to June 2012 – remaining funds held until maturity

[16] **https://www.bordertocoast.org.uk/about-us/**

[17] On 1 November 2016 the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force. These regulations and the associated statutory guidance require all of the Local Government Pension Scheme Funds (LGPS) in England and Wales to combine their assets into a small number of investment pools.
The Secretary of State approved BCPP as meeting the requirements of the Investment Reform and Criteria document by letter dated 12 December 2016. At its meeting on 17 February 2017, the County Council resolved that BCPP be adopted as the Council's chosen approach to meet the requirement to pool assets in the LGPS.

[18] **https://www.bordertocoast.org.uk/about-us/partner-funds/**



2.3.3. Further details of the Governance structure of the company can be found at: **BCPP Governance Charter 2023**

2.3.4. From the Fund's perspective, the key mechanisms enabling it to have appropriate oversight of the company and hold it to account so as to ensure the effective stewardship of the Fund's assets invested with BCPP include:

a) The Joint Committee: The Fund is represented on the Joint Committee (by the Chair of the Pensions Committee) where investment operations of the company are overseen. During 2022/23 the Vice Chair of the LPB was one of the two elected Scheme Member representatives on the Joint Committee.

b) In 2022/23 the Shareholder representative was the Chair of the Pensions Committee (Vice Chair to act in the Chair's absence) and was Cumbria's appointed representative to exercise the rights of the Administering Authority as shareholder of BCPP[19].

c) The Officer Operations Group and Statutory Officer group: Officers of the Fund attend both of these groups.

d) Non-Executive Directors: two shareholder-nominated (from partner funds) Non-Executive Directors have been appointed to the Board of the company who provide oversight of the Company.

[19] This was agreed by Full Council at its meeting on 16 February 2017 – minutes detailing agenda item 88 on page 9 at: **https://westmorlandandfurness.moderngov.co.uk/Data/CuCC%20County%20Council/201702161000/Agenda/Printed%20minutes.pdf**

2.3.5. In addition to this:

a) The Fund monitors and reviews the investment performance of assets managed by BCPP, with Officers meeting with BCPP quarterly to discuss performance and formally reporting on performance to the Committee and ISG on a quarterly basis.

b) Through its contractual arrangements, the Fund requires BCPP to maintain regular dialogue with companies, other investors and professional advisors, which allows them to monitor the development of company's businesses, corporate responsibility, financial performance, risk management (including those from environmental and social factors), capital structure, leadership team and corporate governance.

c) The Fund in its capacity as a shareholder is able to influence the approach taken to incentives at the pool. The Fund supports BCPP's approach to reward at the pool, to ensure long term incentives are aligned with our objectives. As a shareholder, the Fund is able to consider and approve the amount of, or any increase in, remuneration payable to any directors at the Company.

d) The Fund also supports BCPP's approach to engagement and voting rights to ensure the companies in which it invests are incentivised to deliver long term shareholder value. Further details of this can be found in the sections relating to **Principles 9**, **11** and **12**.

2.4. **Incentivising the integration of stewardship into investment decision-making:**

2.4.1. As previously noted, the Fund does not directly invest itself. Instead, it appoints investment managers to do this on its behalf. As such, the Fund seeks to incentivise the integration of stewardship into investment decision-making both internally (i.e. when setting its Investment Strategy) and externally (i.e. when appointing specialist advisors and investment managers to assist its governance processes and deliver its investment requirements).

2.4.2. Internal incentives: The key mechanism for motivating the integration of stewardship into investment decision-making internally is the Fund's governance structure. In particular, the setting of a clear Investment Strategy and investment beliefs and the ongoing monitoring of the performance of the Fund from the granular level (such as the performance of individual investments and the ESG activities of the investment managers), through to the strategic level (such as the triennial actuarial valuation and undertaking in-depth Investment Strategy reviews). The key activities undertaken in relation to this during the year ended 31 March 2023 are described at **2.5.2** below.

2.4.3. External incentives: the first step in this process is selecting external advisors and asset managers which are already closely aligned with the values of the Fund. As such, consideration of a provider's 'fit' with the Fund is a fundamental element of due diligence work prior to appointment. Furthermore, the Fund sets out clear requirements through its contracts / service level agreements. For example:

- In accordance with the Competition and Markets Authority (CMA) Investment Consultancy and Fiduciary Management Market Investigation Order 2019, the Fund has set clear objectives for its Independent Advisors and where applicable any Investment Consultant. The objectives include setting a strategy based on the Fund's goals/objectives and providing advice and assistance to the Pensions Committee on any other relevant issues that could impact the Pension Fund's ability to meet its strategic objectives. During the year the Fund submitted its annual statement of compliance confirming that it has complied with the CMA's requirements. (See **Principle 8**)

2.4.4. Once appointed, the Fund incentivises providers to align the work they do for the Fund with the Fund's requirements and expectations in relation to stewardship through regular monitoring and evaluation of their performance and engaging with providers on an ongoing basis. For example:

- As noted in section **Pool governance structure and resourcing:**(**2.3)** above, the Fund in its capacity as a shareholder is able to influence the approach taken to incentives at the pool. The Fund supports BCPP's approach to reward at the pool, to ensure long term incentives are aligned with the Fund's objectives. As a shareholder, the Fund is able to consider and approve the amount of, or any increase in, remuneration payable to any directors at the company. The Fund also supports BCPP's approach to engagement and voting rights to ensure the companies in which the Fund is invested are incentivised to deliver long term shareholder value (further details on this are set out in the **Principles 9**, **11** and **12** at **9.2**, **11.1.1** and **12.2** respectively).

2.5. Effectiveness of governance structures and processes in supporting stewardship

2.5.1. The effectiveness of the Fund's governance structures and processes has been demonstrated by their resilience during the COVID-19 pandemic. Key evidence of this is that all targets set within the 2022/23 Business Plan were 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.

2.5.2. Core governance processes relating to the stewardship of its investment assets undertaken by the Fund during the year ended 31 March 2023:

PURPOSE & GOVERNANCE

PRINCIPLE 2 – Governance, resources and incentives supporting stewardship

Activity	Further information
Production and monitoring of progress of the business plan for the year	For further details please see **1.3.4** in **Principle 1**.
Review of the Fund's Target Investment Strategy	For further details please see **1.3.4** in **Principle 1**.
Review of BCPP's Responsible Investment Policy & Corporate Voting Guidelines	Further details of this work can be found in **Principles 9** and **12** in this report.
Formal annual review of Fund policies	This is considered in detail in **Principle 5**.
Overseeing performance of the Fund's Investment Managers and BCPP	This includes voting and engagement activities and is undertaken throughout the year with formal reporting to the Committee and ISG taking place on a quarterly basis.
Production of the Pension Fund Accounts and Annual report	The Accounts and Annual Report for the year ended 31 March 2022 were published in accordance with statutory timescales and can be found at: **Annual Report & Accounts 2021/22** The Accounts and Annual Report for the year ended 31 March 2023 are currently being drafted and the final documents are due to be published later in the year.
Identifying and implementing appropriate investments to meet the requirements of the Fund's Investment Strategy	During the year the Fund identified and implemented a number of investments to meet the requirements of its Investment Strategy. These included: • Reducing the Fund's holding in **BCPP Multi-Asset Credit** funds from 14% at the start of the year to 9% at March 2023, investing the proceeds in the Fund's increased strategic allocation to **BCPP private debt**; • Reduce outperforming assets such as the **BCPP UK Equity** fund and **Overseas Developed Equity** fund and reinvesting these proceeds into **index-linked gilts** with **LGIM**, as this asset had fallen to below the percentage range set for it in the Investment Strategy • New investment commitments of £300m made to **BCPP private markets funds** to be launched following the year-end (Border to Coast Infrastructure 2023, Border to Coast Private Equity 2023 and Border to Coast Private Credit 2023);
Undertaking its role as a Shareholder of BCPP Limited	The Fund attended all Shareholder meetings (formal and informal) of the company. The Fund also attended all BCPP Joint Committee meetings. In addition, Officers attended other key governance meetings with BCPP including the Officer Operations Group, the Statutory Officers group and Responsible Investment workshops.
Training on relevant matters	For further details please see **2.2.8** above and **2.5.3** below.

Activity	Further information
Contributing nationally to the development of policy and regulation relating to the LGPS and wider public sector pensions policy.	During the year the Fund responded to the following consultation: • The Department for Levelling Up, Housing and Communities (DLUHC) - Governance and reporting of climate change risk (November 2022)

2.5.3. Training: During the year ended 31 March 2023 the Fund agreed its training plan for the period at its meeting in March 2022[20]. In line with good practice the Fund undertakes a mid-year review of the training policy and this was considered by Committee in December 2022[21]. As anticipated in the mid-year report, all topics within the 2022/23 Training Plan were addressed during the year. In summary:

Planned activity
Provision of appropriate training for Committee members, LPB members and Officers to help build and maintain a strong culture of good governance; assist in the identification and implementation of investment beliefs, strategy; and ultimately support and enable effective stewardship.
Actions taken
During the year ended 31 March 2023 the training plan focussed on seven key themes, two of which are directly relevant to the stewardship of the Fund's investment assets. Whilst the detailed requirements mentioned below have not been published, Members have received a number of training sessions linked to and in preparation for these governance developments. These, along with the activity undertaken in relation to them and the outcomes of that activity are summarised below: **Themes:** (B) Understand the climate reporting requirements for the LGPS (once published) in the context of the Fund's approach to Investment risk. (C) Consider the outcomes and implications of the Scheme Advisory Board's (SAB) 'Good Governance Review' for the Cumbria Fund. **Activities:** Training included: • In-house training sessions on: o the RI landscape and direction of travel for officers and members.

[20] **https://westmorlandandfurness.moderngov.co.uk/CeListDocuments.aspx?CommitteeId=440&MeetingId=2479&DF=18%2f03%2f2022&Ver=2**
[21] **https://westmorlandandfurness.moderngov.co.uk/CeListDocuments.aspx?CommitteeId=440&MeetingId=2483&DF=13%2f12%2f2022&Ver=2**

o Roles & responsibilities Re: Governance • Officer & Member attendance at a number of training events including the LAPFF Annual Conference & LGA Annual LGPS Governance Conference. • Attendance at regular RI meetings held with BCPP and Partner Funds. • Webinar attendance - various e.g. ESG ratings, Cyber Crime & Data Protection.
Outcomes
To assess the efficacy of the training (and to inform the next Training Plan) an annual Training Needs Assessment Questionnaire (TNA) is sent to all Members and Officers. It is based on the CIPFA Knowledge and Skills Framework. The questionnaire was updated in 2022/23 to ensure compliance with the new and expanded CIPFA Knowledge and Skills Framework. The TNA asks them to score the level of their knowledge in each key area and the outcome of this has been fed into the Training plan for 2022/2023 with focus on those areas that score the lowest. Training has helped to build and maintain a strong culture of good governance; assisted in the identification and implementation of investment beliefs, strategy; and ultimately supported and enabled effective stewardship. We recognise that RI is an evolving area and the Fund is keen to continue to increase its knowledge and skills in this area and this will be reflected in future training plans.

2.6. **Future improvements**

2.6.1. In February 2021 the LGPS Scheme Advisory Board (SAB) published the Phase 3 outcomes of its review of governance in the LGPS[22]. The Fund has reviewed its governance processes against the recommendations made by the SAB and has identified areas where its governance structures and processes could be improved[23]. The LPB have been tasked with monitoring the Fund's response to the Good Governance Review to help ensure the Fund complies with any amendments to the regulatory requirements for the LGPS arising from the Review and reports back on this to the Pensions Committee. All actions currently possible have been completed, with the remainder awaiting the publication of Statutory Guidance.

2.6.2. Following the transfer of Administering Authority responsibilities to Westmorland and Furness Council as part of local government reorganisation in Cumbria, the Fund will continue to review its governance arrangements.

[22] **https://lgpsboard.org/index.php/good-governance**
[23]**https://westmorlandandfurness.moderngov.co.uk/CeListDocuments.aspx?CommitteeId=440&MeetingId=2476&DF=21%2f09%2f2021&Ver=2**

PRINCIPLE 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

3.1. Conflicts of interest policies

3.1.1. Conflicts of interest, including those relating to matters of investment stewardship, are managed according to Cumbria County Council's (as the Administering Authority of Cumbria LGPS Fund) Codes of Conduct. Members (i.e. of both the Pensions Committee and the LPB) and Officers of the Fund are required to observe the Council's Members' and Officers' Codes of Conduct respectively. The Codes are designed to promote and maintain high standards of conduct by Members and Officers of the Fund across all activities including the stewardship of the Fund's assets. With effect from 1st April 2023, this will be managed under Westmorland and Furness Council's (as the new Administering Authority) Codes of Conduct. The are set out in the Council's Constitution and can be found at:

- Members' Code of Conduct and guidance: **Code of Conduct for Councillors**
- Officers' Code of Conduct (including conflicts of interest): **Officer Code of Conduct**.

3.1.2. As noted below at **3.4.1**, once the anticipated further guidance is issued on implementing the outcomes of the Scheme Advisory Board's Good Governance Review, the Fund will look to introduce an LGPS specific conflicts of interest policy.

3.2. Identification and management of conflicts of interest

3.2.1. The Council delegates responsibility for the management of the Fund to the Director of Finance (S151 Officer) and the Pensions Committee. This includes the overall responsibility to ensure that systems, controls and procedures are adequate to identify, manage and monitor Conflicts of Interest.

3.2.2. In order to be able to identify and manage potential and actual conflicts of interest, Members, Advisors and Officers responsible for governing the Fund need to have a clear understanding of them. As such, training is a key tool to ensure Members and Officers are aware of and understand their responsibilities in relation to the Fund, including the identification and management of conflicts of interest. Further details on the Fund's training policy and plan can be found in **Principle 2** at **2.5.3**.

3.2.3. Other key steps: the table below sets out the key steps employed by the Fund in the identification and management of actual and potential conflicts of interest relating to the stewardship of the Fund's assets. Case studies of how actual or potential conflicts have been addressed are set out at **3.3** below.

Identification	Management
Members of the Pensions Committee and LPB ('Members'): The Code of Conduct requires that all Members must declare any pecuniary or other registerable interests. The Code of Conduct requires that Members consider whether they have an interest in any matter on the agenda for a meeting and if so whether there is a need to disclose such an interest. All formal meetings of the Committee and LPB have 'disclosures of interest' as a standing item on the agenda. At that point each Member formally considers conflicts of interest they may have in any item on the agenda or during discussions throughout the meeting and the outcome is declared in the public minutes.	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. A link to the register of Interest for the Chair of the Pensions Committee would usually be provided. However, as they were a member of Cumbria County Council, the declaration is no longer available to view. Full details of the process for the management of declarations of interests at meetings are set out in Part 4 section 1 Appendix B of the Constitution Westmorland and Furness Constitution. An example of this is when a Member may have worked for or holds shares in a company that is a service provider to the Fund. Unless a dispensation has been granted, they must then leave the meeting room and may not participate in any discussion, vote on, or discharge any function related to the matter.
Advisors to the Fund: In accordance with the Council's Constitution[24] on appointment Independent Advisors are 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.	Post appointment: where a matter arises, which presents a potential or actual conflict of interest then the action taken to manage the conflict is considered by the Chair of the Committee in consultation with Fund Officers. Examples may include requiring the Advisor to not participate in the relevant discussion or to leave the meeting during the consideration of the matter. Narrative about consideration of conflicts during the appointment process is detailed at **3.3.2** below.
Officers of the Fund ('Officers'): The Officers' Code of Conduct requires that Officers make a formal declaration about any financial or non-financial interests which could bring about a potential or actual conflict of interest. Such declarations should be discussed with their line manager and submitted using the Council's online reporting tool.	Where a potential or actual conflict of interest is identified then the Officer is removed from the relevant workstream. In line with the Officers Code of Conduct the interactions of officers with Investment Managers is subject to the requirement for any gifts or hospitality to be declared and captured by the Fund. Any promotional material from Investment managers is collected and raffled annually with proceeds being donated to charity.
Investment Managers: The Fund expects the asset managers it employs to have effective	The Fund collaborates with other Partner Funds and BCPP on an ongoing basis through Responsible

[24] Part 2, Section 5.15.12 **https://www.westmorlandandfurness.gov.uk/sites/default/files/2023-08/AUGUST%20CONSTITUTION%20%20FINAL%202023%20PDF%20%282%2016.08.23%29.pdf**

Identification	Management
stewardship policies including conflicts of interest and voting & engagement, and that these are all publicly available on their respective websites. These are considered as part of due diligence work undertaken prior to the appointment of a manager and manager policies are informally considered as part of the annual review process (see **Principle 8**).	Investment workshops and by feeding into the annual **BCPP RI Policy** review to facilitate the alignment of our approaches to stewardship where possible. See also **3.3.3** below. The Fund is also working to improve how it engages with its other investment managers on their approach to stewardship. See RI questionnaire in **Principle 7** at **7.1** Work to date includes entering into an Investment Oversight Agreement with BCPP whereby the company provides Funds with an oversight service in relation to Legal & General's (LGIM) management and stewardship of the passive funds including the provision of a comparison of LGIM and BCPP's Responsible Investment Policy and Corporate Governance & Voting Guidelines (highlighting any differences between these policies).
Other service providers to the Fund: Consideration of potential and actual conflicts of interest is undertaken both prior to entering into a contract for service provision (i.e. at the procurement stage) and throughout the duration of the contract. For example, the requirement to undertake a conflict check to confirm that no conflicts of interest were present in the tender process completed in 2022/23 for a provider to review of Cyber Security arrangements within the fund.	Procurement: The Fund adheres to the Council's Contract Procedure Rules[25] which set out a clear framework for the procurement of goods and services. The Rules state that Officers must comply with measures put in place by the Council to identify, prevent and remedy conflicts of interest which arise during procurement. Contract management: Where a conflict is identified the steps taken will depend on the type of service provider. For example, if the provider for the Fund is engaged to provide advice for a different client which creates a conflict of interest or a significant risk of one; then the Fund would ensure that the provider adheres to their obligations in relation to both parties' conflicts of interest policies.
Political Interests and beliefs: The primary mechanism for the identification of potential and actual conflicts relating to political matters is for Members of the Committee (particularly the Chair and Vice Chair who are members of different political parties), Members of the LPB, Officers (including the Democratic Services Officer who supports the Committee) and the Independent Advisors to the Fund to consider all matters from a neutral position focused on	Whilst not formally stated as such, the Committee makes decisions on a politically neutral basis in order to deliver the overriding objective of the Fund (i.e. 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).

[25] CONSTITUTION FINAL 2023 (westmorlandandfurness.gov.uk) Part 3 Item 7

Identification	Management
what serves the best interests of clients and beneficiaries of the Fund.	Senior Officers posts that are capable of influence within the Fund are politically restricted by regulation[26].

3.3. Outcomes

3.3.1. All Conflicts of Interest have been managed effectively during 2022/23 and some examples are detailed below.

3.3.2. Advisors to the Fund: In 2022 the Fund progressed the appointment of a new Independent Advisor. The successful tenderer held a position with another LGPS Fund but there was deemed to be no Conflict of Interest. This is kept under close review.

3.3.3. Management of Stewardship Policies with BCPP: As owners of BCPP, all partner funds are involved in the development of the key stewardship policies within BCPP, namely the Responsible Investment Policy, Corporate Governance and Voting Guidelines and Climate Change Policy. There is a comprehensive and collaborative joint governance process to ensure that BCPP and each Pension Fund's own policies on Responsible Investment and Corporate Governance are aligned, to reduce the possibility of any conflicts in stewardship activity and ensure that RI activity undertaken by the Pool represents all partner funds beliefs. The annual governance process involves BCPP officers, partner fund officers, the Joint Committee, BCPP Board and the individual Fund Pension Committees (for further details see **Principle 9** section **9.2.3**). The latest BCPP Responsible Investment Policies were approved by the Pensions Committee at their meeting on 14 March 2023[27] as detailed in the minutes at item 11.

3.4. Future improvements

3.4.1. Fund-specific Conflict of Interest Policy: The Good Governance Review Phase 3 Report published by Hymans Robertson in February 2021, states that each Fund must produce and publish a conflicts of interest policy. Following the implementation of the statutory guidance, the Fund will be required to publish a LGPS specific conflicts of interest policy based on the published Guidance and include conflicts for Pensions Committee members, LPB members and officers. The Fund will also consider the inclusion of advisors and key contractors within this policy. Consideration will also be given as to how best to present and publish the Conflicts of Interest policy to ensure that it is easily accessible to users.

[26] Part 1 of the Local Government and Housing Act 1989: **https://www.legislation.gov.uk/ukpga/1989/42/part/I/crossheading/political-restriction-of-officers-and-staff**

[27] **https://westmorlandandfurness.moderngov.co.uk/documents/s5054/PensionCommitteeDraftMinutes.pdf (Item 11)**

PRINCIPLE 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

4.1. **Identification of systemic & market-wide risks**

4.1.1. The identification of and response to systemic and market-wide risks by the Fund is a key tool in its approach to addressing barriers to effective stewardship. For example, the incorporation of ESG considerations, such as climate change, into investment decisions can help improve long-term value by minimising the risk of, for example, stranded assets and the impact of regulatory change.

4.1.2. The Fund's risk management process is in line with that recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). This is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities, which includes systemic and market-wide risks in addition to Fund-specific risks. Risk identification is enhanced through liaison with investment managers, other administering authorities and regional and national groups, including the SAB, CIPFA, and various investor collaborations and initiatives (see **Principle 10**).

4.1.3. Once identified, material 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. The register is formally reviewed on a quarterly basis by the Committee and LPB.

4.2. **Response to systemic & market-wide risks** (examples are summarised from Cumbria LGPS risk register 2022/23)

Risk	Response
Performance: Adverse market movements impact on the Fund's long-term performance: e.g.Climate Change, increases in inflation etc.	• Adherence to the Fund's Investment Strategy ensures that the assets of the Fund are invested in a diverse portfolio of investments, the impact on overall performance is therefore not as extreme as that experienced in any one asset class alone. • Potential new investments are closely scrutinised by Officers and Fund Advisors to assess if the product meets the investment criteria of the Fund. • 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 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.

Risk	Response
	• Inflation risk: Revisions to the Fund's target Investment Strategy have included increasing the percentage of the Fund invested in inflation linked investments. Furthermore, as part of the 2022 valuation work, the Fund's Officers and Advisors undertook a "sense check" of the Fund's Investment Strategy to assess whether any changes are required in response to the impact of inflation – no changes were currently required. • Climate Change: The Fund's Investment Strategy Statement sets out how the Fund incorporates ESG factors including climate change into the investment process. The Fund believes that the best way to be a responsible investor and to influence policy change is not through divestment or boycotting specific sectors but through active engagement. The Fund responded to the DLUHC consultation on Governance and Climate Risk Reporting in November 2022, ahead of the release of regulation relating to increased levels of disclosure on Climate Related risks and opportunities. The resulting increased level of disclosure of how the Fund's assets will affect and be affected by climate change, will seek to ensure that the Fund understands and manages the financial risks and opportunities arising from climate change in order to protect and grow the Fund's assets and cashflows.
Regulatory Changes: There is a risk that the LGPS is mandated to invest in particular markets or risks that may otherwise impact onto the sovereignty of the Fund. This may be caused by government policy or amendments to regulations.	• Officers of the Fund respond to government consultations where relevant to help influence policy. • Where relevant, the Fund will support lobbying or lobby directly to ensure that its voice is heard in the development of national policy. • Officers within the Fund ensure that they are aware of impending amendments to regulations and advise Pensions Committee and the LPB (and, where relevant, employers and scheme members) in a timely way as to any amendments and their impact to the Fund.

4.3. **Working with other stakeholders and industry initiatives to promote a well-functioning financial system.**

4.3.1. The Fund is a relatively small participant in the financial system and markets. As such, it is best placed to promote the continued improvement of the functioning of financial markets by working in partnership with other stakeholders and industry initiatives and by focussing on specific areas of risk.

4.3.2. During 2022, the Russian invasion of Ukraine was a key area of focus for working in partnership. Section **4.4** below sets out how the Fund has worked with its principal partner (BCPP) to address this. In addition to this, through its membership of and engagement with LAPFF the Fund has also supported work undertaken by the Forum to scrutinise the structure of wider market regulation within the UK as described at **4.5** below.

4.4. **BCPP and Climate Change**

4.4.1. During the year BCPP published their Net Zero Implementation Plan, which formally outlines their strategy and ambitions, emissions targets and objectives, stewardship approach, and reporting and monitoring expectations. The Plan aims to put in place a formal roadmap towards mitigating climate change as a systemic risk.

4.5. **BCPP and Russia's Invasion of Ukraine**

4.6. A working party involving all affected functions was rapidly put in place. The extent and materiality of the event was effectively assessed, implications were quantified, and structures were put in place to ensure the event could be dealt with in the most effective manner. This included daily across-team calls at the peak of the crisis to ensure the organisation could respond with agility in a rapidly changing environment. Oversight was provided by the Investment Committee, senior management, and, ultimately, the Board of Directors. Partner Funds were kept informed in a timely, open and transparent manner.

4.7. **LAPFF Engagement**

4.8. LAPFF engage with policymakers and regulators as well as wider stakeholders on areas for reform to reduce the systemic risks facing LAPFF members. As part of this work, LAPFF submitted several consultation responses focusing on policy areas important to its membership. Following research which raised concerns about the way carbon offsetting was being used, LAPFF responded to a consultation from the UK's Climate Change Committee (CCC). The consultation response asserted LAPFF's position emphasising the need for real emissions reductions, finite capacity of offsetting, and the need for strict definitions of difficult to abate sectors.

4.9. Outside the UK, LAPFF responded to the US National Action Plan on Responsible Business Conduct consultation. The Plan seeks to strengthen the US government's role in advancing business conduct among US companies, based on OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. LAPFF's response stressed the importance of strong sanctions and enforcement to raise standards. The response also highlighted the importance of climate change within such a plan, not least because of the link between the environment and human rights, but also because of the social risks (for workers, communities, consumers) of an unjust transition.

4.10. **Future improvements**

4.10.1. During the year the Fund added Biodiversity Loss as an emerging risk on its risk register. This refers to the decline or disappearance of biological diversity, understood as the variety of living things that inhabit the planet and it can have direct human health impacts, affecting livelihoods, income and local migration. Although the scale and extent is not yet clear and could be influenced by many factors including future regulatory changes, the Cumbria Pension Fund recognise that biodiversity loss should be acknowledged as a key emerging risk.

4.10.2. The Fund will continue to work with BCPP and its partner funds to evolve its approach to addressing climate risk and implementing metrics and targets to move towards net zero emissions by 2050, or sooner.

PRINCIPLE 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.

5.1. **Introduction**

5.1.1. The Fund's policies are the mechanism through which the Fund expresses and implements its investment beliefs, strategy and culture. They provide the framework for effective governance and stewardship – both of the Fund assets and of the Fund as a whole. The current Fund Policy document can be found at: **Fund Policy Document**.

5.1.2. **The following explain how the Fund addresses the three key elements of stewardship (*Responsible Allocation*; *Management*; and *Oversight*)[28] through the review of its policies (**5.2**), how it gains assurance in relation to its stewardship and why (**0**); and how the Fund has ensured its stewardship reporting is fair, balanced and understandable (**5.4**).**

5.2. **Policies**

5.2.1. Overview

A. **Investment Strategy Statement**: This sets out how the Fund ensures the responsible allocation (i.e. investment) of its assets (***Responsible Allocation***) and how the investment risk and return issues have been managed relative to the Fund's investment objectives (***Management***). It sets out the Fund's compliance with the updated Myners' Principles and the Financial Reporting Council's UK Stewardship Code (***Oversight***).

B. **Funding Strategy Statement**: This identifies how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities (***Responsible Allocation*** and ***Management***). It is subject to consultation with employers (***Oversight***)**.**

C. **Training Policy & Plan**: This supports the Fund's investment decision-making process (***Responsible Allocation)*** as well as its ***Management*** and ***Oversight*** function by ensuring those involved in those functions for the Fund are appropriately skilled and knowledgeable.

D. **Administration Strategy & Communications Policy**: This supports the Fund's communications with key stakeholders including beneficiaries of the Fund. This supports its ***management*** function by ensuring beneficiaries needs and views are heard and understood by the Fund. It also supports informal ***oversight* by ensuring**

[28] In line with the definition of stewardship as being "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society" **FRC UK Stewardship Code**.

that stakeholders are able to access information about the Fund and feed their views back to it.

E. **Admission & Termination Policy**: This seeks to ensure that the interests and rights of employers in the Fund (who are key stakeholders in the Fund) are protected when new employers are admitted to, and existing employers exit the Fund. (***Management***).

5.2.2. Review Process

5.2.3. To ensure that the aforementioned core stewardship-related policies remain fit for purpose (i.e. continue to reflect the Fund's purpose and investment beliefs as well as meeting regulatory requirements) the Fund updates them when required throughout the year. The review process seeks to ensure that the policy document complies with the requirement that it is fair, "balanced and understandable". As such, it incorporates both fundamental changes, e.g. due to regulatory and/or legal changes, and more minor 'housekeeping' amendments for example to reflect the change to the financial year, to simplify language and to correct spelling, grammar and punctuation.

5.2.4. The first step of the review process is undertaken by Fund officers. The proposed changes to individual Policies are considered and approved at the next quarterly meeting of the Pensions Committee. In addition to this the Fund follows best practice and the Pensions Committee formally reviews the Fund Policy Document at least annually.

5.2.5. In addition to this, the LPB, in their role in assisting the administering authority to ensure the efficient and effective governance of the Cumbria LGPS, review all Pensions Committee papers at their quarterly meetings. Whilst the LPB has no remit as a decision-making body, as the Fund's Policies are a key governance tool, it is important that they give Fund Policies appropriate consideration. This is included in the formal Work Plan for the Board which is reviewed on a quarterly basis to ensure it captures any arising issues.

5.2.6. The Fund's review of its policies is reported as follows:

- Annual policy review: The review of the policies that were in place for the 2022/23 year was undertaken in March 2022, and can be found at: **https://westmorlandandfurness.moderngov.co.uk/CeListDocuments.aspx?CommitteeId=440&MeetingId=2485&DF=14%2f03%2f2023&Ver=2**
  Ad hoc policy review: these are reported as part of the reports and minutes at the relevant Committee meeting. There were no ad hoc policy reviews during the year.

5.3. How the Fund gains assurance in relation to its stewardship and why

5.3.1. Cumbria Local Pension Board (LPB): As detailed in **Principle 2**, the LPB's role is to assist CCC to fulfil its functions in relation to all aspects of governance, administration and stewardship of the Pension Fund. As such, it plays an integral part in providing assurance (***oversight***) that the Fund is undertaking its governance and stewardship (including the ***responsible allocation*** and ***management*** of its capital) effectively and appropriately. For further details of the LPB please see **2.2.3**

5.3.2. External Audit: The annual Fund Accounts for the Cumbria LGPS are subject to external audit (***oversight***) by Grant Thornton. The External Auditor prepares an 'Audit Findings Report' (AFR)[29]. This work provides assurance that the financial statements of the Fund, which include details of investment performance and other core stewardship information (***Responsible Allocation*** and ***Management***) such as expenditure in relation to budget, present a true and fair view of the financial transactions during the reporting year and of the amount and disposition of the Fund's assets and liabilities at the end of that year.

5.3.3. Internal Audit: Internal controls are in place to ensure procedures and policies, which provide the framework for effective governance and stewardship, are followed. Internal Audit undertake an audit (***oversight***) of the control environment (***Management***), subject to a pre-agreed remit, to provide an assessment on the internal controls in operation and whether they are applied consistently.

5.3.4. Actuary: The Actuary prepares the valuation and sets the contribution rates to ensure Fund solvency and long-term efficiency with due regard to LGPS Regulations (***Management***). The Actuary is instrumental in assisting the Fund in the production of its Funding Strategy Statement and the Actuary's valuation assumptions play a key role in the development of the Investment Strategy Statement (both of which are key stewardship policy documents). Importantly, the valuation is a key tool in assessing the appropriateness - thereby providing assurance (***oversight***) - of the Fund's Investment Strategy (***Responsible Allocation***).

5.3.5. Independent Advisors: The Fund appoints two external Independent Advisors, whose remit includes the provision of clear, concise and understandable investment and governance advice (***Responsible Allocation*** and ***Management***) to the Committee and the ISG; and supporting the Committee, ISG and Officers in developing and reviewing the Investment Strategy Statement relevant to the Fund's current funding level and risk appetite. Their input into and challenge of the Fund's approach to the stewardship of its assets is integral to providing assurance (***oversight***) to the Committee that the Fund's approach to stewardship is efficient and effective.

[29] The AFR is prepared in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

5.4. Reporting

5.4.1. The Fund employs a variety of methods to seek to ensure its stewardship reporting is fair, balanced and understandable. In addition to the sources of assurance set out above at **5.3** these include:

- Tailoring information to the target audience – for example reports to the ISG are designed to reflect the technical nature of the Group whilst this report and the Fund's Annual Report are written for a more general audience and look to employ plain English throughout. Please see **Principle 6** section **6.7.1** for more detail on Fund communications.
- Seeking external feedback – for example during the year ended 31st March 2023 the Fund consulted on changes made to its Funding Strategy Statement to reflect the 2022 Actuarial Valuation.
- Internal review – reports to the Committee, ISG, Board and publicly available reports are all subject to robust internal review by at least two officers other than the author.

5.5. Outcomes during 2022/23

5.5.1. Review of Policies: Key changes to the Fund's policies as a result of the previously described review process include:

Policy	Notes
Investment Strategy Statement	Updated to include details of two temporary changes to the Investment Strategy Advisory Ranges for asset classes. In addition, references to the Stewardship Code have been replaced with details regarding the Fund's 2021-22 Stewardship report.
Funding Strategy Statement	Amended to include the revised parameters approved within the 2022 Actuarial Triennial Valuation.
Internal Control and Risk Management Policy	Updated to highlight a new Cyber Governance Strategy. The strategy captures the mitigations the Fund has in place for the management of its most significant risk (Information security arrangements), however due to the confidential content, the strategy is not published.
Training Policy & Plan	To ensure continued compliance with TPR's expectations in relation to acquiring and maintaining an appropriate degree of knowledge and understanding the training plan has been updated to incorporate areas highlighted following the completion of the annual training needs assessment questionnaires. See **2.2.8** in **Principle 2. Updates also reflect enhancements being made to the Fund's induction programme in response to the significant number of new members that will undertake governance roles in relation to the Cumbria Pension Fund during 2023/24 as a result of LGR.**
Administration Strategy & Communications Policy	Updated to reflect the changes in terminology used by Local Pensions Partnership Administration (LPPA) following a transition to a new pensions administration system.
Admission & Termination Policy	This has been updated to reflect details of the 2022 actuarial valuation.

Stewardship Report	This document - a key mechanism for reporting the stewardship activities and outcomes of the Fund – has been updated to reflect stewardship activities and outcomes in 2022/23.

5.5.2. Assurance: no material areas of concern were raised in relation to the Fund as a result of the previously described assurance work undertaken both internally and externally during 2022/23. An unqualified opinion ("clean") was given by external audit in relation to the 2021/22 Financial Statements of the Fund and the Audit Findings Report[30] noted no audit recommendations and that "the Accounts have been produced to a very high standard".

5.6. Future improvements

5.6.1. As previously noted, the LGPS Scheme Advisory Board has undertaken a Good Governance Review and the recommendations arising following this work include the introduction of a biennial Independent Governance Review of administering authorities' governance arrangements. Once the details have been confirmed and the anticipated guidance supporting this has been issued, the Fund will work to implement the process. This should provide a further level of assurance that the Fund's governance processes are operating efficiently and effectively.

[30] **https://www.cumbriapensionfund.org/media/svwiscwh/cumbria-lgps-final-audit-findings-report-2021-22.pdf**

PRINCIPLE 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

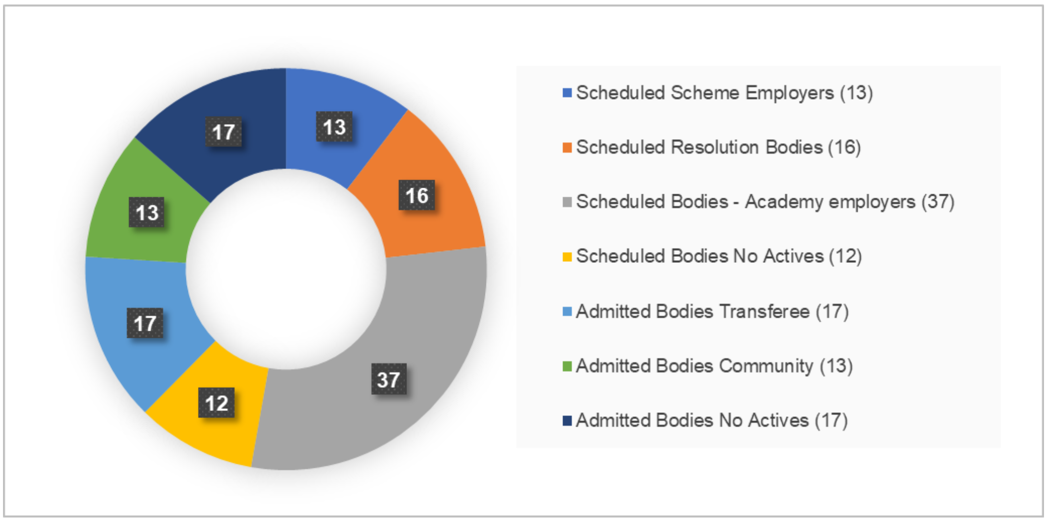
6.1. **Scheme structure:** Details of the scheme structure are set out in section **1.1** of **Principle 1**.

6.2. Beneficiaries - scheme members and employers

6.2.1. Scheme members are predominantly employees and ex-employees of local public sector organisations including local authorities, the police authority (non-uniformed), schools, and academies. Additionally, a small number of scheme members are employees and ex-employees of either community bodies or private companies to whom services and therefore staff have been contracted out. Membership as at 31st March 2023 was:

	Active Members	Deferred Members	Active Pensioners	Total Beneficiaries
People	17,454	25,877	18,947	62,278
Percentage	28.0%	41.6%	30.4%	100%
Average age[31]	51.1	51.4	71.9	n/a

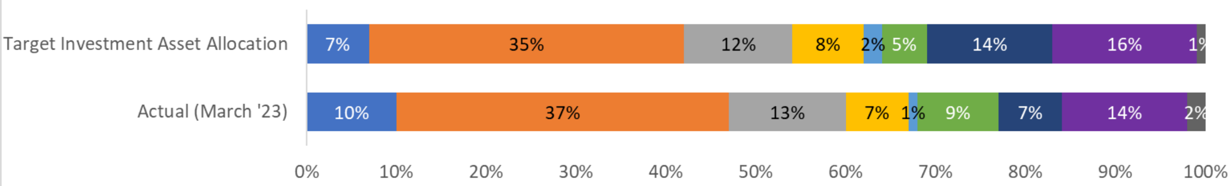
6.2.2. As at 31st March 2023 there were 125 employers in the Fund:



6.3. Assets under management

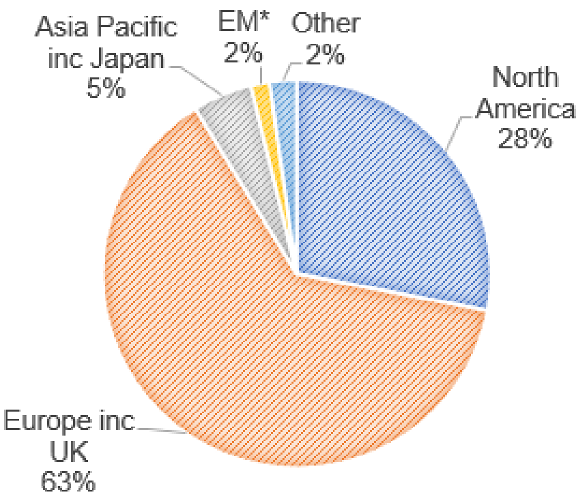
[31] Pension weighted as at the most recent actuarial valuation date (31st March 2022)

6.3.1. Asset Classes: The Fund's Investment Strategy Statement (ISS) articulates how the Fund will responsibly allocate its investments in order to create long-term value for beneficiaries and meet its funding requirements. The ISS includes details of the Fund's target investment asset allocation, as summarised below along with the actual amounts invested as at 31st March 2023.



	Actual (March '23)	Target Investment Asset Allocation
Private Equity	10%	7%
Public Equity	37%	35%
Infrastructure Equity	13%	12%
Commercial Property	7%	8%
Residential Property	1%	2%
Multi-Asset Credit	9%	5%
Private Debt/Credit	7%	14%
Government Bonds	14%	16%
Cash / short-dated credit	2%	1%

6.3.2. Geographical breakdown of the Fund's investments:



* EM = Emerging Markets

6.4. **Investment time horizon & how the needs of beneficiaries have been reflected in stewardship & investment aligned with an appropriate investment time horizon.**

6.4.1. The Fund is a defined benefit pension scheme which is open to new members. This means that pension benefits are payable over a considerable timescale and that timescale continues to extend as new benefits accrue. As such the needs of the beneficiaries are long-term and, in recognition of this, the Fund's investment time horizon is long-term.

6.4.2. To ensure that it is able to meet the needs of its beneficiaries over this long timeframe, the Fund seeks to achieve sustainable, risk-adjusted performance of its investments over the long-term. This is reflected in the Fund's approach to stewardship and investment as set out in the Fund's Funding Strategy Statement (FSS) and investment beliefs (summarised at 1.2.4).

6.4.3. Whilst its ultimate investment horizon is very long-term, the overriding objective of the Fund is to achieve a 100% solvency level over a reasonable time period and maintain sufficient assets in order for it to pay all benefits arising as they fall due. To assist it in achieving this and to inform it of its progress in relation to this objective, the Fund sets a deficit recovery period as part of its triennial valuation for those scheme employers with a funding level of below 100%.

6.4.4. The triennial actuarial valuation relevant to 2022/23 was undertaken as at 31 March 2019 and the deficit recovery period agreed by the Fund and its Actuary at that time was an average recovery period of 12 years. At the actuarial valuation carried out as at 31 March 2022 to determine the contribution rates with effect from 1 April 2023 to 31 March 2026, an average recovery period of 10 years was applied.

6.5. Seeking the views of beneficiaries – how and the reason for the chosen approach:

6.5.1. The Fund's framework for communications and its communication programme is set out in its Administration and Communications policy[32]. This includes information relating to both methods and frequency of communications to beneficiaries (which are referred to as 'stakeholders' in the policy).

6.5.2. The ultimate beneficiaries of the Fund are its scheme members. However, as scheme member benefits are determined by regulation rather than the performance of the Fund's assets (benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members), the Fund recognises that employers in the Fund (a significant proportion of which are funded by local taxpayers) are key beneficiaries. This is because, from an investment stewardship perspective, employers bear the majority of the financial risk and reward.

[32] 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 Fund's Administration Policy and can be found at section 3 of its Policy Document at: **Fund Policy Document**.

6.5.3. The nature of the Fund's beneficiaries is reflected in the key channels it uses for seeking the views of its beneficiaries in relation to the stewardship of its investment assets. These are summarised below at **6.5.4** to **6.5.8**.

6.5.4. Pensions Committee: As detailed in **principle 2** (**2.1.3**) the core strategic functions of the Administering Authority are delegated to the Pensions Committee. As such, it is the key strategic decision-making body for the Fund. The membership of the Committee reflects risk and responsibility of the Fund's beneficiaries as discussed at **6.5.2** above. In the main, the Fund seeks the views of the Committee through formal quarterly meetings[33]. The members of the Committee can, however, meet informally under certain circumstances e.g. for a workshop on responsible investment.

6.5.5. Investment Sub Group: In recognition of the complex and technical nature of some elements of stewardship information (particularly in relation to investment asset performance) more detailed consideration of certain matters is undertaken by the Section 151 Officer in consultation with the ISG. Further details of the ISG are set out in **principle 2** (**2.1.3**)

6.5.6. Local Pension Board (the LPB): As detailed in **principle 2** (**2.1.3)**, the LPB's role is to assist CCC to fulfil its functions in relation to all aspects of governance and administration of the Pension Fund. As such, whilst it is not a decision-making body, it performs a core governance function an important element of which is being representative of scheme members and employers. This is reflected in the membership of the LPB and the appointment process for the LPB. In the main, in accordance with good practice, the Fund seeks the views of the LPB through formal quarterly meetings.

6.5.7. Cumbria Pensions Forum (the Forum): As detailed in **principle 2** (**2.1.3**), 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. The Forum meets annually and consists of both Employer and Employee Representatives as detailed in the Constitution.

6.5.8. Formal consultations with employers: In addition to the above channels for communications with beneficiaries, the Fund also undertakes formal and informal consultations with employers including:

- where it is proposing material changes to its Administration Strategy;
- where it is proposing material change to its Funding Strategy Statement (FSS); and
- during the triennial valuation process.

During the year ended 31st March 2023 the Fund consulted on changes made to its

[33] The Committee is what is often referred to as a 'Section 101' Committee (as per section 101(1) of the Local Government Act 1972) and it must therefore adhere to the requirements of that Act.

Funding Strategy Statement to reflect the 2022 Actuarial Valuation.(see 5.4.1)

6.5.9. Wider stewardship i.e. communications relating to administration: The purpose of the Fund is to provide pension benefits for its members and communications about member benefits are therefore fundamentally important. As such, the Fund's administrator – Local Pensions Partnership Administration Ltd (LPPA) – has a clear plan of core communications to members on matters such as annual allowances, member annual benefit statements and pensions increase. In addition to this, LPPA provides members with an annual newsletter which provides information on key issues and news in relation to LGPS pensions.

6.6. Assessment of the effectiveness of the Fund's chosen approach to understanding the needs of beneficiaries

Feedback during 2022/23 and beyond from the channels referenced in section 6.5 indicates that the Fund's chosen approach is effective. However, it was noted that the Fund's online presence wasn't as strong or as user-friendly as it could be. In response to this the Fund has developed a Fund-specific website. The website has been designed to improve both the accessibility of Fund information (including its stewardship activities) and its ability to engage in dialogue with its stakeholders, providing scheme members, scheme employers and other interested parties with key information about the Fund and the wider LGPS.
The address of the new website is www.cumbriapensionfund.org

6.7. What has been communicated to beneficiaries and what actions have been taken as a result?

6.7.1. The following tables set out some key examples of the communication of matters relating to the stewardship of the Fund's assets (where possible reports that are presented to the Committee and LPB are available on the Council's website for to public to review[34]) and actions taken as a result of the feedback from those communications:

Investment performance (at Fund and manager level)	
To whom?	ISG, Committee & LPB*
When?	Quarterly
How?	A detailed written paper and supporting report from the Fund's Custodian along with performance reports from the Fund's key Investment Managers is presented

[34] **https://westmorlandandfurness.moderngov.co.uk/ieListMeetings.aspx?CId=440&Year=0** and **https://westmorlandandfurness.moderngov.co.uk/ieListMeetings.aspx?CId=439&Year=0**

	to the ISG. A summary report, including the ISG report, is presented to the Committee on a quarterly basis.
Outcomes & actions	Key actions and outcomes in 2022/23 are detailed in **Principle 1** at **1.3.7 A**

* Pensions Committee papers are all made available to the LPB and a summary paper, detailing the key matters considered and decisions taken, is presented to the LPB on a quarterly basis.

The Fund's approach to Responsible Investment and voting & engagement activity	
To whom?	Everyone: information on the Fund's approach to RI is available on the Fund's website under the heading 'Responsible Investment Statement' at: **The Cumbria Local Government Pension Scheme and its approach to Responsible Investing**
When?	The RI document is available online at all times. Voting and engagement activity is reported on a quarterly basis.
How?	The Fund's approach to RI was formulated in consultation with the Committee. The Fund's voting activity is published online under the heading 'Share Voting Record' at: **Share Voting Records**. A summary of activity is also reported in a quarterly paper presented to the Pensions Committee.
Outcomes & actions	Key areas of discussion included climate change, and wider RI issues including the Fund's approach to RI and Human Rights in response to increased activity in that area. The outcomes were fed into discussions with BCPP on RI and corporate voting and did not require any material changes to the Fund's published approach to RI. Details of the actions taken and outcomes of voting and engagement activity are set out in **Principles 9** and **12** in this report

6.8. **Circumstances where managers have not followed the Fund's stewardship and investment policies.**

6.8.1. There were no instances where the Fund's managers didn't follow the Fund's stewardship and investment policies during 2022/23.

PRINCIPLE 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

7.1. **Introduction**

7.1.1. As detailed in **Principle 1**, the Fund's investment beliefs and approach to assessing investments are set out in its Investment Strategy Statement. This includes our belief, as long-term investors, that integrating ESG considerations into the investment management process improves risk adjusted returns. As such, the Fund seeks to systematically integrate stewardship and investment to fulfil its responsibilities as set out below.

7.2. **Investing with BCPP**

7.2.1. As previously noted, BCPP is the Fund's chosen approach to meet Government's requirement to pool LGPS investment assets. A significant benefit of the BCPP pool is that it has an in-house dedicated responsible investment team along with an external specialist stewardship partner – Robeco[35]. This means that it is able to effectively integrate responsible stewardship throughout its investment process.

7.2.2. Details of how BCPP does this are set out in its Responsible Investment (RI) Policy (section **9.2.3** of this report describes how the policy has been formulated in conjunction with partner funds including Cumbria), key elements of which are summarised below.

7.2.3. Overall approach: ESG factors are fully incorporated into BCPPs investment decisions across all investment portfolios and asset classes.

7.2.4. Factors considered: BCPP focusses on those which could cause financial and reputational risk. Of particular relevance are factors which could cause environmental and reputational risk ultimately leading to a reduction in long-term value. Issues considered include, but are not limited to:

[35] To fulfil stewardship objectives BCPP has appointed Robeco as its voting and engagement service provider. Robeco provides active ownership services to institutional investors such as BCPP in accordance with agreed corporate voting guidelines.

INVESTMENT APPROACH

PRINCIPLE 7 – Integrating stewardship & investment

Environmental	Social	Governance	Other
Climate change Resource & energy management Water stress Single use plastics Biodiversity	Human rights Child labour Supply chain Human capital Employment standards Pay conditions (e.g. living wage in UK)	Board independence Diversity of thought Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Political lobbying

7.2.5. Integration into internally managed listed equities: ESG data and research from specialist providers is used alongside general stock and sector research; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection. The Head of RI works with colleagues to ensure they are knowledgeable and fully informed on ESG issues. Information from engagement meetings is shared with the investment team to increase and maintain knowledge, and ensure voting and engagement is not detached from the investment process.

7.2.6. Integration into externally managed listed equities: RI is incorporated into the external manager appointment process including the 'request for proposal' (RFP) criteria and scoring and the investment management agreements. The RFP includes specific requirements relating to the integration of ESG by managers into the investment process and to their approach to engagement. BCPP expect to see evidence of how material ESG issues are considered in research analysis and investment decisions.

The monitoring of appointed managers by BCPP includes assessing stewardship and ESG integration into the investment process and ongoing management of the investments held in accordance with the approved policies. Both the BCPP Investment Committee and the Funds Pensions Committee require that all asset managers report on stewardship and ESG matters on a regular basis and be responsive to any queries fund managers to become signatories or comply with international standards applicable to their geographical location.

- BCPP have strengthened their formal annual review process to create a more joined-up approach. Previously the RI Team issued a detailed questionnaire covering areas such as policy changes, resourcing, RI integration, engagement and record on voting followed up by a deep-dive call with the RI Team. This call is now held jointly with the External Management Team.

7.2.7. Integration into Private Markets: ESG issues are considered as part of the due diligence process for all private market investments. This includes assessing a manager's ESG strategy through a specific ESG questionnaire and supplementary interviews. Managers are requested to report annually on the progress and outcomes of ESG related values and any potential risks and ongoing monitoring includes identifying any possible ESG breaches and following up with the managers concerned.

- During the year two new climate-related questions were incorporated into the annual monitoring questionnaire which is issued to all private market managers. These specifically focussed on net zero targets and more granular information on carbon metrics. Nearly all metrics measured increased significantly for the second year in a row. This was particularly noticeable in the number of General Partners tracking climate metrics in line with TCFD recommendations, which increased from 30% to 64% between 2021 and 2023. This reflects the rapid adoption and improvement in the collection and monitoring of climate risks within private markets.

7.3. **Investing with other Investment Managers**

7.3.1. The Fund considers the ESG credentials, policies and procedures as part of the appointment process for all prospective managers with the aim of ensuring that ESG is well established in the managers appointed. All Managers are now either signatories to or working towards the new requirements of the Stewardship Code 2020. The Fund expects its Managers to incorporate ESG factors into their investment process and demonstrate the outcomes being achieved through this activity. The Fund continues to develop how it incorporates RI within the ongoing monitoring of all managers, including private markets. See **Principle 8** for further details.

7.3.2. The Fund monitors the asset manager's stewardship activities, including their involvement in collaborative engagement activities, such as supporting the Transition Pathway Initiative (TPI), and Climate Action 100+. For further information relating to Collaborations see **Principle 10** at **10.4**.

7.3.3. The Fund has developed a questionnaire to draw out how managers incorporate ESG factors into decision-making for new investments as well as ongoing monitoring of managers and the underlying investments especially in the less established asset classes of private markets, which they continue to send out on an annual basis. This was enhanced during the year to incorporate further questions in relation to net zero and climate metrics. Responses were of a much higher quality than in previous years and very much in line with BCPP observations in 7.2.7 above.

7.3.4. Examples of how the Fund and its other Investment Managers integrate stewardship and investment include:

A. Passive Global Equity – Legal & General (LGIM):
Although LGIM do not actively choose the investments in the underlying companies within the index, they aim to use their influence and scale to promote better regulation to improve the entire market as a key driver of long-term growth. This includes working

with key policymakers, such as governments and regulators, and collaborating with asset owners to bring about positive change. A key pillar of their approach to index strategies is active ownership: encouraging companies to consider sustainability risks, develop resilient strategies and consider their stakeholders. Further information regarding their approach to ESG integration in relation to indexed funds can be found at: **LGIM How to integrate ESG into the investment process.**

LGIM have developed proprietary ESG scores for companies (**LGIM Methodology for rating companies**)
Through a partnership between the Index and Investment Stewardship teams, and have made them publicly available for thousands of companies who can identify and tackle gaps in their strategies and their disclosures, thereby contributing to better market outcomes. Their Stewardship Code 2022 can be viewed at **LGIM Active Ownership Report 2022.**
which provides further examples of their ESG integration.

B. Direct property portfolio - Aberdeen Standard Investments (ASI):
ASI have developed an Impact Dial tool which the Fund plans to access. ASI's ESG Impact Dial tool groups material sustainability indicators into four main categories:

PLANET	PEOPLE	PROCESS	PROGRESS
Environment and Climate Change	Demographics	Governance and Engagement	Technology and Infrastructure
Biodiversity	Vulnerability & Inclusion	Diversity & labour Rights	Digital Connectivity
Land and Water Contamination	Affordability	Occupier Engagement	Physical Connectivity
Outdoor Air Quality	Accessibility and Experience	Occupier Quality	Smart Connectivity
Noise Pollution	Employment, Skills and Enterprise	Partnerships	
Public Realm & Cultural Value	Occupier Wellbeing		
Carbon and Energy Reduction			
Water Efficiency			
Waste and Circularity			
Climate Resilience			

These categories inform the Real Estate ESG House View. This approach will allow the identification and promotion (where relevant) of material ESG risks and opportunities relevant to a fund's investment strategy, sector and geography. These will guide the prioritisation and integration of ESG factors at the fund and asset level, whilst providing a structure for engagement with, and reporting to stakeholders.

Further detail is included in their Stewardship Code 2022 which can be viewed at:
ASI Stewardship Report 2022
Pages 37 & 38 include an ESG Impact Dial case study which provides an example of the output of using this analysis.

C. Infrastructure - JP Morgan (JPM) Infrastructure Investment Fund (IIF)
JPM use a 10-metric framework for ESG integration when evaluating opportunities. This framework prioritises key components of ESG that fit within the organisations strategy, risk management systems and culture namely safety; culture; customer; community; cyber and climate. For further information see 'ESG Integration' Report at

Examples of how JPM has worked with some of the assets held in the Global Infrastructure portfolio to maintain and improve ESG activities include:

- IIF portfolio companies contributing to the energy transition. In addition to 9.4 GW of renewable capacity and over 25% of the Fund invested in renewables through Renantis, Sonnedix, Ventient and Onward's wind/solar platform, IIF's portfolio is contributing in the transition to a low carbon economy through investment in renewable energy and decarbonization technologies, while reducing emissions of the more carbon-intensive assets.

- Adven committed to providing customers with heat, steam and electricity and partnering with customers to reduce GHG emissions in its own energy production and also customer emissions.

- BWC Terminals continues to expand its partnership with customers across geographies to reduce fossil fuel usage through Renewable Fuels storage and distribution.

- El Paso Electric delivers energy efficiency programs to help relieve the energy burdens faced by low-income families to provide increased comfort and healthier homes - in 2022, the New Mexico EnergySaver Program helped 378 qualified customers by installing a variety of energy efficiency measures like attic insulation, duct sealing and air infiltration, smart thermostats and LEDs.

Further information regarding their approach to ESG integration can be found in the following report at **JPM ESG Integration 2023.**

7.4. Future improvements

7.4.1. The improvements in responses to private manager questionnaires from last year have led to much greater disclosure of information. For example, this year Partners Group included details of how they excluded a company from their portfolio after uncovering non-compliant practices during their ESG due diligence: this was a private a debt opportunity in an industrial company that they found had been repeatedly fined due to violations of environmental regulations. Since the company had no action plan to improve its environmental performance, the Investment Committee declined the transaction based on a strong recommendation from their ESG & Sustainability Team.

7.4.2. The Fund plans to continue to work with Investment Managers to make improvements in asset classes that are less developed in this area, for example:

- The Fund will maintain a dialogue with Investment Managers about the extent to which ESG factors are incorporated into RFPs for Alternatives etc, & plan to enhance this going forward; and

- The Fund will continue to develop the annual ESG questionnaire it sends to managers (7.3.3 above) See **Principle 8**.

PRINCIPLE 8: Signatories monitor and hold to account managers and/or service providers.

8.1. Introduction

8.1.1. As described in **Principle 7** ESG integration involves assessing, monitoring and engaging with investment managers. The monitoring aspect is covered in more detail within this Principle. By closely monitoring investment managers and other service providers, the Fund can continuously review their policies, procedures and portfolio positioning to ensure alignment with the Fund's underlying investment beliefs and objectives. The Fund monitors its investment managers and service providers, to hold them to account in the following ways:

8.2. Investment Managers

8.2.1. Ongoing performance is reviewed quarterly in addition to the annual and longer-term investment performance being reviewed in detail. The Fund operates a three tier performance monitoring framework:

8.2.2. <u>Tier 1: Officers and Advisors</u> undertake detailed monitoring of Investment Managers. This includes the following activities, the outcomes of which are subsequently summarised and reported at tier two and three as appropriate.

a. Quarterly monitoring of investment performance of the Investment Managers against both benchmark and target returns.

b. Monitoring ESG activities - since 2021 the Fund has sent out an annual RI-ESG questionnaire to all investment managers for completion. The questions were designed to assist with production of this Stewardship Report, whilst at the same time improving the Fund's current level of understanding of their Investment Managers activities in this area. All Managers responded within the given timescale and the information provided has been reviewed internally. This questionnaire is updated on an annual basis to further enhance the Fund's understanding of the work undertaken on our behalf by Investment Managers across all asset classes.

c. Annual meeting with key Investment Managers - Officers and Advisors meet with managers which hold greater than 4% of the total Fund investments including future commitments formally at least annually and report their findings from these meetings to the ISG.

d. An annual review of Investment Manager Internal Control Reports - this review seeks to ensure that Managers exercise reasonable care and due diligence in its activities on behalf of the Fund. Any concerns identified are reported to the Committee and the managers are challenged to explain any weaknesses.

e. All investment managers have clear written mandates, governed by the Fund's strategic objectives and Pension Investment Regulations and are reviewed regularly by officers and the Committee.

f. Local Authority Pension Performance Analytics (LAPPA): Using LAPPA (through PIRC) enables the Fund to view its investment performance within a long-term, peer group context and provides some insight on the degree of skill that is being brought to bear on the Funds management, enhancing governance and improving decision making. The peer group Universe constructed by LAPPA currently comprises 63 funds with an aggregate value of almost £250bn (over two-thirds of local authority pension fund assets). The Fund receives quarterly reports.

g. CEM Benchmarking: CEM benchmarking compares cost, performance and risk against a universe of local and global public and private pension funds. The annual CEM report provides an independent means to validate strategy and provide accountability.

8.2.3. Tier 2: the ISG monitors individual manager performance on a quarterly basis. 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 Pensions Committee.

8.2.4. Tier 3: The Pensions Committee review the total Fund investment performance against its bespoke total benchmark return and receive a report on performance from the ISG (both on a quarterly basis). The Pensions Committee is responsible for strategic decision making and oversight; and makes 'hire/fire' decisions of managers or holds a review meeting with managers if escalated from the ISG.

8.3. **Monitoring of the Fund's chosen pooling provider - BCPP:**

In recognition of the important role that BCPP plays, the Fund – along with its partner funds in the pool - has enhanced monitoring arrangements with the company. These are described in **Principle 2** at sections **0** and **2.3.5** of this report.

8.4. Monitoring other Service Providers

8.4.1. Investment Advisors: Committee members are surveyed regularly for their views on quality of advice given by the Investment Advisors. Furthermore, the Investment Advisors are monitored annually against an agreed set of objectives. Monitoring during 2022/23 identified that the service provided met the needs of the Fund.

8.4.2. Investment Consultants: In line with good practice, Pensions Regulator guidance and the Competition and Markets Authority requirements, the Fund's Investment Consultants are monitored annually against an agreed set of objectives. These objectives are reviewed on a regular basis. The Fund did not utilise the services on an investment consultant during 2022/23.

8.4.3. Custodian: Performance is assessed on a quarterly basis against a number of key performance indicators (KPIs) and on at least an annual basis in a formal review meeting. Monitoring during 2022/23 identified that the service provided met the needs of the Fund.

8.4.4. Pensions Administration: The Fund meets with senior officers of Local Pensions Partnership – Administration (LPPA) on a quarterly basis to review the performance against a number of key performance indicators. A Director from LPPA attends the LPB on a quarterly basis to provide an update to LPB members on key issues within LPPA and across the LGPS. Outside of these formal meetings, Officers liaise with LPPA managers on a regular basis to keep updated on developments and understand any emerging issues. Monitoring during 2022/23 identified that the service fell short of agreed performance targets. This was in part, due to LPPA's migration to a new administration system during which time the Fund agreed relaxed performance targets. Officers continue to work with and challenge LPPA to ensure that they return to the high quality of service the Fund aims to provide to scheme members and employers within the Fund.

8.4.5. Actuary: Monitoring takes place via annual review meeting with officers and regular feedback during the year. Monitoring during 2022/23 identified that the service provided met the needs of the Fund.

8.4.6. Legal Advisors: Monitoring takes place via annual review meeting with officers and regular feedback during the year. Monitoring during 2022/23 identified that the service provided met the needs of the Fund.

PRINCIPLE 9: Signatories engage with issuers to maintain or enhance the value of assets.

9.1. Introduction & rationale for the Fund's approach to engagement

9.1.1. A key tenet of the Fund, as set out in its ISS, is that 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 ESG factors (including climate change) into investment decisions, can help to improve the long-term value for investors.

9.1.2. 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 recognises that, as a medium-sized LGPS pension fund, it has limited resource and is one voice among many shareholders. Furthermore, the Fund employs external fund managers through which it makes its investments. As such, to ensure that it achieves the best outcomes in relation to active engagement, the Fund works collectively with others. The Fund does this through three key means:

- Working with BCPP and our partner funds to agree well-informed and precise objectives for engagement;
- Working with the Fund's other investment managers to ensure that their approach to engagement is in line with the expectations of the Fund; and
- Through the Fund's membership of the Local Authority Pension Fund Forum (LAPFF).

9.2. Working with BCPP and our partner funds

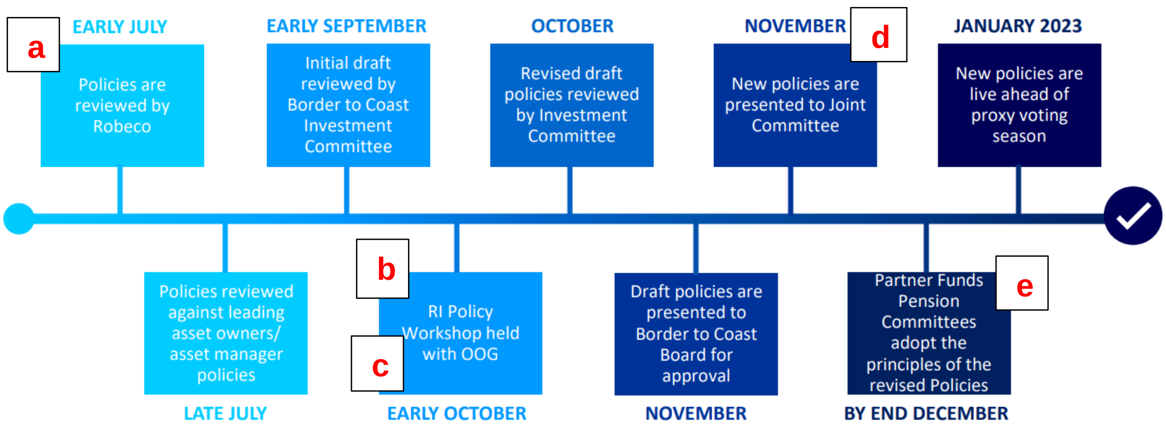
9.2.1. One of the key benefits of pooling for the Fund is the 'collective voice' that pooling assets with other like-minded LGPS funds can bring. To achieve this the Fund has worked with BCPP and partner funds to formulate the company's approach to RI and active engagement to ensure that (a) it is aligned to the policies of the partner funds (including Cumbria), and (b) that there is appropriate monitoring and challenge to ensure the company's approach continues to be in line with partner fund requirements.

9.2.2. As previously noted in this report, full details of the BCPP's approach to responsible investment can be found at: **https://www.bordertocoast.org.uk/sustainability/**. This includes the company's **RI Policy ,Corporate Voting Guidelines** and **Climate Change Policy** which form the framework through which BCPP undertakes engagement and voting work on behalf of Cumbria and other partner funds in the pool.

ENGAGEMENT **PRINCIPLE 9 – Engaging with issuers to maintain or enhance asset value**

9.2.3. BCPP - developing and reviewing objectives: BCPP's RI and Voting policies were originally developed by BCPP in 2017 in conjunction with its partner funds (including Cumbria). Since then, the policies have been formally reviewed annually to reflect developments in best practice and regulation. In addition to this, the policies are also reviewed and revised in response to material developments such as changes in regulations.

9.2.4. The annual review process is as follows:



Notes on process diagram:

a The review process includes an evaluation by Robeco (BCPP's voting and engagement advisor) considering the global context and best practice. In 2022/23 this included consideration of the International Corporate Governance Network[36] (ICGN) Global Governance Principles, the UK Corporate Governance Code and the UK Stewardship Code. The policies of best in class asset managers and asset owners considered to be RI leaders were also reviewed to determine how best practice has developed.

b & c To assist in the review process, the company has held a number of meetings, workshops and training sessions with Officers and Members from the 11 Partner Funds. This included:

- a workshop for partner fund Officer Operations Group (OOG) and Advisors on the policy review (22 October 2022); and
- a seminar for the BCPP Joint Committee to discuss in depth the proposed revisions to the policies (15 November 2022).

d The output of this work was then reflected in the policies and the revised documents were both considered by the BCPP Joint Committee (30 November 2022). At that meeting the

[36] International Corporate Governance Network - investor-led organisation to promote effective standards of corporate governance and investor stewardship to advance efficient markets and sustainable economies world-wide.

ENGAGEMENT **PRINCIPLE 9 – Engaging with issuers to maintain or enhance asset value**

Committee agreed to support the revised policies being taken to partner fund Pensions Committees for comment and for them to consider adoption of the principles in their own RI policies in line with industry best practice.

e At its meeting on 14 March 2023 the Cumbria Pensions Committee considered the revised policies and noted that the policies continued to be aligned to the underlying principles of the Fund's Investment Strategy Statement[37].

9.2.5. BCPP - Methods of engagement: BCPP's approach to engagement varies depending on the asset class and ownership structure. As such their strategy for engagement includes several different strands:

- Direct engagement by BCPP's internal portfolio managers with companies within their portfolios;
- External managers and Robeco engaging with companies on BCPP's behalf; and
- Working with a number of RI initiatives. These include Climate Action 100+. The 30% Club Investor Group and the Taskforce on Climate-related Financial Disclosures (TCFD), as detailed in **Principle 10** (**10.4.1**).

In addition to this, RI criteria are integrated into BCPP's due diligence process within Private Markets and the company prioritises engagement with the general partners ahead of investment to ensure managers meet its requirements in this area.
Key engagement themes are reviewed on a three-yearly basis using their Engagement Theme Framework and consulting with Partner Funds. The key engagement themes from 1 April 2022 are:-

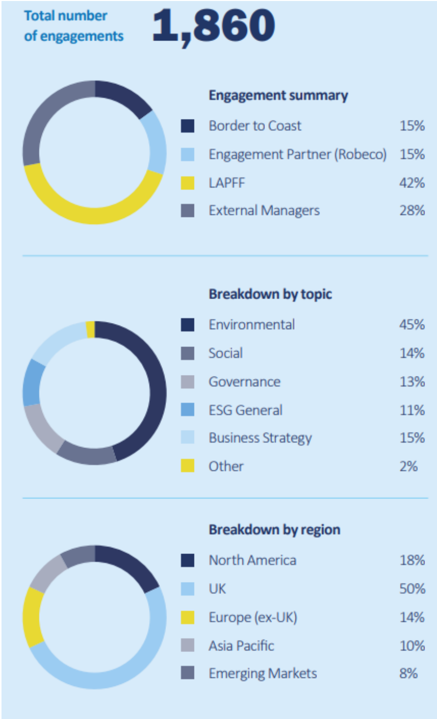
- Systemic: Low Carbon Transition
- Environmental: Waste & Water Management
- Social: Social Inclusion through Labour Management; and
- Governance: Diversity of Thought.

The company used the themes in deciding its priorities: in working with Robeco; in considering which collaborations to join; to give focus to its reporting; and in aspects of its investment process for both internally and externally managed mandates.

As well as engaging with companies, BCPP also engage with policymakers, regulators and other industry bodies on RI-related issues. Some of the ways they do this include membership of industry bodies and initiatives, responding to consultations and engaging with service providers.

[37]**https://westmorlandandfurness.moderngov.co.uk/CeListDocuments.aspx?CommitteeId=440&MeetingId=2485&DF=14%2f03%2f2023&Ver=2** (Item 11 section 3.4)

ENGAGEMENT **PRINCIPLE 9 – Engaging with issuers to maintain or enhance asset value**



Sourced from BCPP RI & Stewardship Report

9.2.6. BCPP - Outcomes of engagement: BCPP produces regular reporting on the active engagement it undertakes[38] on behalf of the Fund and our partner funds. Details of this can be found at: **https://www.bordertocoast.org.uk/?dlm_download_category=engagement**. The reports found at this link provide further detail of engagement activities undertaken by BCPP on behalf of the Fund, and the example below provides a flavour of engagement work undertaken and the outcomes:

Engagement with Anglo American Plc (UK listed equity)

- *Reason for engagement: Waste and water management is one of the four priority engagement themes implemented from April 2022. Water security risk is a major issue for the mining industry which relies heavily on water across its various operations.*
- *Objectives: To better understand the company's water stewardship approach.*
- *Scope and process: Engagement meetings were held management, including the CEO, to discuss water scarcity issues and potential mitigants. Water scarcity is a complex issue with each mine facing unique challenges.*
- *Outcome: The company is made good progress in this space. Anglo American plan to swap every kilolitre of desalinated water for two litres of wastewater from Santiago, which it can use in its mining operations. This innovative approach showcases the company's commitment to water stewardship and the impact of water scarcity on its production and acquiring new licenses in water scarce regions.*

[38] BCPP uses Robeco Active Ownership services to do this.

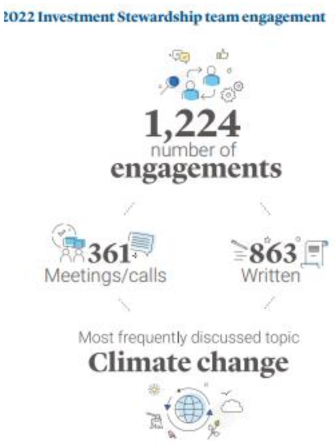
9.3. Working with the Fund's other investment managers

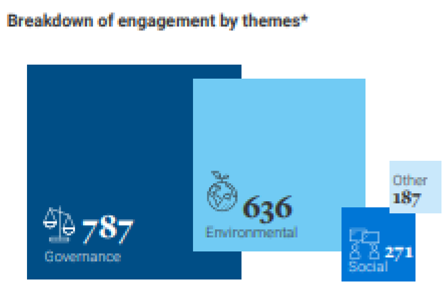
9.3.1. In addition to investing through BCPP, the Fund currently also invests with a number of other investment managers. The second largest investment manager in terms the value of the Fund's investments with them is LGIM – as at 31st March 2023 the Fund had approx. £617m of assets with LGIM and approx. £1,415m with BCPP.

9.3.2. As an investment manager with approximately £1tn+ assets under management, LGIM has a significant voice. Like the Fund, LGIM believes that RI is crucial to mitigate risks, capture opportunities and strengthen long-term returns. As such active engagement with companies and policymakers is a key component of LGIM's approach to RI[39].

9.3.3. Given LGIM's scale, it is able to engage with the companies it believes can set an example in their sectors but also, crucially, with the regulators and policymakers that set the rules. Particularly given the scale of their assets in index funds (in which Cumbria is an investor), LGIM sees working to promote better regulation to improve the entire market as a key driver of long-term growth.

9.3.4. During the most recent annual reporting period (to March 2023) LGIM actively engaged in a number of areas as summarised below – full details of these activities can be found at: **LGIM Active Ownership Report 2022**





Sourced from: LGIM Active Ownership report

[39] Details of LGIM's Global Corporate Governance and Responsible Investment Principles can be found at **https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/lgim-global-corporate-governance-and-responsible-investment-principles.pdf**.

ENGAGEMENT **PRINCIPLE 9 – Engaging with issuers to maintain or enhance asset value**

Sourced from: LGIM Active Ownership report.

9.3.5. LGIM - Outcomes of engagement: During 2022 LGIM expanded the scope of their LGIM Climate Impact Pledge engagement programme (CIP) (**LGIM CIP Report 2023**). Their CIP is a targeted engagement campaign started in 2016 to address the systemic risk of climate change. It now covers 43% of total corporate securities by value that LGIM invests in on behalf of clients (up from below 10% in 2020) and 67% of the total emissions attributable to LGIM's holdings.

9.3.6. During the year a successful engagement led LGIM to reinstate one previously divested company (Japan Post Holdings (ESG Score: 41; +3)) into a range of funds and they divested from two companies China Resources Cement (ESG Score: 8; +1) and Invitation Homes (ESG Score: 53; +2) for failing to satisfactorily meet LGIM's expectations. The number of companies subject to voting sanctions fell by more than 35% since 2021, highlighting improved practices and disclosures following an increased global focus on climate change.

Private Manager engagement: e.g. JP Morgan – Infrastructure Investments Fund

- *Reason for engagement: Reducing carbon intensity over time, setting carbon reduction goals and working together with stakeholders and regulators to provide essential services to customers is critical to El Paso Electric's ("EPE") business.*
- *Objective:* Through IIF's ownership (100%), asset management and governance structure the team would work with management to set specific carbon reduction goals with action plans in place.
- *Scope: During the last year, EPE established a new mission to transform the energy landscape though new generation, a modernized grid, transportation electrification and enhanced customer options, which included the adoption of bold carbon-free energy goals defined by a commitment to 80% carbon-free energy by 2035 and the pursuit of 100% decarbonization of generation portfolio by 2045. Key issues were working together with the regulator and other stakeholders on setting these goals as well as putting a 5 step action plan in place.*
- *Outcome: Goals were set and published: 80% carbon-free energy by 2035; 100% pursuit of decarbonization of generation portfolio by 2045.*

9.4. Membership of the Local Authority Pension Fund Forum (LAPFF)

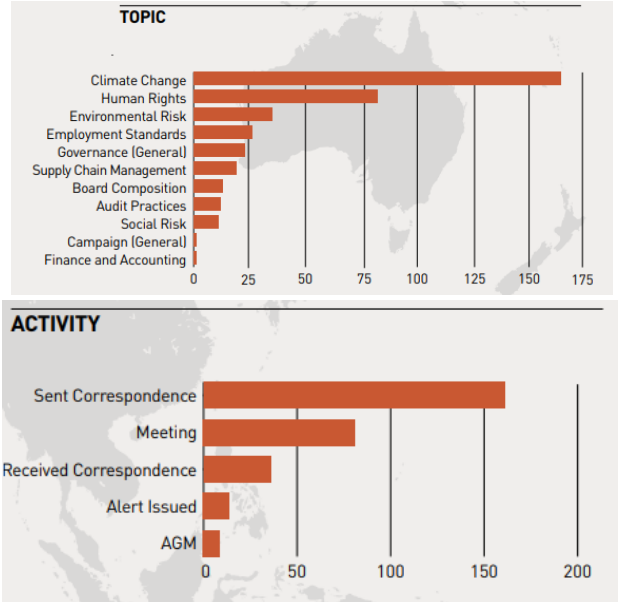
9.4.1. Cumbria LGPS is a member of LAPFF. LAPFF is a collaborative shareholder engagement group which brings together 87 local authority pension funds and 7 pools (including BCPP) from across the UK with combined assets of over £350 billion. As such the Fund is able to enhance its own influence in company engagement by collaborating with other Pension Fund investors through the Forum. LAPFF is a network organisation and a service provider, not an asset owner or asset manager, so it has no conflicts of interest in terms of company ownership. 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.

9.4.2. LAPFF's approach to engagement is to build relationships with companies, where possible, and provide robust challenge. It also aims to engage with a broad range of stakeholders to understand as fully as possible the complete set of operational, reputational, legal, and financial risks facing companies and investors.

9.4.3. LAPFF - Developing and reviewing objectives: The LAPFF Executive Board discusses new development areas in its annual strategy meeting, and how they can be addressed through Engagement. These areas are then presented to LAPFF Members where input is sought on the most pressing engagement issues for the forthcoming year, potential policy developments, and comments on fund manager voting policies as an example. LAPFF hold quarterly business meetings and an Annual Conference which a representative of the Fund regularly attends to ensure the Fund has a full understanding of the work undertaken and to facilitate input into the work programme of LAPFF.

9.4.4. LAPFF - Methods of engagement: Like BCPP, LAPFF uses a number of methods of engagement. During 2022 LAPFF engaged with 547 companies (which included 368 letters to the FTSE All-Share on presenting their climate transition plans for approval at AGMs) on a range of different ESG issues. Its methods of engagement and stewardship activities are presented in the charts below:

ENGAGEMENT **PRINCIPLE 9 – Engaging with issuers to maintain or enhance asset value**



Sourced from: LAPFF Annual Report 2022.

9.4.5. LAPFF - Outcomes of engagement: As joint lead investor in the Climate Action 100+ collaborative initiative, LAPFF continued its long-term engagement with National Grid. Five meetings were held over the year. LAPFF welcomed the company's decision to put its plans to the vote at the AGM, however they ultimately advised members to oppose the plan. LAPFF attended the AGM and noted the importance of government, companies and regulators working constructively together to address the energy transition. The Chair thanked LAPFF for the quality of engagement undertaken. Engagement has continued to identify and unlock potential policy barriers to the delivery of decarbonisation in the power and utilities sector.

9.4.6. The long-awaited publication of the second Group Climate Action report was followed by another meeting to discuss company progress. This progress was evident in the new group-wide emission intensity reduction target for 2030 of 25%, and 35% for Europe. LAPFF commended the strengthening of targets and announcements of zero carbon steel plants in Spain, where the Sestao plant is set to become the world's first full-scale zero carbon-emissions steel plant. There is also a new plant in Canada. Additionally, on request the report included mapping company progress against the CA100+ benchmark which can inform investor voting.

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9.4.7. With increased global levels of production for electric vehicles (EVs), there is an increase in demand for the minerals required to create the batteries that power these vehicles. LAPFF has sought to engage EV manufacturers to discuss their approaches to responsible mineral sourcing, human rights and supply chain due diligence and met with representatives from BMW, Mercedes and Ford during the year to discuss their approaches.

PRINCIPLE 10: Signatories, where necessary, participate in collaborative engagement to influence issuers

10.1. Introduction

10.1.1. Effective collaboration forms an important part of the Fund's approach to investment and is incorporated in the Funds investment beliefs as described in **Principle 1** at **1.2.4**. Accordingly, the Fund collaborates in a number of ways through different organisations and arrangements as summarised below.

10.2. LAPFF

10.2.1. As noted in **Principle 9** at **9.4** LAPFF is a key mechanism through which the Fund seeks to participate in collaborative engagement. Through its membership of the Forum the Fund is involved in a range of engagement activities and these include wider collaborations such as:

10.2.2. Votes Against Slavery: Rathbones' Votes Against Slavery engagement is a collaborative engagement, drawing support from 122 investors with assets under management totalling £9.6 tn. LAPFF supported this engagement, which targets companies failing to comply with Section 54 of the Modern Slavery Act. LAPFF met with three companies alongside Rathbones and other investors this year: Segro, Synthomer and ITV. These engagements were subsequent to the companies complying with the Modern Slavery Act. However, LAPFF impressed upon the companies the benefits of more transparent reporting around grievance mechanisms and remediation processes. LAPFF continues to engage on modern slavery and other labour issues widely across engagements, and is looking at potential target companies for future engagement.

10.2.3. Say on Climate: LAPFF continued its active involvement encouraging companies to put their climate transition plans to shareholders for approval. Together with Sarasin and Partners and the Children's Investment Fund Management (TCI) LAPFF wrote to the FTSE All Share to request that boards set out their strategy to manage the transition to net zero emissions business operations. They requested that companies provide shareholders with the opportunity to support disclosure of greenhouse gas emissions and reduction plans by putting an appropriate resolution on their 2022 AGM agenda. There was a good response to this correspondence, with many company chairs indicating that they were actively considering how to best report back to shareholders and ensure endorsement of appropriate strategies. One example was the London Stock Exchange Group, with whom LAPFF had an instructive meeting. The company provides guidance on reporting to encourage and engage companies, as well as having made progress with its own internal targets.

10.2.4. LAPFF has supported ShareAction's Healthy Markets Initiative and the Access to Nutrition Index (ATNI), throughout the year. Notably, LAPFF has co-led on an engagement with Kellogg's. The Healthy Markets Initiative has evolved into its 'Long Term Investors in People's Health Initiative' which looks to engage on health more widely than nutrition and food. LAPFF has joined and will seek to engage through this updated initiative. LAPFF also continues to support the ATNI and will continue to co-lead on the Kellogg's engagement, aiming to support and encourage the company in a positive direction as it moves towards its brand split in 2023.

10.3. BCPP

10.3.1. As previously noted the Fund collaborates with BCPP and other partner funds on an ongoing basis. This includes quarterly RI workshops with BCPP and partner funds which work collaboratively to consider RI issues and coordinate responses to maximise the impact of the partner funds. At these workshops current RI issues and engagements are discussed and proposed responses to consultations and initiatives shared. There are opportunities to share resources to maximise the impact of partner funds and BCPP through a collaborative approach to our shared interests. More recently partner funds have developed a Working Group to work collaboratively and share ideas to assist with drafting their Task Force on Climate-related Financial Disclosures (TCFD) Reports.

In addition to working collaboratively with partner funds on RI and engagement matters, BCPP has also been involved in wider collaborative engagement including:

10.3.2. Cybersecurity: BCPP are members of a collaboration led by Royal London Asset Management focused on cybersecurity. They found that regulators in the financial services, infrastructure and healthcare sectors have increased their scrutiny and risk oversight in this area. In acknowledgement of this, the initiative plans to focus on companies with a history of poorer cybersecurity performance, moving away from the more heavily regulated sectors.

10.3.3. Emerging Markets Just Transition Investor Initiative: BCPP is a founding member of this initiative created in May 2022 to explore how best to support the transition in emerging markets. It recently published draft guidance to support investment decision making and future allocations to emerging markets.

10.3.4. Global Investor Statement: In September 2022, along with 530 other investors, BCPP signed the 2022 Global Investor Statement to Governments on the climate crisis. The statement urges governments to implement policies consistent with a just transition limiting global temperature rise to 1.5°C.

10.3.5. Contributing to UK Government direction: In autumn 2022 the Government conducted a review of its net zero target and the UK's approach to meeting that commitment. BCPP provided feedback to this review, highlighting their Net Zero Implementation Plan. They highlighted the need for government support for industry-led collaboration to address inconsistencies in the quality and availability of data across all asset classes.

10.4. Other collaboration and future improvements:

10.4.1. Indirect Collaboration: Through its membership of LAPFF and ownership of BCPP the Fund is indirectly involved in the following collaborative organisations:

- Asia Transition Platform
- Climate Action 100+
- ESG Data Convergence Initiative (ESDI)
- FCA Vote Reporting Group
- Institutional Investors Group on Climate Change (IIGCC)
- Investment Association
- Investor Mining and Tailings Safety Initiative
- LGPS Cross Pool RI Group
- Local Government Pension Scheme Advisory Board Code of Transparency
- Net Zero Asset Managers initiative
- Occupational Pensions Stewardship Council
- Task Force on Climate-related Financial Disclosures (TCFD)
- Transition Pathway Initiative (TPI)
- UK Pension Schemes RI Roundtable
- United Nations supported Principles for Responsible investment (PRI)
- Workforce Disclosure Initiative (WDI)
- 30% Club

10.4.2. Future improvements: The Fund is also working to improve how it engages with its other investment managers (see **Principles 7** & **8**) on their approach to collaborative engagement and exploring participation in further collaborative initiatives during 2023/2024.

PRINCIPLE 11: Signatories, where necessary, escalate stewardship activities to influence issuers.

11.1. Activity

11.1.1. **BCPP**: to ensure its expectations regarding stewardship activities are met by BCPP the Fund works closely with the company and partner funds to develop and review BCPP's **RI Policy** ,**Corporate Voting Guidelines** and **Climate Change Policy**. Further details of working with BCPP and our partner funds is set out in **Principle 9** (**9.2**). The company's agreed approach to escalation is set out in section 6.2.2 of its **RI Policy** and is as follows:

BCPP believe that engagement and constructive dialogue with the companies in which it invests is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result escalation may be necessary. A lack of responsiveness by the company can be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares.

11.1.2. **LGIM:** Their engagement processes are based on targeting specific outcomes and leveraging influence to achieve them. They do this through a package of measures that they can escalate in a structured manner. These range from voting sanctions to collaborative engagement and the pre-declaration of their views, with filing shareholder proposals or potential divestment as last resorts. Where LGIM have filed or collaborated on select proposals, they have found that they have been an effective means of escalation – both at the individual company level and for market-wide change more broadly. (see **11.2** below).

11.1.3. **Other Investment Managers**: in the case of other Investment Managers, the Fund recognises that its scale means that it may have limited 'levers to pull' to materially beneficially influence the overarching policies of its Investment Managers. The Fund seeks to ensure that its expectations regarding stewardship activities including escalation are met through selecting and appointing 'best in class' managers and monitoring them on an ongoing basis.

Pantheon (private Equity manager): If engagement with a General Partner is unsuccessful, Pantheon would seek to leverage any available board and advisory seats to further engage in resolving the issue. The ultimate sanction is to decline to invest in the next fund which is a relatively powerful tool as private equity and Infrastructure managers return to their investors every 3-5 years to raise new capital and are generally dependent on the support of their existing investors

11.1.4. In addition to this, as previously noted the Fund seeks to further expand its ability to influence issuers through its membership of LAPFF. Details of LAPFF's approach to escalation are set out in its **Annual Report** but in summary:

- As a matter of course, LAPFF does not advocate for divestment, but rather for funds to use their holdings, in collaboration with likeminded investors, to engage companies for more desirable outcomes. Promotion of investor engagement is the purpose of LAPFF voting alerts. Tools and initiatives such as Say on Climate are designed to bring about robust dialogue between investors and companies, but dialogue that provides clear expectations that companies can achieve. There are other tools for engagement escalation if it is felt that companies are not being responsive, such as the filing of shareholder resolutions.

    - A major focus of LAPFF's work is improving company approaches to climate change to reduce the related financial risks. To strengthen the approach, LAPFF started a new voting initiative, extending the coverage of LAPFF voting alerts on climate-related proxy proposals. Proposals are assessed on whether companies are meeting the expectations LAPFF has of companies, including those within LAPFF's responsible investment policy guide. At the Caterpillar AGM, management backed the resolution on Climate Transition Planning which received the support of 96 percent of votes. There were significant votes in favour of shareholder resolutions at Monster Beverage (44 percent in favour of a report on the company's plans to reduce GHG emissions) Dollar Tree (55 percent of votes in favour of Climate Transition Planning) and J-Power (26 percent of votes in favour of a business plan with science-based short- and medium-term Paris-aligned emissions reductions targets). The intention is for the initiative to ratchet up over next year's AGM season.

11.2. Outcomes

11.2.1. **LGIM:** In late 2022, LGIM elevated their work on an engagement campaign with McDonald's. For the last two years they have supported shareholder proposals filed at McDonald's, pre-declared votes in relation to these resolutions, and engaged with the company. They also signed a collaborative investor letter under the leadership of Interfaith Centre on Corporate Responsibility (ICCR) asking the company to publish targets related to the reduction of medically important antibiotics for the routine prevention of disease in its global beef supplies, which in 2018 they had announced that they would do by end of 2020. Given insufficient progress on these issues, they decided it was time to further escalate concerns. During the autumn of 2022, they were approached by The Shareholder Commons to co-file a shareholder proposal asking McDonald's to apply the World Health Organization Guidelines on Use of Medically Important Antimicrobials in Food-Producing Animals throughout its supply chains. They co-filed the shareholder proposal on 1 December 2022. At the AGM in May 2023 the resolution received 18% shareholder support. The company has since released its antibiotics reduction targets, two years after the initial deadline. However, LGIM do not deem that to be sufficient progress. LGIM will continue to work with the company, both individually and collaboratively with other shareholders over the course of 2023 and beyond.

EXERCISING RIGHTS & RESPONSIBILITIES

PRINCIPLE 12: Signatories actively exercise their rights and responsibilities

12.1. Introduction

12.1.1. Exercising Shareholder rights and responsibilities is fundamental to improving investment outcomes. As an asset owner, the Fund must make best use of these rights in order to manage a sustainable and solvent Local Government pension fund on behalf of current and future members of the Fund.

12.1.2. The Fund recognises that there are regional differences in corporate governance standards and company behaviour. Furthermore, there are also differences between asset classes. The Fund exerts its influence through voting and other means with the aim of getting the best outcomes in the context of each market and asset class it is invested in. Paragraph **12.3** below summarises the Fund and its investment managers' approach to listed equities, whilst para. **12.6** below summarises the approach to other asset classes.

12.2. Expectations of asset managers

12.2.1. The Fund's expectations of asset managers are aligned to its statement of investment beliefs. The Fund's investment beliefs are detailed in our ISS but in summary, our key expectations are:

A. As a long-term investor, Environmental, Social and Governance (ESG) considerations should be a fundamental element of the investment process (both in terms of risk and reward).

B. Investment managers are responsible for stock selection however the Fund recognises that it cannot delegate its responsibility and is accountable for effective stewardship. As such the Fund monitors investment manager performance against appropriate benchmarks and undertakes manager reviews to ensure managers continue to meet its expectations.

C. It is important that managers take a long-term perspective, but also recognise the implications of shorter-term market volatility.

D. Good governance improves the quality of decision-making and this tenet should be reflected in the investment approach taken by managers.

E. All investments have a degree of financial risk, but financial risk should only be accepted where a manager has a strong belief that the investment will be rewarded for it – financial risk includes ESG considerations.

F. Investment risks that are not sufficiently compensated should be mitigated, managed or avoided if possible.

G. Managers should continually consider all risks in their investment process by ***investing responsibly***, including ESG factors:
   i. ESG factors, such as climate change, can have a material impact on the value of financial assets in the long term. Managers should be a responsible investor and incorporate ESG factors into investment decisions to help to improve the long-term value for investors.
   ii. We believe that the best way to be a responsible investor and to influence policy change is not through divestment but through active engagement. The Fund expects managers to apply this approach to the funds that it invest in unless explicitly stated otherwise.
   iii. Managers should lead by example by ensuring they are an active shareholder.

12.3. Listed equity assets – the Fund

12.3.1. The Fund does not directly hold shares – its investments in listed equities are made through investment managers into pooled investment funds. As such the Fund votes on shareholder resolutions through proxy voting arrangements (as set out at **12.3.4**, **12.4.2** and **12.5.2** below). The Fund's holdings in listed equities are managed as follows:

- **Actively managed equities** – by BCPP (the pensions pooling company jointly owned by the Fund and 10 other Partner Funds); and
- **Passively managed equities** - by LGIM.

12.3.2. Investment managers are expected to approach the subject of voting with the same care and attention as other matters which influence investment decisions and 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, investment managers should liaise with the Fund as appropriate. 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.

EXERCISING RIGHTS & RESPONSIBILITIES

PRINCIPLE 12 – Exercising rights & responsibilities

12.3.3. Officers hold regular Review meetings in addition to ongoing dialogue with asset managers, in which they communicate expectations of the Fund in respect of either voting (listed equities) or holding them to account (privately held companies). Effective stewardship is an integral part of performance reviews of all asset managers.

12.3.4. Fund voting policy: The Fund's voting policy is set out in its ISS (section 4.8)**.** As per the policy, responsibility for the exercise of voting rights is currently delegated to the investment managers, however, with BCPP, the Fund has the opportunity to override votes if considered appropriate. This is set out in the Stewardship section of BCPP's **RI Policy**. However, as this Policy has been created to reflect the views of Partner Funds in the pool including Cumbria such a situation is extremely unlikely to occur.

12.3.5. Monitoring shares and voting rights: The Fund formally monitors what shares and voting rights it has on a quarterly basis. Key steps include obtaining and reviewing detailed stock listings and voting reports from its investment managers and quarterly monitoring meetings with managers. The outcome of this quarterly process is reported to the Pensions Committee as part of the quarterly monitoring reports which are a standing item on the Committee agenda.

12.3.6. Reporting: The Fund publishes its voting activities on its website at: **Share Voting Records** In addition to this, the Pensions Committee is kept informed on relevant corporate governance issues arising during the period and details of this, including voting activity, is formally reported to it on a quarterly basis.

- An example of the reporting during the year ended 31st March 2023 can be found at section 7 of agenda item 11 of the Committee held on 14th March 2023[40]:

The Fund's Annual Report also incorporates disclosure of its voting and engagement activity. The Annual Report for the year ended 31st March 2023 is due to be published by 1 December 2023 and will be available on the Fund's website[41].

[40] **https://westmorlandandfurness.moderngov.co.uk/CeListDocuments.aspx?CommitteeId=440&MeetingId=2485&DF=14%2f03%2f2023&Ver=2**

[41] **https://www.cumbriapensionfund.org/**

12.4. Listed equity assets – BCPP

12.4.1. Voting policy: BCPP's **Corporate Voting Guidelines** set out the parameters for how votes are cast. The document is reviewed and updated annually following dialogue with partner funds including Cumbria. The policy is also reviewed by Robeco, using the International Corporate Governance Network Global Principles, the UK Stewardship Code and the UN Principles for Responsible Investment as benchmarks. The **Corporate Voting Guidelines** (which should be read in conjunction with BCPP's **RI Policy**) set out the voting approach in term of key areas of corporate governance e.g. . Climate Change; Company Board compositions; Director's remuneration; and other issues including stakeholder engagement, auditor independence, political donations, lobbying and shareholder rights.

12.4.2. Proxy voting arrangements: BCPP uses a proxy voting platform, with proxy voting recommendations produced for all meetings voted, that is managed by Robeco as the Voting & Engagement provider. Robeco's proxy voting advisor (Glass Lewis. Co) provides voting recommendations based upon BCPP's ***Corporate Voting Guidelines***. All of Robeco's voting recommendations are reviewed by the BCPP RI team and portfolio managers prior to votes being executed.

12.4.3. Stock lending: BCPP has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings, and lending can also be restricted including but not limited to, if the resolution is contentious, the holding is of a size which could potentially influence the voting outcome or BCPP has co-filed a shareholder resolution.

12.4.4. Reporting: Details of the voting activity undertaken by BCPP can be found at: **BCPP Investments - RI Voting Reports**. The reports covering the voting activity during the year 2022/23 for the three listed equity funds Cumbria Pension Fund is invested in are summarised below:

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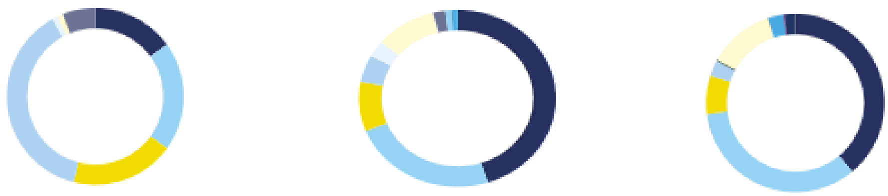
PRINCIPLE 12 – Exercising rights & responsibilities

	UK Listed Equity	Global Equity Alpha	Oversea Developed Markets Equity
Total number of meetings:	125	201	273
Total number of agenda items:	2,224	2,750	3,962

With management/ Against management

	UK Listed Equity	Global Equity Alpha	Oversea Developed Markets Equity
With management	93%	87%	88%
Against management	7%	13%	12%

Votes against by category



	UK Listed Equity	Global Equity Alpha	Oversea Developed Markets Equity
Board related	15%	45%	39%
Remuneration	20%	24%	34%
Audit	19%	9%	7%
Capital management	0%	5%	3%
Political donations	38%	3%	0%
Shareholder proposals	1%	10%	12%
Company statutes	1%	2%	3%
Meeting administration	0%	1%	0%
Other	6%	1%	2%

12.4.5. Details of votes withheld and abstentions are included in the quarterly voting reports. Examples include:

- Votes withheld: there were no votes withheld during the year. Prior year examples included re-election of directors where the nominee was Chair of the Nomination Committee & the Board had insufficient female directors at Fiserv Inc, Haliburton Co, Charter Communications Inc & Berkshire Hathaway Inc.
- Abstentions: insufficient information being provided in advance of the meeting relating to a shareholder proposal at Nestle SA and Nike Inc (see below).

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12.4.6. Details of all votes against management are included in the quarterly voting reports. Key areas included Board independence & diversity; Audit Committee independence; and Remuneration (including compensation / long term awards).

12.4.7. Details of abstentions are published on BCPP's website. One example during the year related to Nike Inc:

- At Nike's 2022 AGM, BCPP abstained on a shareholder proposal regarding the development of a policy to pause the sourcing of raw materials from China. It was assessed that Nike did not appear to have sufficient traceability of raw materials so was unable to identify whether they were linked to forced labour issues. BCPP agreed with the spirit of the proposal but the wording of the resolution was deemed too restrictive and not in shareholder's best interests. This resolution was not approved by shareholders.

12.4.8. Details of all votes against management are included in the quarterly voting reports. Key areas of votes against management were:
- the appointment of Auditors where the tenure and/or the fees were considered to be excessive;
- Board appointments where Boards were deemed to lack sufficient diversity; and
- opposing all political donation due to reputational risks and democratic implications.

12.5. Listed Equity Assets - LGIM

12.5.1. Voting policy: LGIM notes that its voting activity forms an important part of its engagement strategy and that enables it to escalate its concerns through the use of shareholder rights. LGIM believes the most efficient and effective way of achieving mutual goals through voting and engagement is to speak with one strong voice. Further information relating to LGIM's voting can be found in the links below:
- The voting disclosure page: **LGIM Voting Disclosures**
- The quarterly ESG impact reports are uploaded at: **LGIM ESG Impact Reports**

Details of LGIM's stewardship policies can be found at: **LGIM Stewardship Policies**. The Cumbria Fund is invested in LGIM's World Equity Index.

12.5.2. Proxy voting: LGIM has a general stewardship policy supplemented by specific market polices. LGIM uses voting research from Institutional Shareholder Services (ISS) and Institutional Voting Information Service (IVIS), and voting decisions incorporate their own research analysis and engagement activities where appropriate. LGIM uses the ISS voting platform "ProxyExchange" to vote its shares. Details of how LGIM uses proxy advisory services can be found at: **https://www.lgim.com/landg-assets/lgim/_document-library/capabilities/how-lgim-uses-proxy-voting-services.pdf.**

12.5.3. Stock lending: Where there are no legal or practical impediments, LGIM aim to vote with every share they hold. There is currently no stock lending undertaken by LGIM in the UK market, so all shares are available for voting. For other markets, their stock-lending policies differ, with limits on the number of shares lent per fund and per stock. Nonetheless they have always retained a number of shares in each voteable stock to be able to note their approval, or dissent, through a vote via the shareholder meeting. Moreover, they retain the right of immediate recall of shares, should they deem this necessary or expedient.

In practice, they do not typically recall lent stock for voting on routine company meetings. However, if there were a material vote – for example, a potential takeover of a company that they owned at a price which they did not believe was in the best interests of shareholders, they would recall any stock that was out on loan in order to vote with 100% of their holding.

With regards to "empty voting" (i.e. the practice of borrowing shares with the primary purpose of voting those shares at a forthcoming AGM), as part of the programme LGIM's counterparties are not allowed to borrow for voting purposes.

12.5.4. Reporting: Details of the voting activity undertaken by LGIM across all its investments[42] can be found at: LGIM Voting Activity. Details of vote instructions are disclosed by LGIM on a per-meeting basis with the rationale for all votes cast against management available via the above link.

12.6. Fixed income and other asset classes

12.6.1. For assets other than listed equities, actively exercising rights and responsibilities is generally more challenging. This is because the Fund

[42] The figures in the charts reflect the voting activities across LGIM – i.e. they are not limited to the Fund's holdings in LGIM's World Equity Index pooled fund.

doesn't engage in direct investment itself but instead invests through external investment managers with the majority of these investments made via pooled funds. As such, the Fund has little or no ability to influence granular investment matters such as seeking amendments to terms and conditions in indentures or contracts; impairment rights; and seeking access to information provided in trust deeds. Instead, the Fund has sought to actively exercise its rights and responsibilities through investing with 'like-minded' investment managers and through the pooling of its investment assets with BCPP.

12.6.2. For example:

- As previously noted, the assessment of ESG issues is integrated into BCPP's investment process for all private market investments.
- BCPP note that a manager's ESG strategy is assessed through a specific ESG questionnaire, agreed with BCPP's Head of Responsible Investment, and reviewed by the company's Alternatives investment team.
- In 2021/22 BCPP implemented their internally developed ESG Scorecard which allows them to evaluate managers' ESG capabilities and target areas for improvement.
- Managers are requested to report annually on the progress and outcomes of ESG-related values and any potential risks. Ongoing monitoring includes identifying possible ESG breaches and following up with the managers concerned, as well as tracking improvements and targets met.
- Further details of the governance structure of BCPP and how this enables the Fund to have appropriate oversight of the company and hold it to account so as to ensure to the effective stewardship of the Fund's assets invested is set out in **Principle 2** at **2.3**

12.6.3. In addition to ensuring investment managers are the right 'fit' at the point of their appointment, the other key tools used by the Fund to exercise its rights and responsibilities for investments in assets other than listed equities are ongoing engagement with and the monitoring of its investment managers. The Fund has a long history of monitoring and engaging with investment managers on their investment performance. However, the Fund recognises that its approach to engagement with its investment managers on ESG and RI matters is an area which could be strengthened.

- An example of how the Fund is seeking to improve its engagement with investment managers on RI matters is the ESG questionnaire which is sent out to the Fund's investment managers on an annual basis. This was further improved during 2022 with additional questions included around their net zero commitments and climate-related risks. See 7.3.3.

12.7. Examples of outcomes of resolutions voted on in the year to 31st March 2023

12.7.1. BCPP & BHP Group Ltd (BHP) (UK Listed Equity & Overseas Developed Markets Equity): At the 2022 AGM, BCPP voted against a shareholder proposal regarding lobbying activity alignment with the Paris Agreement and supported a shareholder proposal that requested that the company include climate sensitivity analysis in financial statements.

- BCPP View: While BCPP supported the principle of the shareholder proposal regarding Paris alignment, they believed it was too broad and ambiguous. The BCPP supported the second shareholder proposal as although they deem BHP's disclosures to be generally good the quantitative substantiation of scenario analysis could be further improved by third-party verification. Also, several international accounting bodies have stated that material climate change issues should be considered in the preparation and audit of financial statements.

- Voting Outcome: The shareholder proposal on lobbying received 13% support from shareholders, and the shareholder proposal on climate accounting received 19% support. BCPP will continue to engage with the company through the Net Zero Carbon Emissions engagement theme being conducted by their voting and engagement partner, Robeco.

12.7.2. LGIM & Microsoft Corporation: At its 2022 AGM LGIM voted against the election of a Director (Satya Nadella), which was against management.

- LGIM View: In 2021, without seeking prior shareholder approval, Microsoft took the decision to recombine the roles of chair and CEO, which had previously been separate for many years. LGIM believes that within the broader topic of board effectiveness that these roles should be separate.

  Voting Outcome: 94.8% shareholders voted for the resolution (for the re-election of Satya Nadella). LGIM were disappointed that Microsoft took the decision to recombine these roles, on account of the different skillsets and different responsibilities of these roles and will continue to engage with them on this and other topics.

12.7.3. Unigestion & the Kroger Co (Private Equity Secondaries): Unigestion supported a shareholder resolution at The Kroger Co. AGM in June 2022 requesting a Report on Efforts to Eliminate HFCs in Refrigeration and Reduce GHG Emissions.

- Unigestion View: As shareholders, we would benefit from greater disclosure around the management of HFC emissions, especially in light of regulatory and competitive pressure. The vote was against management proposal and it was communicated to the company ahead of the vote. As investors, we consider we should vote in favour of relevant climate-related or similar resolutions – including Say on Climate resolutions – by making assessments on a case-by-case basis. In this case, the materiality of the issue has been assessed by our fundamental analyst and we supported the resolution and engaged with the company.

- Voting Outcome: Following an initial letter informing management of their intention to support the resolution, there was a follow up a call in December with company experts. They outlined the steps taken by the company to improve the detection of HFC across stores and Unigestion will continue to monitor their progress in this area. The resolution received 35.4% support at the AGM.

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

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

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

Admitted Body – Private contractors that are admitted to the LGPS to protect member pension rights following a TUPE transfer, or a body which provides a public service which operates otherwise than for the purposes of gain. These bodies can be categorised as Transferee or Community Admission bodies.

Alternatives – Investment products other than traditional investments of stocks, bonds, cash or property. The term is used for tangible assets such as infrastructure; property; art, wine etc., and financial assets such as commodities, private equity, hedge funds, venture capital; royalties / patents and derivatives.

Asset Allocation – Distribution of investments across asset categories, such as cash, equities and bonds. Asset allocation affects both risk and return; and is a central concept in financial planning and investment management.

Authorised Contractual Scheme (ACS) – an ACS is a type of structure in which institutional investors (including Pension funds) can hold their pooled investments. The ACS is the investment vehicle chosen by BCPP to hold the public market quoted investments for the twelve partner funds; and provides a tax efficient means for managing all the equity and bonds held by the company.

Auto Enrolment - UK employers have to automatically enrol their staff into a workplace pension if they meet certain criteria. The law on workplace pensions has now changed and every employer must comply.

Benchmark – A yardstick against which the investment policy or performance of a fund manager can be compared, usually the index relating to the particular assets held. *(Also see Target).*

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

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

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

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

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

CIPFA – Chartered Institute of Public Finance & Accountancy.

Class Action – An action where an individual represents a group in a court claim. The judgement from the suit is for all the members of the group (class). This is often done when shareholders launch a lawsuit against a company, mainly because it would be too expensive for each individual shareholder to launch their own lawsuit.

Conflicts of Interest - Real or apparent instances where a person or firm has an incentive to serve one interest at the expense of another. Some of these conflicts are inherent in any large, diversified organisation, while others stem from the nature of the services offered to clients. These conflicts are managed through disclosure and with policies and procedures that are designed to protect client's interests. The appearance of a conflict of interest is present if there is a potential for the personal interests of an individual to clash with fiduciary duties.

Consumer Price Index (CPI) - The rate of increase in prices for goods and services. CPI is the official measure of inflation of consumer prices of the United Kingdom.

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

Corporate Governance - The system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.

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Counterparty - The other party that participates in a financial transaction. Every transaction must have a counterparty in order for the transaction to go through. More specifically, every buyer of an asset must be paired up with a seller that is willing to sell and vice versa.

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

Custodian – Organisation which is responsible for the safekeeping of asset, income collection and settlement of trades for a portfolio, independent from the asset management function.

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

Defined Benefit – An employer-sponsored retirement plan where employee benefits are assessed based on a formula using factors such as salary history and duration of employment. Public sector pension schemes, including the LGPS, were defined benefit prior to the introduction of the Career Average Revalued Earnings (2014) Scheme.

Defined Contribution – A retirement plan in which a certain amount or percentage of money is set aside each year by a company for the benefit of the employee. There are restrictions as to when and how you can withdraw these funds without penalties. There is no way to know how much the plan will ultimately give the employee upon retiring. The amount contributed is fixed, but the benefit is not.

Derivative – Financial instrument whose value is dependent on the value of an underlying index, currency, commodity or other asset.

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

Diversification – Risk management technique which involves spreading investments across a range of different investment opportunities, thus helping to reduce overall risk. Risk reduction arises from the different investments not being perfectly correlated. Diversification can apply at various levels, such as diversification between countries, asset classes, sectors and individual securities.

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

Divestment or divestiture – The reduction of some kind of asset for financial, ethical, or political objective. A divestment is the opposite of an investment. For investors, divestment can be used as a social tool to protest particular corporate policies.

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

EBITDA – Earnings Before Interest, Tax, Depreciation and Amortisation – is a measure of a company's operating performance. Essentially, it's a way to evaluate a company's performance without having to factor in financing decisions, accounting decisions or tax environments.

Emerging Markets – Developing economies in Latin America, Africa, Asia and the Middle East as well as areas of Europe and the Far East. Investment returns within these markets tend to be more volatile than those in more established markets.

Engagement - A series of actions investors can take to reduce environmental, social and governance risks. This can include raising concerns or making proposals about company practices directly to its directors via correspondence, face-to-face meetings, attendance and voting at shareholder meetings.

Equities – Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

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

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

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

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

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

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

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

Gilts – These are the simplest form of UK government bond. A conventional gilt is a bond issued by the UK government which pays the holder a fixed cash payment (or coupon) every six months until maturity, at which point the holder receives his final coupon payment and the return of the principal.

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

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

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

Index-linked Gilts – UK government stock where the interest payments and the final redemption proceeds are linked to the Retail Price Index. Such stocks provide protection against inflation.

Index-Tracking Fund (Managed Fund) – Pooled investment vehicle which aims to match the returns on a particular market index. The fund may hold all stocks in the index or select a sample that will perform closely to the index. Investors can buy and sell units of the fund on an on-going basis.

Infrastructure - The public facilities and services needed to support residential development, including highways, bridges, schools, and sewer and water systems. A term usually associated with investment in transport, power and utilities projects.

Investment Strategy – Investor's long-term distribution of assets among various asset classes taking into consideration, for example, goals of the investor, attitude to risk and timescale etc.

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

Liabilities – Financial liabilities are debts owed to creditors for outstanding payments due to be paid. Pensions liabilities are the pensions benefits and payments that are due to be paid when someone retires; the LGPS is a 'final-salary' scheme where

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pension relates to years service and final salary and so the pensions liability can be estimated by the actuary.

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

Long term cost efficiency – Implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

Market Value – The price at which an investment can be bought or sold at a given date.

MHCLG – The Ministry of Housing, Communities and Local Government. Prior to January 2018 this was Department for Communities and Local Government ("DCLG"). Now called Department of Levelling Up, Housing and Communities ("DLUHC").

Multi-Asset Credit – MAC is a term used for a fund investing in a range of investments that are classed as 'credit' i.e. fixed income, and will often include corporate debt, loans directly to companies, absolute return bonds, emerging market debt, asset-backed securities, real-estate debt and high yield bonds. The MAC fund will aim to be diversified across many asset types (also known as Diversified Credit).

Myners Review – Review carried out by Paul Myners on behalf of the Chancellor of the UK government. The review, published in March 2001, investigated the challenges facing institutional investment decision making.

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

Over-the-Counter (OTC) - A security traded in some context other than on a formal exchange such as the London Stock Exchange, New York Stock Exchange, etc. The phrase "over-the-counter" can be used to refer to stocks that trade via a dealer network as opposed to on a centralized exchange. It also refers to debt securities and other financial instruments such as derivatives, which are traded through a dealer network.

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

Passive Management – Portfolio which aims to replicate a particular market index or benchmark and does not attempt to actively manage the portfolio. *(Also see Active Management).*

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

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PIRC – Pensions & Investment Research Consultants

Pooled Investment Fund – A fund managed by an external Fund Manager in which a number of investors buy units. The total fund is then invested in a particular market or region. The underlying assets the funds hold on behalf of clients are quoted assets such as fixed interest bonds and equity shares. They are used as an efficient low-risk method of investing in the asset classes.

Pooling – In the context of the LGPS, this is the collaboration of several LGPS Funds to pool their investment assets in order to generate savings from economies of scale thereby, as requested by DCLG: 'significantly reducing costs whilst maintaining investment performance'.

Portfolio – Block of assets generally managed under the same mandate.

Private Equity – Shares in unquoted companies. Usually high risk, high return in nature.

Private Equity Secondaries – Shares in unquoted companies that were pre-existing investor commitments to private equity which have since been sold in a secondary market. Usually high risk, high return in nature.

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

Retail Price Index – Measure of price inflation in the UK used as a guide for pensions updating. A basket of representative goods in the market is priced on a regular basis to monitor the rate of inflation. (The Government is also publishing details of the Consumer Prices Index).

Real Estate Debt – Commercial property loans; the debt is secured against commercial property or portfolios of property, eg. hotels, shopping centres, offices.

Resolution Body – Employers who, under Schedule 2 Part 2 of the Local Government Pension Scheme Regulations 2013 (as amended), have the automatic right but not the requirement to be an employer within the LGPS (also referred to as a Designated body).

Return – Increase in value of an investment over a period of time, expressed as a percentage of the value of the investment at the start of the period.

Risk – Likelihood of a return different from that expected and the possible extent of the difference. Also used to indicate the volatility of different assets.

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

Scheduled Body – Public sector employers or resolution bodies that have an automatic right and requirement to be an employer within the LGPS.

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Scheme Employers – employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations (as amended)) would not need to designate eligibility, unlike the Part 2 Scheme employers.

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

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

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

Shareholder Voting - Shareholders are people and organisations who buy shares in UK companies. In large companies, shareholders are overwhelmingly large institutional investors, such as pension funds, insurance companies, mutual funds or similar foreign organisations.

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

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

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

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

Resolutions which are voted upon include:
Approval of Annual Report and Accounts
Approval of Remuneration Policy, and Remuneration Report
Election/Re-election of Directors
Appointment/Re-appointment of auditors

 APPENDIX C: GLOSSARY

Approve dividend
Approve political donations

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

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

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

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

Stock Lending – Lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

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

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

Target – Managers are set a target for investment performance such as 1% above benchmark per year over three year rolling periods.

Triennial Actuarial Valuation – Every three years the actuary formally reviews the assets and liabilities of the Cumbria LGPS Fund and produces a report on the Fund's financial position.

Unit Trust – A specific type of pooled investment fund.

Unquoted (Unlisted) Stock – A company share that is not available for purchase or sale through the stock market.

Venture Capital – Investment in a company that is at a relatively early stage of development and is not listed on a stock exchange.

APPENDIX D: CONTACT US

PENSIONS BENEFITS CONTACT DETAILS: for personal pensions and benefits queries please contact:

Local Pensions Partnership - Administration
Cumbria LGPS Team
PO Box 1383,
Preston,
PR2 0WR

https://www.lppapensions.co.uk/contact/
Telephone: 0300 323 0260

ADMINISTERING AUTHORITY CONTACT DETAILS: for any queries relating to the Annual Report and Accounts please contact:

Westmorland and Furness Council
Pensions Finance,
Parkhouse Building,
Baron Way,
Kingmoor Business Park,
Carlisle,
Cumbria,
CA6 4SJ

Email: **pensions@westmorlandandfurness.gov.uk**

Website: **https://www.cumbriapensionfund.org/**

Telephone: 01228 226279

ACCESS TO PENSIONS COMMITTEE PAPERS: for access to publicly available papers please see the Administering Authority's website, or contact:

Westmorland and Furness Council
Democratic Services,
South Lakeland House,
Lowther Street,
Kendal,
LA9 4DQ

Papers, prior to 31 March 2023
https://westmorlandandfurness.moderngov.co.uk/ieListMeetings.aspx?CId=440&Year=0
Papers, after 31 March 2023
https://westmorlandandfurness.moderngov.co.uk/mgCommitteeDetails.aspx?ID=277

If you require this document in another format (e.g. CD, audio cassette, Braille or large type) or in another language, please telephone 01228 226279.

আপনি যদি এই তথ্য আপনার নিজের ভাষায় পেতে চান তাহলে অনুগ্রহ করে **01228 226279** নম্বরে টেলিফোন করুন।

如果您希望通过母语了解此信息，
请致电 **01228 226279**

Jeigu norėtumėte gauti šią informaciją savo kalba, skambinkite telefonu 01228 226279

W celu uzyskania informacji w Państwa języku proszę zatelefonować pod numer 01228 226279

Se quiser aceder a esta informação na sua língua, telefone para o 01228 226279

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